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 September 30, 2017

or

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

For the Transition Period From__________ To __________

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐ (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of November 4, 2017, there were 32,409,174 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Nine Months Ended September 30, 2017

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Part I — Financial Information

Item 1. Financial Statements

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

	(Unaudited) September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 138,139	$ 147,235
Securities available for sale, at fair value (amortized cost of $597,944 as of September 30, 2017 and $521,053 as of December 31, 2016)	598,440	516,964
Loans held for sale, at the lower of cost or fair value	6,469	9,316
Loans and leases receivable, net of allowance for loan and lease losses of $32,492 as of September 30, 2017 and $32,429 as of December 31, 2016	4,162,863	3,812,340
Accrued interest receivable	12,098	10,987
Premises and equipment, net	26,648	28,698
Other real estate owned ("OREO"), net	1,946	7,484
Customers' liability on acceptances	647	978
Servicing assets	10,428	10,564
Goodwill and other intangible assets, net	12,628	12,889
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Income tax asset, net	46,210	48,047
Bank-owned life insurance	50,268	49,440
Prepaid expenses and other assets	28,227	30,019
Total assets	**$ 5,111,396**	**$ 4,701,346**
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,293,538	$ 1,203,240
Interest-bearing	3,005,472	2,606,497
Total deposits	4,299,010	3,809,737
Accrued interest payable	4,071	2,567
Bank's liability on acceptances	657	978
FHLB advances	110,000	315,000
Subordinated debentures	117,140	18,978
Accrued expenses and other liabilities	21,271	23,061
Total liabilities	**4,552,149**	**4,170,321**
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,059,166 shares (32,413,082 shares outstanding) as of September 30, 2017 and issued 32,946,197 shares (32,330,747 shares outstanding) as of December 31, 2016	33	33
Additional paid-in capital	564,787	562,446
Accumulated other comprehensive income (loss), net of tax expense of $207 as of September 30, 2017 and tax benefit of $1,696 as of December 31, 2016	290	(2,394)
Retained earnings	65,858	41,726
Less: treasury stock, at cost; 646,084 shares as of September 30, 2017 and 615,450 shares as of December 31, 2016	(71,721)	(70,786)
Total stockholders' equity	**559,247**	**531,025**
Total liabilities and stockholders' equity	**$ 5,111,396**	**$ 4,701,346**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Interest and fees on loans and leases	$ 50,265	$ 41,150	$ 143,614	$ 120,862
Interest on securities	3,188	2,701	8,657	8,604
Dividends on Federal Reserve Bank ("FRB") and FHLB stock	286	419	943	1,540
Interest on deposits in other banks	123	55	323	152
Total interest and dividend income	53,862	44,325	153,537	131,158
Interest expense:				
Interest on deposits	7,071	4,358	18,687	11,769
Interest on FHLB advances	198	179	714	673
Interest on subordinated debentures	1,667	206	3,677	584
Total interest expense	8,936	4,743	23,078	13,026
Net interest income before provision for loan and lease losses	44,926	39,582	130,459	118,132
Loan and lease loss provision (income)	269	(1,450)	611	(4,490)
Net interest income after provision for loan and lease losses	44,657	41,032	129,848	122,622
Noninterest income:				
Service charges on deposit accounts	2,678	2,883	7,667	8,782
Trade finance and other service charges and fees	1,133	992	3,449	3,099
Gain on sales of Small Business Administration ("SBA") loans	2,546	1,616	6,678	4,247
Disposition gains on Purchased Credit Impaired ("PCI") loans	979	789	1,702	3,411
Net gain on sales of securities	267	46	1,473	46
Other operating income	1,213	2,348	4,764	5,423
Total noninterest income	8,816	8,674	25,733	25,008
Noninterest expense:				
Salaries and employee benefits	16,947	15,950	50,674	47,710
Occupancy and equipment	3,883	3,917	11,743	11,351
Data processing	1,779	1,330	5,148	4,219
Professional fees	1,210	1,090	3,912	4,063
Supplies and communications	755	821	2,135	2,266
Advertising and promotion	1,147	1,153	2,964	2,769
OREO expense (income)	(16)	73	402	721
Merger and integration costs (income)	—	—	(40)	—
Other operating expenses	2,955	4,003	7,905	9,170
Total noninterest expense	28,660	28,337	84,843	82,269
Income before income tax expense	24,813	21,369	70,738	65,361
Income tax expense	9,890	8,248	27,576	23,288
Net income	**$ 14,923**	**$ 13,121**	**$ 43,162**	**$ 42,073**
Basic earnings per share	$ 0.46	$ 0.41	$ 1.34	$ 1.31
Diluted earnings per share	$ 0.46	$ 0.41	$ 1.33	$ 1.31
Weighted-average shares outstanding:				
Basic	32,095,286	31,912,470	32,058,705	31,880,466
Diluted	32,255,814	32,088,233	32,230,319	32,031,295

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 14,923	$ 13,121	$ 43,162	$ 42,073
Other comprehensive income, net of tax:				
Unrealized gain on securities:				
Unrealized holding gain (loss) arising during period	529	(2,629)	6,059	13,518
Less: reclassification adjustment for net gain included in net income	(267)	(46)	(1,473)	(46)
Unrealized loss on interest-only strip of servicing assets	—	—	—	(9)
Income tax expense related to items of other comprehensive income	(109)	1,109	(1,902)	(5,593)
Other comprehensive income, net of tax	153	(1,566)	2,684	7,870
Comprehensive income	**$ 15,076**	**$ 11,555**	**$ 45,846**	**$ 49,943**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2016	**32,566,522**	**(592,163)**	**31,974,359**	**$ 257**	**$ 557,761**	**$ (315)**	**$ 6,422**	**$ (70,207)**	**$ 493,918**
Correction of accounting for the 2011 1-for-8 stock split	—	—	—	(224)	224	—	—	—	—
Stock options exercised	42,584	—	42,584	—	592	—	—	—	592
Restricted stock awards, net of forfeitures	256,287	—	256,287	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,329	—	—	—	2,329
Restricted stock surrendered due to employee tax liability	—	(20,456)	(20,456)	—	—	—	—	(502)	(502)
Cash dividends declared	—	—	—	—	—	—	(15,082)	—	(15,082)
Net income	—	—	—	—	—	—	42,073	—	42,073
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	7,870	—	—	7,870
Balance at September 30, 2016	**32,865,393**	**(612,619)**	**32,252,774**	**$ 33**	**$ 560,906**	**$ 7,555**	**$ 33,413**	**$ (70,709)**	**$ 531,198**
Balance at January 1, 2017	**32,946,197**	**(615,450)**	**32,330,747**	**$ 33**	**$ 562,446**	**$ (2,394)**	**$ 41,726**	**$ (70,786)**	**$ 531,025**
Stock options exercised	22,125	—	22,125	—	270	—	—	—	270
Restricted stock awards, net of forfeitures	90,844	—	90,844	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,071	—	—	—	2,071
Restricted stock surrendered due to employee tax liability	—	(30,634)	(30,634)	—	—	—	—	(935)	(935)
Cash dividends declared	—	—	—	—	—	—	(19,030)	—	(19,030)
Net income	—	—	—	—	—	—	43,162	—	43,162
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	2,684	—	—	2,684
Balance at September 30, 2017	**33,059,166**	**(646,084)**	**32,413,082**	**$ 33**	**$ 564,787**	**$ 290**	**$ 65,858**	**$ (71,721)**	**$ 559,247**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income	**$ 43,162**	**$ 42,073**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,353	10,848
Share-based compensation expense	2,071	2,329
Loan and lease loss provision (income)	611	(4,490)
Gain on sales of securities	(1,473)	(46)
Gain on sales of SBA loans	(6,678)	(4,247)
Loss (gain) on sale of premises and equipment	—	(1,053)
Disposition gains on PCI loans	(1,702)	(3,411)
Gain on sales of OREO	(482)	—
Valuation adjustment on OREO	884	721
Origination of SBA loans held for sale	(81,716)	(60,248)
Proceeds from sales of SBA loans	92,715	61,494
Change in accrued interest receivable	(1,111)	(659)
Change in bank-owned life insurance	(828)	(809)
Change in prepaid expenses and other assets	1,894	3,791
Change in income tax asset	(65)	1,436
Change in accrued interest payable	1,504	(733)
Change in accrued expenses and other liabilities	(2,316)	(10,121)
Net cash provided by operating activities	**55,823**	**36,875**
Cash flows from investing activities:		
Proceeds from redemption of FRB stock	—	14,423
Proceeds from matured, called and repayment of securities	51,117	98,771
Proceeds from sales of securities available for sale	70,333	78,282
Proceeds from sales of OREO	5,710	2,306
Change in loans and leases receivable, excluding purchases	(191,594)	(229,063)
Purchases of securities	(201,398)	(19,992)
Purchases of premises and equipment	(147)	982
Purchases of loans receivable	(161,253)	(143,189)
Purchases of FRB stock	—	(325)
Net cash used in investing activities	**(427,232)**	**(197,805)**
Cash flows from financing activities:		
Change in deposits	489,273	261,231
Change in overnight FHLB borrowings	(205,000)	(115,000)
Issuance of subordinated debentures	97,735	—
Proceeds from exercise of stock options	270	592
Cash paid for treasury shares acquired in respect of share-based compensation	(935)	(502)
Cash dividends paid	(19,030)	(19,558)
Net cash provided by financing activities	**362,313**	**126,763**
Net decrease in cash and cash equivalents	**(9,096)**	**(34,167)**
Cash and cash equivalents at beginning of year	147,235	164,364
Cash and cash equivalents at end of period	**$ 138,139**	**$ 130,197**

Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 23,078	$ 13,759
Income taxes	$ 25,146	$ 21,654
Non-cash activities:		
Transfer of loans receivable to OREO	$ 143	$ 4,318
Income tax expense related to items in other comprehensive income	$ (1,902)	$ (5,593)
Change in unrealized gain in accumulated other comprehensive income	$ (6,059)	$ (13,518)
Cash dividends declared	$ (19,030)	$ (15,082)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Note 1 — Organization and Basis of Presentation

Hanmi Financial Corporation ("Hanmi Financial," the "Company," "we," "us" or "our") is a bank holding company whose 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 period ended September 30, 2017, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report on Form 10-K").

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates subject to change include, among other items, the determination of allowance for loan and lease losses and various other assets and liabilities measured at fair value.

Descriptions of our significant accounting policies are included in Note 1**-** Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in our 2016 Annual Report on Form 10-K.

Note 2 — Securities

The following is a summary of securities available for sale as ofSeptember 30, 2017 and December 31, 2016:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
September 30, 2017				
Mortgage-backed securities *(1) (2)*	$ 310,111	$ 793	$ 1,154	$ 309,750
Collateralized mortgage obligations *(1)*	107,052	16	944	106,124
U.S. government agency securities	7,499	—	42	7,457
SBA loan pool securities	4,036	—	140	3,896
Municipal bonds-tax exempt	146,177	2,424	77	148,524
U.S. treasury securities	153	—	—	153
Mutual funds	22,916	—	380	22,536
Total securities available for sale	**$ 597,944**	**$ 3,233**	**$ 2,737**	**$ 598,440**
December 31, 2016				
Mortgage-backed securities *(1) (2)*	$ 230,489	$ 598	$ 1,457	$ 229,630
Collateralized mortgage obligations *(1)*	77,447	6	1,002	76,451
U.S. government agency securities	7,499	—	58	7,441
SBA loan pool securities	4,356	—	210	4,146
Municipal bonds-tax exempt	159,789	236	1,995	158,030
Municipal bonds-taxable	13,391	319	9	13,701
Corporate bonds	5,010	5	—	5,015
U.S. treasury securities	156	—	—	156
Mutual funds	22,916	—	522	22,394
Total securities available for sale	**$ 521,053**	**$ 1,164**	**$ 5,253**	**$ 516,964**

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

(2) *Includes securities collateralized by home equity conversion mortgages with an estimated fair value of$8.1 million and $52.9 million as of September 30, 2017 and December 31, 2016, respectively.*

The amortized cost and estimated fair value of securities as of September 30, 2017, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. Mutual funds do not have contractual maturities. However, they are included in the table shown below as over ten years since the Company intends to hold these securities for at least this duration. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$ 24,537	$ 24,452
Over one year through five years	64,646	64,519
Over five years through ten years	256,367	257,279
Over ten years	252,394	252,190
Total	**$ 597,944**	**$ 598,440**

Gross unrealized losses on securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of September 30, 2017 and December 31, 2016:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
September 30, 2017									
Mortgage-backed securities	$ 787	$ 171,919	53	$ 367	$ 21,430	9	$ 1,154	$ 193,349	62
Collateralized mortgage obligations	320	62,309	23	624	38,940	24	944	101,249	47
U.S. government agency securities	42	7,457	3	—	—	—	42	7,457	3
SBA loan pool securities	—	—	—	140	3,896	2	140	3,896	2
Municipal bonds-tax exempt	60	3,459	3	17	1,704	4	77	5,163	7
U.S. treasury securities	—	—	—	—	—	—	—	—	—
Mutual funds	254	20,632	2	126	1,899	4	380	22,531	6
Total	**$ 1,463**	**$ 265,776**	**84**	**$ 1,274**	**$ 67,869**	**43**	**$ 2,737**	**$ 333,645**	**127**
December 31, 2016									
Mortgage-backed securities	$ 1,345	$ 102,647	38	$ 112	$ 11,350	3	$ 1,457	$ 113,997	41
Collateralized mortgage obligations	676	60,786	27	326	10,579	7	1,002	71,365	34
U.S. government agency securities	58	7,441	3	—	—	—	58	7,441	3
SBA loan pool securities	—	—	—	210	4,146	2	210	4,146	2
Municipal bonds-tax exempt	1,995	125,004	54	—	—	—	1,995	125,004	54
Municipal bonds-taxable	9	2,904	2	—	—	—	9	2,904	2
Mutual funds	413	21,478	4	109	916	3	522	22,394	7
Total	**$ 4,496**	**$ 320,260**	**128**	**$ 757**	**$ 26,991**	**15**	**$ 5,253**	**$ 347,251**	**143**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2017 and December 31, 2016 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of September 30, 2017 and December 31, 2016. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the securities before the recovery of their amortized cost basis. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of September 30, 2017 and December 31, 2016 were not other-than-temporarily impaired, and therefore, no impairment charges as of September 30, 2017 and December 31, 2016 were warranted.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Gross realized gains on sales of securities	$ 267	$ 396	$ 1,473	$ 396
Gross realized losses on sales of securities	—	(350)	—	(350)
Net realized gains on sales of securities	**$ 267**	**$ 46**	**$ 1,473**	**$ 46**
Proceeds from sales of securities	$ 17,644	$ 78,282	$ 70,333	$ 78,282

For the three months ended September 30, 2017, there was a $267,000 net gain in earnings resulting from sales of securities. Net unrealized gains of $227,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period. There was a $46,000 net gain in earnings resulting from sales of securities during the three months ended September 30, 2016, that had previously been recorded as net unrealized gains of $321,000 in comprehensive income.

For the nine months ended September 30, 2017, there was a $1.5 million net gain in earnings resulting from the sale of securities. Net unrealized gains of $971,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period. There was a $46,000 net gain in earnings resulting from sales of securities during the nine months ended September 30, 2016, that had previously been recorded as net unrealized gains of $314,000 in comprehensive income.

Securities available for sale with market values of $130.7 million and $133.0 million as of September 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 3 — Loans and leases

Loans and Leases Receivable, Net

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

	September 30, 2017			December 31, 2016		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property						
Retail	$ 916,236	$ 1,587	$ 917,823	$ 857,629	$ 2,324	$ 859,953
Hospitality	731,562	1,664	733,226	649,540	1,618	651,158
Gas station	245,042	2,388	247,430	260,187	2,692	262,879
Other [1]	1,144,176	2,013	1,146,189	1,107,589	2,067	1,109,656
Construction	64,263	—	64,263	55,962	—	55,962
Residential property	429,669	958	430,627	337,791	976	338,767
Total real estate loans	3,530,948	8,610	3,539,558	3,268,698	9,677	3,278,375
Commercial and industrial loans:						
Commercial term	170,891	51	170,942	138,032	136	138,168
Commercial lines of credit	149,937	—	149,937	136,231	—	136,231
International loans	43,577	—	43,577	25,821	—	25,821
Total commercial and industrial loans	364,405	51	364,456	300,084	136	300,220
Leases receivable	272,271	—	272,271	243,294	—	243,294
Consumer loans [2]	19,027	43	19,070	22,830	50	22,880
Loans and leases receivable	**4,186,651**	**8,704**	**4,195,355**	**3,834,906**	**9,863**	**3,844,769**
Allowance for loan and lease losses	(31,698)	(794)	(32,492)	(31,458)	(971)	(32,429)
Loans and leases receivable, net	**$ 4,154,953**	**$ 7,910**	**$ 4,162,863**	**$ 3,803,448**	**$ 8,892**	**$ 3,812,340**

[1] *Includes other property types which individually represent less than one percent of loans and leases receivable; other property types include mixed-use, apartment, office, industrial, faith-based facilities and warehouse.*

[2] *Consumer loans include home equity lines of credit of $14.7 million and $17.7 million as of September 30, 2017 and December 31, 2016, respectively.*

Accrued interest on loans and leases receivable was$9.5 million and $8.2 million at September 30, 2017 and December 31, 2016, respectively. At September 30, 2017 and December 31, 2016, loans receivable of$1.1 billion and $1.0 billion, respectively, were pledged to secure borrowing facilities from the FHLB.

Loans Held for Sale

The following is the activity for SBA loans held for sale for the three months ended September 30, 2017 and 2016:

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
		(in thousands)	
September 30, 2017			
Balance at beginning of period	$ 8,817	$ 2,132	$ 10,949
Originations	16,326	11,723	28,049
Sales	(20,593)	(11,926)	(32,519)
Principal payoffs and amortization	(4)	(6)	(10)
Balance at end of period	**$ 4,546**	**$ 1,923**	**$ 6,469**
September 30, 2016			
Balance at beginning of period	$ 9,293	$ 3,540	$ 12,833
Originations	11,272	6,417	17,689
Sales	(15,968)	(8,122)	(24,090)
Principal payoffs and amortization	(2)	(5)	(7)
Balance at end of period	**$ 4,595**	**$ 1,830**	**$ 6,425**

The following is the activity for SBA loans held for sale for the nine months ended September 30, 2017 and 2016:

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
		(in thousands)	
September 30, 2017			
Balance at beginning of period	$ 7,410	$ 1,906	$ 9,316
Originations	51,090	30,626	81,716
Sales	(53,930)	(30,586)	(84,516)
Principal payoffs and amortization	(24)	(23)	(47)
Balance at end of period	**$ 4,546**	**$ 1,923**	**$ 6,469**
September 30, 2016			
Balance at beginning of period	$ 840	$ 2,034	$ 2,874
Originations	40,120	20,128	60,248
Sales	(36,361)	(20,304)	(56,665)
Principal payoffs and amortization	(4)	(28)	(32)
Balance at end of period	**$ 4,595**	**$ 1,830**	**$ 6,425**

Allowance for Loan and Lease Losses

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

	As of and for the Three Months Ended					
	September 30, 2017			September 30, 2016		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(in thousands)					
Allowance for loan and lease losses:						
Balance at beginning of period	$ 33,038	$ 720	$ 33,758	$ 34,259	$ 5,448	$ 39,707
Charge-offs	(2,405)	—	(2,405)	(111)	(5)	(116)
Recoveries on loans and leases previously charged off	871	—	871	831	—	831
Net loan and lease (charge-offs) recoveries	(1,534)	—	(1,534)	720	(5)	715
Loan and lease loss provision (income)	194	74	268	(1,540)	90	(1,450)
Balance at end of period	**$ 31,698**	**$ 794**	**$ 32,492**	**$ 33,439**	**$ 5,533**	**$ 38,972**

	As of and for the Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(in thousands)					
Allowance for loan and lease losses:						
Balance at beginning of period	$ 31,458	$ 971	$ 32,429	$ 37,494	$ 5,441	$ 42,935
Charge-offs	(3,256)	—	(3,256)	(1,410)	(142)	(1,552)
Recoveries on loans and leases previously charged off	2,709	—	2,709	2,079	—	2,079
Net loan and lease (charge-offs) recoveries	(547)	—	(547)	669	(142)	527
Loan and lease loss provision (income)	787	(177)	610	(4,724)	234	(4,490)
Balance at end of period	**$ 31,698**	**$ 794**	**$ 32,492**	**$ 33,439**	**$ 5,533**	**$ 38,972**

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

The following tables detail the information on the allowance for loan and lease losses by portfolio segment as of and for the three and nine months ended September 30, 2017 and 2016:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(In thousands)			
As of and for the Three Months Ended September 30, 2017						
Allowance for loan and lease losses on non-PCI loans and leases:						
Beginning balance	$ 22,762	$ 6,979	2,033	$ 87	$ 1,177	$ 33,038
Charge-offs	(146)	(1,976)	(283)	—	—	(2,405)
Recoveries on loans and leases previously charged off	343	308	220	—	—	871
Loan and lease loss provision (income)	(3,374)	1,183	2,867	(23)	(459)	194
Ending balance	**$ 19,585**	**$ 6,494**	**$ 4,837**	**$ 64**	**$ 718**	**$ 31,698**
Ending balance: individually evaluated for impairment	$ 3,882	$ 531	$ 2,008	$ —	$ —	$ 6,421
Ending balance: collectively evaluated for impairment	$ 15,703	$ 5,963	$ 2,829	$ 64	$ 718	$ 25,277
Non-PCI loans and leases receivable:						
Ending balance	**$ 3,530,948**	**$ 364,405**	**$ 272,271**	**$ 19,027**	**$ —**	**$ 4,186,651**
Ending balance: individually evaluated for impairment	$ 19,466	$ 3,610	$ 3,378	$ 1,045	$ —	$ 27,499
Ending balance: collectively evaluated for impairment	$ 3,511,482	$ 360,795	$ 268,893	$ 17,982	$ —	$ 4,159,152
Allowance for loan losses on PCI loans:						
Beginning balance	$ 671	$ 41	$ —	$ 8	$ —	$ 720
Charge-offs	—	—	—	—	—	—
Loan loss provision (income)	81	—	—	(7)	—	74
Ending balance	**$ 752**	**$ 41**	**$ —**	**$ 1**	**$ —**	**$ 794**
PCI loans receivable:						
Ending balance: acquired with deteriorated credit quality	**$ 8,610**	**$ 51**	**$ —**	**$ 43**	**$ —**	**$ 8,704**

	Real Estate	Commercial and Industrial	Leases Receivable		Consumer	Unallocated	Total
			(In thousands)				
As of and for the Three Months Ended September 30, 2016							
Allowance for loan and lease losses on non-PCI loans and leases:							
Beginning balance	$ 28,116	$ 5,502	—		$ 242	$ 399	$ 34,259
Charge-offs	(18)	(93)	—		—	—	(111)
Recoveries on loans and leases previously charged off	337	494	—		—	—	831
Loan and lease loss provision (income)	(479)	(622)	—		(40)	(399)	(1,540)
Ending balance	**$ 27,956**	**$ 5,281**	**$ —**		**$ 202**	**$ —**	**$ 33,439**
Ending balance: individually evaluated for impairment	$ 2,723	$ 495	$ —		$ —	$ —	$ 3,218
Ending balance: collectively evaluated for impairment	$ 25,233	$ 4,786	$ —	$—	$ 202	$ —	$ 30,221
Non-PCI loans and leases receivable:							
Ending balance	**$ 3,195,332**	**$ 319,521**	**$ —**		**$ 22,266**	**$ —**	**$ 3,537,119**
Ending balance: individually evaluated for impairment	$ 18,522	$ 4,705	$ —		$ 680	$ —	$ 23,907
Ending balance: collectively evaluated for impairment	$ 3,176,810	$ 314,816	$ —		$ 21,586	$ —	$ 3,513,212
Allowance for loan losses on PCI loans:							
Beginning balance	$ 5,400	$ 41	$ —		$ 7	$ —	$ 5,448
Charge-offs	(5)	—	—		—	—	(5)
Loan loss provision (income)	89	1	—		—	—	90
Ending balance	**$ 5,484**	**$ 42**	**$ —**		**$ 7**	**$ —**	**$ 5,533**
PCI loans receivable:							
Ending balance: acquired with deteriorated credit quality	**$ 15,355**	**$ 135**	**$ —**		**$ 50**	**$ —**	**$ 15,540**

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
	(In thousands)					
As of and for the Nine Months Ended September 30, 2017						
Allowance for loan and lease losses on non-PCI loans and leases:						
Beginning balance	$ 25,212	$ 5,582	307	$ 191	$ 166	$ 31,458
Charge-offs	(289)	(2,017)	(950)	—	—	(3,256)
Recoveries on loans and leases previously charged off	1,434	1,021	239	15	—	2,709
Loan and lease loss provision (income)	(6,772)	1,908	5,241	(142)	552	787
Ending balance	**$ 19,585**	**$ 6,494**	**$ 4,837**	**$ 64**	**$ 718**	**$ 31,698**
Ending balance: individually evaluated for impairment	$ 3,882	$ 531	$ 2,008	$ —	$ —	$ 6,421
Ending balance: collectively evaluated for impairment	$ 15,703	$ 5,963	$ 2,829	$ 64	$ 718	$ 25,277
Non-PCI loans and leases receivable:						
Ending balance	**$ 3,530,948**	**$ 364,405**	**$ 272,271**	**$ 19,027**	**$ —**	**$ 4,186,651**
Ending balance: individually evaluated for impairment	$ 19,466	$ 3,610	$ 3,378	$ 1,045	$ —	$ 27,499
Ending balance: collectively evaluated for impairment	$ 3,511,482	$ 360,795	$ 268,893	$ 17,982	$ —	$ 4,159,152
Allowance for loan losses on PCI loans:						
Beginning balance	$ 922	$ 41	$ —	$ 8	$ —	$ 971
Charge-offs	—	—	—	—	—	—
Loan loss provision (income)	(170)	—	—	(7)	—	(177)
Ending balance	**$ 752**	**$ 41**	**$ —**	**$ 1**	**$ —**	**$ 794**
PCI loans receivable:						
Ending balance: acquired with deteriorated credit quality	**$ 8,610**	**$ 51**	**$ —**	**$ 43**	**$ —**	**$ 8,704**

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(In thousands)			
As of and for the Nine Months Ended September 30, 2016						
Allowance for loan and lease losses on non-PCI loans and leases:						
Beginning balance	$ 29,800	$ 7,081	—	$ 242	$ 371	$ 37,494
Charge-offs	(709)	(701)	—	—	—	(1,410)
Recoveries on loans and leases previously charged off	527	1,499	—	53	—	2,079
Loan and lease loss provision (income)	(1,662)	(2,598)	—	(93)	(371)	(4,724)
Ending balance	**$ 27,956**	**$ 5,281**	**$ —**	**$ 202**	**$ —**	**$ 33,439**
Ending balance: individually evaluated for impairment	$ 2,723	$ 495	$ —	$ —	$ —	$ 3,218
Ending balance: collectively evaluated for impairment	$ 25,233	$ 4,786	$ —	$ 202	$ —	$ 30,221
Non-PCI loans and leases receivable:						
Ending balance	**$ 3,195,332**	**$ 319,521**	**$ —**	**$ 22,266**	**$ —**	**$ 3,537,119**
Ending balance: individually evaluated for impairment	$ 18,522	$ 4,705	$ —	$ 680	$ —	$ 23,907
Ending balance: collectively evaluated for impairment	$ 3,176,810	$ 314,816	$ —	$ 21,586	$ —	$ 3,513,212
Allowance for loan losses on PCI loans:						
Beginning balance	$ 5,397	$ 42	$ —	$ 2	$ —	$ 5,441
Charge-offs	(142)	—	—	—	—	(142)
Loan loss provision (income)	229	—	—	5	—	234
Ending balance	**$ 5,484**	**$ 42**	**$ —**	**$ 7**	**$ —**	**$ 5,533**
PCI loans receivable:						
Ending balance: acquired with deteriorated credit quality	**$ 15,355**	**$ 135**	**$ —**	**$ 50**	**$ —**	**$ 15,540**

Loan and Lease Quality Indicators

As part of the on-going monitoring of the credit quality of our loan and lease portfolio, we utilize an internal loan and lease grading system to identify credit risk and assign an appropriate grade, from 0 to 8, for each loan or lease in our loan and lease portfolio. Third party loan reviews are performed throughout the year. Additional adjustments are made when determined to be necessary. The loan and lease grade definitions are as follows:

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

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

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

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

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

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

As of September 30, 2017 and December 31, 2016, pass/pass-watch, special mention and classified loans and leases (excluding PCI loans), disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
		(in thousands)		
September 30, 2017				
Real estate loans:				
Commercial property				
Retail	$ 910,890	$ 1,577	$ 3,769	$ 916,236
Hospitality	718,244	4,979	8,339	731,562
Gas station	240,952	2,274	1,816	245,042
Other	1,131,423	8,840	3,913	1,144,176
Construction	64,263	—	—	64,263
Residential property	429,048	326	295	429,669
Total real estate loans	3,494,820	17,996	18,132	3,530,948
Commercial and industrial loans:				
Commercial term	167,492	1,623	1,776	170,891
Commercial lines of credit	149,646	110	181	149,937
International loans	43,577	—	—	43,577
Total commercial and industrial loans	360,715	1,733	1,957	364,405
Leases receivable	268,893	—	3,378	272,271
Consumer loans	17,930	—	1,097	19,027
Total Non-PCI loans and leases	**$ 4,142,358**	**$ 19,729**	**$ 24,564**	**$ 4,186,651**
December 31, 2016				
Real estate loans:				
Commercial property				
Retail	$ 851,147	$ 2,275	$ 4,207	$ 857,629
Hospitality	634,397	5,497	9,646	649,540
Gas station	252,123	1,911	6,153	260,187
Other	1,100,070	1,645	5,874	1,107,589
Construction	55,962	—	—	55,962
Residential property	337,227	—	564	337,791
Total real estate loans	3,230,926	11,328	26,444	3,268,698
Commercial and industrial loans:				
Commercial term	133,811	2,060	2,161	138,032
Commercial lines of credit	135,699	464	68	136,231
International loans	23,406	2,415	—	25,821
Total commercial and industrial loans	292,916	4,939	2,229	300,084
Leases receivable	242,393	—	901	243,294
Consumer loans	22,139	—	691	22,830
Total Non-PCI loans and leases	**$ 3,788,374**	**$ 16,267**	**$ 30,265**	**$ 3,834,906**

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
			(in thousands)			
September 30, 2017						
Real estate loans:						
Commercial property						
Retail	$ 7	$ 1	$ 223	$ 231	$ 916,005	$ 916,236
Hospitality	1,869	—	975	2,844	728,718	731,562
Gas station	43	63	128	234	244,808	245,042
Other	1,043	280	739	2,062	1,142,114	1,144,176
Construction	—	—	—	—	64,263	64,263
Residential property	500	—	326	826	428,843	429,669
Total real estate loans	3,462	344	2,391	6,197	3,524,751	3,530,948
Commercial and industrial loans:						
Commercial term	236	53	510	799	170,092	170,891
Commercial lines of credit	—	—	181	181	149,756	149,937
International loans	—	—	—	—	43,577	43,577
Total commercial and industrial loans	236	53	691	980	363,425	364,405
Leases receivable	3,042	476	2,033	5,551	266,720	272,271
Consumer loans	—	—	—	—	19,027	19,027
Total Non-PCI loans and leases	**$ 6,740**	**$ 873**	**$ 5,115**	**$ 12,728**	**$ 4,173,923**	**$ 4,186,651**
December 31, 2016						
Real estate loans:						
Commercial property						
Retail	$ 9	$ 137	$ 234	$ 380	$ 857,249	$ 857,629
Hospitality	1,037	46	600	1,683	647,857	649,540
Gas station	245	643	137	1,025	259,162	260,187
Other	432	79	1,100	1,611	1,105,978	1,107,589
Construction	—	—	—	—	55,962	55,962
Residential property	730	89	423	1,242	336,549	337,791
Total real estate loans	2,453	994	2,494	5,941	3,262,757	3,268,698
Commercial and industrial loans:						
Commercial term	484	42	111	637	137,395	138,032
Commercial lines of credit	—	—	—	—	136,231	136,231
International loans	80	—	—	80	25,741	25,821
Total commercial and industrial loans	564	42	111	717	299,367	300,084
Leases receivable	2,090	1,043	385	3,518	239,776	243,294
Consumer loans	170	—	—	170	22,660	22,830
Total Non-PCI loans and leases	**$ 5,277**	**$ 2,079**	**$ 2,990**	**$ 10,346**	**$ 3,824,560**	**$ 3,834,906**

There were no loans that were90 days or more past due and accruing interest as of September 30, 2017 and 2016.

Impaired Loans and Leases

Loans and leases are considered impaired when the Bank will be unable to collect all interest and principal payments per the contractual terms of the loan and lease agreement, unless the loan is well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructurings ("TDRs") because, due to the financial difficulties of the borrowers, we have granted concessions to the borrowers we would not otherwise consider; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan or lease agreements; or there is a deterioration in the borrower's financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

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

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

The following tables provide information on impaired loans and leases (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance
			(in thousands)		
September 30, 2017					
Real estate loans:					
Commercial property					
Retail	$ 1,475	$ 1,495	$ 124	$ 1,351	$ 61
Hospitality	6,288	7,233	2,165	4,123	3,057
Gas station	4,260	4,732	4,155	105	—
Other	4,777	5,170	1,881	2,897	764
Residential property	2,666	2,812	2,666	—	—
Total real estate loans	19,466	21,442	10,991	8,476	3,882
Commercial and industrial loans:					
Commercial term	3,429	3,482	361	3,068	531
Commercial lines of credit	181	181	181	—	—
Total commercial and industrial loans	3,610	3,663	542	3,068	531
Leases receivable	3,378	3,482	658	2,720	2,008
Consumer loans	1,045	1,221	1,045	—	—
Total Non-PCI loans and leases	**$ 27,499**	**$ 29,808**	**$ 13,236**	**$ 14,264**	**$ 6,421**
December 31, 2016					
Real estate loans:					
Commercial property					
Retail	$ 1,678	$ 1,684	$ 151	$ 1,527	$ 120
Hospitality	6,227	6,823	2,243	3,984	3,078
Gas station	4,984	5,092	4,984	—	—
Other	6,070	6,808	3,127	2,943	782
Residential property	2,798	2,851	2,798	—	—
Total real estate loans	21,757	23,258	13,303	8,454	3,980
Commercial and industrial loans:					
Commercial term	4,106	4,171	1,229	2,877	347
Commercial lines of credit	68	68	68	—	—
Total commercial and industrial loans	4,174	4,239	1,297	2,877	347
Consumer loans	419	489	419	—	—
Total Non-PCI loans and leases	**$ 26,350**	**$ 27,986**	**$ 15,019**	**$ 11,331**	**$ 4,327**

	Three Months Ended		Nine Months Ended	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
September 30, 2017				
Real estate loans:				
Commercial property				
Retail	$ 1,487	$ 24	$ 1,551	$ 85
Hospitality	6,476	143	6,268	309
Gas station	4,603	85	4,764	297
Other	4,886	117	4,917	304
Residential property	2,794	26	2,797	87
Total real estate loans	20,246	395	20,297	1,082
Commercial and industrial loans:				
Commercial term	3,495	54	3,739	165
Commercial lines of credit	1,060	—	853	16
Total commercial and industrial loans	4,555	54	4,592	181
Leases receivable	3,560	12	4,044	36
Consumer loans	1,201	15	917	21
Total Non-PCI loans and leases	**$ 29,562**	**$ 476**	**$ 29,850**	**$ 1,320**
September 30, 2016				
Real estate loans:				
Commercial property				
Retail	$ 1,985	$ 31	$ 2,430	$ 117
Hospitality	3,222	66	4,429	367
Gas station	4,557	134	4,772	395
Other	6,541	138	7,438	533
Residential property	2,512	28	2,606	85
Total real estate loans	18,817	397	21,675	1,497
Commercial and industrial loans:				
Commercial term	4,792	71	5,032	235
Commercial lines of credit	15	3	29	12
International loans	—	—	420	—
Total commercial and industrial loans	4,807	74	5,481	247
Consumer loans	682	7	688	22
Total Non-PCI loans and leases	**$ 24,306**	**$ 478**	**$ 27,844**	**$ 1,766**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms	$ 696	$ 695	$ 1,934	$ 2,306
Less: Interest income recognized on impaired loans and leases	(476)	(478)	(1,320)	(1,766)
Interest foregone on impaired loans and leases	**$ 220**	**$ 217**	**$ 614**	**$ 540**

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

Nonaccrual Loans and Leases and Nonperforming Assets

Loans and leases are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the receivable is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan or lease receivable on nonaccrual status earlier, depending upon the individual circumstances surrounding the delinquency. When a receivable is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual loans and leases may be restored to accrual status when principal and interest payments become current and full repayment is expected.

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

	September 30, 2017	December 31, 2016
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 253	$ 404
Hospitality	5,368	5,266
Gas station	742	1,025
Other	2,097	2,033
Residential property	621	564
Total real estate loans	9,081	9,292
Commercial and industrial loans:		
Commercial term	984	824
Commercial lines of credit	181	—
Total commercial and industrial loans	1,165	824
Leases receivable	3,378	901
Consumer loans	934	389
Total nonaccrual Non-PCI loans and leases	**$ 14,558**	**$ 11,406**

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

	September 30, 2017	December 31, 2016
	(in thousands)	
Nonaccrual Non-PCI loans and leases	$ 14,558	$ 11,406
Loans and leases 90 days or more past due and still accruing	—	—
Total nonperforming Non-PCI loans and leases	**14,558**	**11,406**
OREO	1,946	7,484
Total nonperforming assets	**$ 16,504**	**$ 18,890**

As of September 30, 2017, OREO consisted of six properties with a combined carrying value of $1.9 million, five of which with a combined carrying value of $1.8 million were acquired in the Central Bancorp Inc. ("CBI") acquisition on August 31, 2014, or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2016, OREO consisted of 12 properties with a combined carrying value of $7.5 million, including $5.7 million OREO acquired in the CBI acquisition or obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

Troubled Debt Restructurings

The following table details TDRs (excluding PCI loans) as of September 30, 2017 and December 31, 2016:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
					(in thousands)					
September 30, 2017										
Real estate loans	$ 1,959	$ 3,836	$ 67	$ —	$ 5,862	$ 3,389	$ —	$ 1,399	$ 1,245	$ 6,033
Commercial and industrial loans	132	186	48	109	475	10	184	1,667	485	2,346
Consumer loans	820	—	—	—	820	—	—	111	—	111
Total Non-PCI TDR loans	**$ 2,911**	**$ 4,022**	**$ 115**	**$ 109**	**$ 7,157**	**$ 3,399**	**$ 184**	**$ 3,177**	**$ 1,730**	**$ 8,490**
December 31, 2016										
Real estate loans	$ 1,679	$ 4,373	$ 143	$ —	$ 6,195	$ 4,795	$ —	$ 1,514	$ 1,633	$ 7,942
Commercial and industrial loans	149	71	69	419	708	22	198	2,135	730	3,085
Consumer loans	—	—	—	—	—	—	—	119	—	119
Total Non-PCI TDR loans	**$ 1,828**	**$ 4,444**	**$ 212**	**$ 419**	**$ 6,903**	**$ 4,817**	**$ 198**	**$ 3,768**	**$ 2,363**	**$ 11,146**

As of September 30, 2017 and December 31, 2016, total TDRs were $15.6 million and $18.0 million, respectively. A debt restructuring is considered a TDR if we grant a concession, that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for three months or more. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. At September 30, 2017 and December 31, 2016, $2.2 million and $3.4 million, respectively, of allowance relating to these loans were included in the allowance for loan and lease losses.

For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers' past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

During the three and nine month periods ended September 30, 2016, there wasone commercial term loan with recorded investment of$53,000 that defaulted subsequent to the modifications occurring within the previous 12 months.There were no such defaults during the three and nine months periods ended September 30, 2017.

Purchased Credit Impaired Loans

The following table summarizes the changes in carrying value of PCI loans during the nine months ended September 30, 2017 and 2016:

	Carrying Amount		Accretable Yield	
	(in thousands)			
Balance at January 1, 2017	**$**	**8,892**	**$**	**(5,677)**
Accretion		501		501
Payments received		(1,770)		—
Disposal/transfer to OREO		110		—
Change in expected cash flows, net		—		(306)
Loan loss (provision) income		177		—
Balance at September 30, 2017	**$**	**7,910**	**$**	**(5,482)**
Balance at January 1, 2016	**$**	**14,573**	**$**	**(5,944)**
Accretion		933		933
Payments received		(6,408)		—
Disposal/transfer to OREO		1,143		—
Change in expected cash flows, net		—		(900)
Loan loss (provision) income		(234)		—
Balance at September 30, 2016	**$**	**10,007**	**$**	**(5,911)**

As of September 30, 2017 and December 31, 2016, pass/pass-watch, special mention and classified PCI loans, disaggregated by loan class, were as follows:

	Pass/Pass-Watch		Special Mention		Classified		Total		Allowance		Total	
					(in thousands)							
September 30, 2017												
Real estate loans	$	1,257	$	357	$	6,996	$	8,610	$	752	$	7,858
Commercial and industrial loans		—		—		51		51		41		10
Consumer loans		—		—		43		43		1		42
Total PCI loans	**$**	**1,257**	**$**	**357**	**$**	**7,090**	**$**	**8,704**	**$**	**794**	**$**	**7,910**
December 31, 2016												
Real estate loans	$	1,153	$	1,180	$	7,344	$	9,677	$	922	$	8,755
Commercial and industrial loans		—		—		136		136		41		95
Consumer loans		—		—		50		50		8		42
Total PCI loans	**$**	**1,153**	**$**	**1,180**	**$**	**7,530**	**$**	**9,863**	**$**	**971**	**$**	**8,892**

Loans accounted for as PCI are generally considered accruing and performing loans as the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of September 30, 2017 and December 31, 2016, we had no PCI loans on nonaccrual status.

The following table presents a summary of the borrowers' underlying payment status of PCI loans as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Allowance Amount	Total
	(in thousands)							
September 30, 2017								
Real estate loans	$ 689	$ —	$ 579	$ 1,268	$ 7,342	$ 8,610	$ 752	$ 7,858
Commercial and industrial loans	—	—	5	5	46	51	41	10
Consumer loans	—	—	—	—	43	43	1	42
Total PCI loans	**$ 689**	**$ —**	**$ 584**	**$ 1,273**	**$ 7,431**	**$ 8,704**	**$ 794**	**$ 7,910**
December 31, 2016								
Real estate loans	$ 975	$ —	$ 361	$ 1,336	$ 8,341	$ 9,677	$ 922	$ 8,755
Commercial and industrial loans	—	—	6	6	130	136	41	95
Consumer loans	—	—	50	50	—	50	8	42
Total PCI loans	**$ 975**	**$ —**	**$ 417**	**$ 1,392**	**$ 8,471**	**$ 9,863**	**$ 971**	**$ 8,892**

Below is a summary of PCI loans as ofSeptember 30, 2017 and December 31, 2016:

	Pooled PCI Loans				Non-pooled PCI Loans			
	Number of Loans	Number of Pools	Carrying Amount *(in thousands)*	Percentage of Total	Number of Loans	Carrying Amount *(in thousands)*	Percentage of Total	Total PCI Loans *(in thousands)*
September 30, 2017								
Real estate loans:								
Commercial property	41	6	$ 6,788	88.7%	1	$ 864	11.3%	$ 7,652
Residential property	—	—	—	—%	1	958	100.0%	$ 958
Total real estate loans	41	6	6,788	78.8%	2	1,822	21.2%	8,610
Commercial and industrial loans	3	3	51	100.0%	—	—	—%	51
Consumer loans	1	1	4	9.3%	1	39	90.4%	43
Total acquired loans	**45**	**10**	**6,843**	**78.6%**	**3**	**1,861**	**21.4%**	**8,704**
Allowance for loan losses			(378)			(416)		(794)
Total carrying amount			**$ 6,465**			**$ 1,445**		**$ 7,910**

	Pooled PCI Loans				Non-pooled PCI Loans			
	Number of Loans	Number of Pools	Carrying Amount *(in thousands)*	Percentage of Total	Number of Loans	Carrying Amount *(in thousands)*	Percentage of Total	Total PCI Loans *(in thousands)*
December 31, 2016								
Real estate loans:								
Commercial property	45	6	$ 7,780	89.4%	1	$ 921	10.6%	$ 8,701
Residential property	—	—	—	—%	2	976	100.0%	$ 976
Total real estate loans	45	6	7,780	80.4%	3	1,897	19.6%	9,677
Commercial and industrial loans	6	3	136	100.0%	—	—	—%	136
Consumer loans	1	1	50	100.0%	—	—	—%	50
Total acquired loans	**52**	**10**	**7,966**	**80.8%**	**3**	**1,897**	**19.2%**	**9,863**
Allowance for loan losses			(617)			(354)		(971)
Total carrying amount			**$ 7,349**			**$ 1,543**		**$ 8,892**

Note 4 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the nine months ended September 30, 2017 and 2016 were as follows:

	2017	2016
	(in thousands)	
Servicing assets:		
Balance at beginning of period	$ 10,564	$ 11,744
Addition related to sale of SBA loans	1,949	1,452
Amortization	(2,415)	(2,363)
Reversal of allowance	330	—
Balance at end of period	**$ 10,428**	**$ 10,833**
Servicing liabilities:		
Balance at beginning of period	$ 3,143	$ 4,784
Amortization	(706)	(1,358)
Reversal of allowance	(67)	—
Balance at end of period	**$ 2,370**	**$ 3,426**

At September 30, 2017 and 2016, we serviced loans sold to unaffiliated parties in the amounts of $482.0 million and $485.1 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 $1.2 million for each of the three-month periods ended September 30, 2017 and 2016, and $3.5 million and $3.6 million for the nine months ended September 30, 2017 and 2016, respectively. Servicing fee income, net of the amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income. Net amortization expense was $624,000 and $598,000 for the three months ended September 30, 2017 and 2016, respectively, and $1.7 million and $1.0 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 5 — Income Taxes

The Company's income tax expense was $9.9 million and $8.2 million for the three months ended September 30, 2017 and 2016, respectively. The effective income tax rate was 39.9 percent and 38.6 percent for the three months ended September 30, 2017 and 2016, respectively. The Company's income tax expense was $27.6 million and $23.3 million for the nine months ended September 30, 2017 and 2016, respectively. The effective income tax rate was 39.0 percent and 35.6 percent for the nine months ended September 30, 2017 and 2016, respectively. Income tax expense for the nine months ended September 30, 2016 includes a $1.8 million tax benefit recorded as a result of finalization of the Company's 2014 amended income tax returns.

Management concluded that as of September 30, 2017 and December 31, 2016, a valuation allowance of $1.0 million was appropriate against certain state net operating losses.

The Company is subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2016. As of September 30, 2017, the Company was subject to audit or examination by Internal Revenue Service for the 2014 tax year and California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements as a result of these audits or examinations.

Note 6 — Debt

FHLB Borrowings

The Bank had $110.0 million and $315.0 million in advances (borrowings) from the FHLB as of September 30, 2017 and December 31, 2016, respectively. The FHLB advances were all overnight borrowings at September 30, 2017 and December 31, 2016. For the three months ended September 30, 2017 and 2016, interest expense on FHLB advances was $198,000 and $179,000, respectively, and the weighted-average interest rate was 1.16 percent and 0.47 percent, respectively. For the nine months ended September 30, 2017 and 2016, interest expense on FHLB advances was $714,000 and $673,000, respectively, and the weighted-average interest rate was 0.80 percent and 0.44 percent, respectively.

The Bank maintains a secured credit facility with the FHLB, allowing the Bank to borrow on an overnight and term basis. The Bank had $1.1 billion of loans pledged as collateral with the FHLB, which provides $808.9 million in borrowing capacity, of which $698.9 million remained available at September 30, 2017.

The Bank also has securities with market values of $9.3 million pledged with the FRB, which provides $9.2 million in available borrowing capacity through the Fed Discount Window. There were no outstanding borrowings with the FRB as of September 30, 2017 and December 31, 2016.

Subordinated Debentures

The Company issued Fixed-to-Floating Subordinated Notes ("Notes") of $100 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes will bear interest at an initial fixed rate of 5.45% per annum, payable semi-monthly on March 30 and September 30 of each year, commencing September 30, 2017. From and including March 30, 2022 and thereafter, the Notes will bear interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315% payable quarterly. If the then current three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero. Debt issuance cost was $2.3 million, which is being amortized through the Note's maturity date. At September 30, 2017, the balance of Notes included in the Company's consolidated balance sheet, net of debt issuance cost, was $97.9 million. The amortization of debt issuance cost was $43,000 and $90,000 for the three and nine months ended September 30, 2017, respectively.

The Company assumed Junior Subordinated Deferrable Interest Debentures ("Subordinated Debentures") as a result of the acquisition of CBI 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. CBI formed a trust in 2005 and issued $26.0 million of Trust Preferred Securities ("TPS") at 6.26 percent fixed rate for the first five years and a variable rate at the 3 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 September 30, 2017 and December 31, 2016, the balance of Subordinated Debentures included in the Company's consolidated balance sheets, net of discount of $7.6 million and $7.8 million, was $19.2 million and $19.0 million, respectively. The amortization of discount was $85,000 and $67,000 for the three months ended September 30, 2017, and 2016, respectively, and $243,000 and $185,000 for the nine months ended September 30, 2017, and 2016, respectively.

Note 7 — Earnings Per Share

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

For diluted EPS, weighted-average number of common shares included the impact of restricted stock under the treasury method. Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method. Basic EPS is computed by dividing net income, net of income allocated to participating securities, by the weighted-average number of common shares. For diluted EPS, weighted-average number of common shares include the diluted effect of stock options.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except for share and per share data)			
Basic EPS:				
Net income	$ 14,923	$ 13,121	$ 43,162	$ 42,073
Less: income allocated to unvested restricted shares	93	81	270	258
Income allocated to common shares	$ 14,830	$ 13,040	$ 42,892	$ 41,815
Weighted-average shares for basic EPS	32,095,286	31,912,470	32,058,705	31,880,466
Basic EPS	**$ 0.46**	**$ 0.41**	**$ 1.34**	**$ 1.31**
Effect of dilutive securities - options and unvested restricted stock	160,528	175,763	171,614	150,829
Diluted EPS:				
Income allocated to common shares	$ 14,830	$ 13,040	$ 42,892	$ 41,815
Weighted-average shares for diluted EPS	32,255,814	32,088,233	32,230,319	32,031,295
Diluted EPS	**$ 0.46**	**$ 0.41**	**$ 1.33**	**$ 1.31**

There were no stock options with an anti-dilutive effect for the three andnine months ended September 30, 2017. For the three and nine months ended September 30, 2016, 12,034 and 74,389 stock options, respectively, were not included in the computation of diluted EPS because their effect was anti-dilutive.

Note 8 – Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the three months ended September 30, 2017 and 2016 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities	Tax Benefit (Expense)	Total
		(in thousands)	
September 30, 2017			
Balance at beginning of period	$ 235	$ (98)	$ 137
Other comprehensive income before reclassification	529	(109)	420
Reclassification from accumulated other comprehensive income	(267)	—	(267)
Period change	262	(109)	153
Balance at end of period	**$ 497**	**$ (207)**	**$ 290**
September 30, 2016			
Balance at beginning of period	$ 13,816	$ (4,695)	$ 9,121
Other comprehensive income before reclassification	(2,629)	1,109	(1,520)
Reclassification from accumulated other comprehensive income	(46)	—	(46)
Period change	(2,675)	1,109	(1,566)
Balance at end of period	**$ 11,141**	**$ (3,586)**	**$ 7,555**

For the three months ended September 30, 2017, there was a $267,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $267,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $227,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

For the three months ended September 30, 2016, there was a $46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $321,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

Activity in accumulated other comprehensive income for the nine months ended September 30, 2017 and 2016 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
	(in thousands)			
September 30, 2017				
Balance at beginning of period	$ (4,089)	$ —	$ 1,695	$ (2,394)
Other comprehensive income before reclassification	6,059	—	(1,902)	4,157
Reclassification from accumulated other comprehensive income	(1,473)	—	—	(1,473)
Period change	4,586	—	(1,902)	2,684
Balance at end of period	**$ 497**	**$ —**	**$ (207)**	**$ 290**
September 30, 2016				
Balance at beginning of period	$ (2,331)	$ 9	$ 2,007	$ (315)
Other comprehensive income before reclassification	13,518	(9)	(5,593)	7,916
Reclassification from accumulated other comprehensive income	(46)	—	—	(46)
Period change	13,472	(9)	(5,593)	7,870
Balance at end of period	**$ 11,141**	**$ —**	**$ (3,586)**	**$ 7,555**

For the nine months ended September 30, 2017, there was a $1.5 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $1.5 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $971,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

For the nine months ended September 30, 2016, there was a $46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $314,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

Note 9 — Regulatory Matters

Risk-Based Capital

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

In addition, a new capital conservation buffer of 2.5% began to be phased in effective January 1, 2016 through January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. In January 2016, the new capital conservation buffer requirement was0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. The Company and the Bank's capital conservation buffer was 6.56% and 7.32%, respectively, as of September 30, 2017, and 5.86% and 5.64%, respectively, as of December 31, 2016.

The capital ratios of Hanmi Financial and the Bank as ofSeptember 30, 2017 and December 31, 2016 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
September 30, 2017						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 677,024	15.58%	$ 347,757	8.00%	N/A	N/A
Hanmi Bank	$ 666,298	15.32%	$ 347,949	8.00%	$ 434,936	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 545,698	12.56%	$ 260,818	6.00%	N/A	N/A
Hanmi Bank	$ 632,891	14.55%	$ 260,962	6.00%	$ 347,949	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 530,347	12.20%	$ 195,613	4.50%	N/A	N/A
Hanmi Bank	$ 632,891	14.55%	$ 195,721	4.50%	$ 282,709	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 545,698	10.92%	$ 199,818	4.00%	N/A	N/A
Hanmi Bank	$ 632,891	12.66%	$ 199,897	4.00%	$ 249,871	5.00%
December 31, 2016						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 554,089	13.86%	$ 319,901	8.00%	N/A	N/A
Hanmi Bank	$ 544,759	13.64%	$ 319,520	8.00%	$ 399,399	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 520,477	13.02%	$ 239,926	6.00%	N/A	N/A
Hanmi Bank	$ 511,146	12.80%	$ 239,640	6.00%	$ 319,520	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 509,239	12.73%	$ 179,944	4.50%	N/A	N/A
Hanmi Bank	$ 511,146	12.80%	$ 179,730	4.50%	$ 259,610	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 520,477	11.53%	$ 180,581	4.00%	N/A	N/A
Hanmi Bank	$ 511,146	11.33%	$ 180,411	4.00%	$ 225,514	5.00%

Note 10 — Fair Value Measurements

Fair Value Measurements

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

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

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

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

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

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

Loans held for sale - Loans held for sale are all SBA loans and carried at the lower of cost or fair value. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At September 30, 2017, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Impaired loans (excluding PCI loans) - Nonaccrual loans and performing restructured loans are considered impaired for reporting purposes and are measured and recorded at fair value on a non-recurring basis. Nonaccrual Non-PCI loans with an unpaid principal balance over $100,000 and all performing restructured loans are reviewed individually for the amount of impairment, if any. Nonaccrual Non-PCI loans with an unpaid principal balance of $100,000 or less are evaluated for impairment collectively. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2017 and December 31, 2016, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	**Significant Observable Inputs with No Active Market with Identical Characteristics**	**Significant Unobservable Inputs**	**Balance**
		(in thousands)		
September 30, 2017				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$ —	$ 309,750	$ —	$ 309,750
Collateralized mortgage obligations	—	106,124	—	106,124
U.S. government agency securities	—	7,457	—	7,457
SBA loan pools securities	—	3,896	—	3,896
Municipal bonds-tax exempt	—	148,524	—	148,524
U.S. treasury securities	153	—	—	153
Mutual funds	22,536	—	—	22,536
Total securities available for sale	**$ 22,689**	**$ 575,751**	**$ —**	**$ 598,440**
December 31, 2016				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$ —	$ 229,630	$ —	$ 229,630
Collateralized mortgage obligations	—	76,451	—	76,451
U.S. government agency securities	—	7,441	—	7,441
SBA loan pools securities	—	4,146	—	4,146
Municipal bonds-tax exempt	—	158,030	—	158,030
Municipal bonds-taxable	—	13,701	—	13,701
Corporate bonds	—	5,015	—	5,015
U.S. treasury securities	156	—	—	156
Mutual funds	22,394	—	—	22,394
Total securities available for sale	**$ 22,550**	**$ 494,414**	**$ —**	**$ 516,964**

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

As of September 30, 2017 and December 31, 2016, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs With No Active Market With Identical Characteristics	Significant Unobservable Inputs	Loss During the Nine Months Ended September 30, 2017
		(in thousands)		
September 30, 2017				
Assets:				
Impaired loans (excluding PCI loans) [(1)]	$ —	$ 4,920	$ 2,269	$ 149
OREO [(2)]	—	1,946	—	—

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs With No Active Market With Identical Characteristics	Significant Unobservable Inputs	Loss During the Twelve Months Ended December 31, 2016
		(in thousands)		
December 31, 2016				
Assets:				
Impaired loans (excluding PCI loans) [(3)]	$ —	$ 15,257	$ 6,767	$ 868
OREO [(4)]	—	7,484	—	—

(1) *Consist of real estate loans of $4.9 million and commercial and industrial loans of $2.3 million.*
(2) *Consist of properties obtained from the foreclosure of commercial property loans of $237,000 and residential property loans of $1.7 million.*
(3) *Consist of real estate loans of $17.8 million, commercial and industrial loans of $3.8 million, and consumer loans of $419,000.*
(4) *Consist of properties obtained from the foreclosure of commercial property loans of $5.4 million and residential property loans of $2.1 million.*

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

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

The estimated fair values of financial instruments were as follows:

	September 30, 2017			
	Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	138,139	138,139	—	—
Securities available for sale	598,440	22,689	575,751	—
Loans and leases receivable, net of allowance for loan and lease losses	4,162,863	—	—	4,124,666
Loans held for sale	6,469	—	6,469	—
Accrued interest receivable	12,098	12,098	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,293,538	—	1,293,538	—
Interest-bearing deposits	3,005,472	—	—	2,956,667
Borrowings	227,140	—	—	227,140
Accrued interest payable	4,071	4,071	—	—
Off-balance sheet items:				
Commitments to extend credit	301,049	—	—	301,049
Standby letters of credit	19,521	—	—	19,521
Commercial letters of credit	6,833	—	—	6,833

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

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

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

Securities - The fair value of securities, consisting of securities available for sale, is generally obtained from market bids for similar or identical securities, from independent securities brokers or dealers, or from other model-based valuation techniques described above (Levels 1, 2 and 3).

Loans and leases receivable, net of allowance for loan and leases losses - Loans and leases receivable include Non-PCI loans and leases, PCI loans and Non-PCI impaired loans. The fair value of Non-PCI loans and leases receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the offering rates offered by the Bank for loans and leases with similar financial characteristics. Yield curves are constructed by product type using the Bank's loan and lease pricing model for like-quality credits. The discount rates used in the Bank's model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans and leases. No adjustments have been made for changes in credit within the loan and lease portfolio. It is our opinion that the allowance for loan and lease losses relating to performing and nonperforming loans and leases results in a fair valuation of such loans and leases. Additionally, the fair value of our loans and leases may differ significantly from the values that would have been used had a ready market existed for such loans and leases and may differ materially from the values that we may ultimately realize (Level 3).

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

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

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

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

FHLB stock - The carrying amount of FHLB stock approximates its fair value as such stock may be resold to the issuer at carrying value (Level 2).

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

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

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

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

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

Note 11 — Share-Based Compensation

Share-Based Compensation Expense

For the three months ended September 30, 2017 and 2016, share-based compensation expenses were $709,000 and $787,000, respectively, and net tax benefits recognized from stock option and restricted stock awards were $291,000 and $313,000, respectively. For the nine months ended September 30, 2017 and 2016, share-based compensation expenses were $2.1 million and $2.3 million, respectively, and net tax benefits recognized from stock option exercises and vested restricted stock awards were $666,000 and $182,000, respectively.

The Company adopted Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation*, during the three months ended March 30, 2016. Adoption of this ASU did not have a material impact on the Company's financial statements. As a result of adoption of this ASU, excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income during the nine months ended September 30, 2017 and 2016.

Unrecognized Share-Based Compensation Expense

As of September 30, 2017, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense		Average Expected Recognition Period
	(in thousands)		
Stock option awards	$	19	0.9 years
Restricted stock awards		4,751	2.3 years
Total unrecognized share-based compensation expense	**$**	**4,770**	**2.3 years**

Stock Option Awards

The table below provides stock option information for the three months ended September 30, 2017:

	Number of Shares		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life		Aggregate Intrinsic Value of In-the-Money Options	
						(in thousands)	
Options outstanding at beginning of period	376,401	$	17.68	6.3 years	$	4,168	*(1)*
Options exercised	(10,625)	$	12.21	4.5 years		—	
Options outstanding at end of period	**365,776**	**$**	**17.84**	6.1 years	**$**	**4,797**	*(2)*
Options exercisable at end of period	**348,105**	**$**	**17.62**	6.1 years	**$**	**4,641**	*(2)*

(1) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $28.45 as of June 30, 2017, over the exercise price, multiplied by the number of options.

(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $30.95 as of September 30, 2017, over the exercise price, multiplied by the number of options.

The table below provides stock option information for the nine months ended September 30, 2017:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options	
				(in thousands)	
Options outstanding at beginning of period	387,901	$ 17.49	6.8 years	$ 6,752	(1)
Options exercised	(22,125)	$ 12.19	4.5 years	—	
Options outstanding at end of period	**365,776**	**$ 17.84**	6.1 years	**$ 4,797**	(2)
Options exercisable at end of period	**348,105**	**$ 17.62**	6.1 years	**$ 4,641**	(2)

(1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $34.90 as of December 31, 2016, over the exercise price, multiplied by the number of options.*

(2) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $30.95 as of September 30, 2017, over the exercise price, multiplied by the number of options.*

There were 10,625 and 2,375 stock options exercised during the three months ended September 30, 2017 and 2016, respectively. There were 22,125 and 42,584 stock options exercised during the nine months ended September 30, 2017 and 2016, respectively.

Restricted Stock Awards

Restricted stock awards under the Company's 2007 and 2013 Equity Compensation Plans typically vest over three years and are subject to forfeiture if employment terminates prior to the lapse of restrictions. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Forfeited shares of restricted stock become available for future grants upon forfeiture.

The table below provides information for restricted stock awards for the three and nine months ended September 30, 2017:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	305,951	$ 20.21	343,958	$ 16.60
Restricted stock granted	13,173	28.79	104,179	31.04
Restricted stock vested	(2,666)	20.52	(122,010)	18.12
Restricted stock forfeited	(3,667)	28.60	(13,336)	24.73
Restricted stock at end of period	**312,791**	**20.47**	**312,791**	**20.47**

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 recognized in the consolidated balance sheets.

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:

	September 30, 2017	December 31, 2016
	(in thousands)	
Commitments to extend credit	$ 301,049	$ 310,987
Standby letters of credit	19,521	15,669
Commercial letters of credit	6,833	4,215
Total undisbursed loan commitments	**$ 327,403**	**$ 330,871**

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for off-balance sheet items are included in other operating expenses. Activity in the allowance for loan off-balance sheet items was as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance at beginning of period	$ 1,135	$ 1,475	$ 1,184	$ 986
Provision (income)	(220)	16	(269)	505
Balance at end of period	**$ 915**	**$ 1,491**	**$ 915**	**$ 1,491**

Note 13 — Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial data included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Quarterly Report on Form 10-Q for the period ended September 30, 2017, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of September 30, 2017.

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

The following is management's discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and nine months ended September 30, 2017. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 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 September 30, 2017 (this "Report").

Forward-Looking Statements

Some of the statements under this item and elsewhere in this Report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, 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 and availability, developments regarding our capital plans, plans and objectives of management for future operations, strategic alternatives for a possible business combination, merger or sale transactions, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; general economic and business conditions internationally, nationally and in those areas in which we operate, including, but not limited to, California, Illinois and Texas; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters related to our real estate portfolio; risks associated with Small Business Administration ("SBA") loans; failure to attract or retain key employees; changes in governmental regulation; enforcement actions against us and litigation we may become a party to; ability of Hanmi Bank to make distributions to Hanmi Financial, which is restricted by certain factors, including Hanmi Bank's retained earnings, net income, prior distributions made, and certain other financial tests; ability to successfully and efficiently integrate the operations of banks and other institutions we acquire; adequacy of our allowance for loan and lease losses; credit quality and the effect of credit quality on our provision for loan and lease losses and allowance for loan and lease losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and leases and other terms of credit agreements; our ability to control expenses; and changes in securities markets. In addition, for a discussion of some of the other factors that might cause such a difference, see the discussion contained in our 2016 Annual Report on Form 10-K, as well as other factors we identify from time to time in our filings with the SEC. 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.

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 2016 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2016 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 2016 Annual Report on Form 10-K. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. 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 Hanmi Financial's Board of Directors.

Selected Financial Data

The following table sets forth certain selected financial data for the periods indicated:

	As of or for the			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in thousands, except per share data)			
Summary balance sheets:				
Cash and due from banks	$ 138,139	$ 130,197	$ 138,139	$ 130,197
Securities	598,440	548,961	598,440	548,961
Loans and leases receivable, net [(1)]	4,162,863	3,513,687	4,162,863	3,513,687
Assets	5,111,396	4,402,180	5,111,396	4,402,180
Deposits	4,299,010	3,771,207	4,299,010	3,771,207
Liabilities	4,552,149	3,870,982	4,552,149	3,870,982
Stockholders’ equity	559,247	531,198	559,247	531,198
Tangible equity	546,619	529,742	546,619	529,742
Average loans and leases receivable [(1)]	4,092,131	3,447,428	3,976,021	3,333,419
Average securities	611,538	589,832	574,801	643,125
Average interest-earning assets	4,759,035	4,130,145	4,608,870	4,045,480
Average assets	5,027,704	4,397,703	4,881,527	4,315,062
Average deposits	4,260,349	3,669,419	4,101,640	3,544,389
Average borrowings	185,000	171,779	207,340	222,889
Average interest-bearing liabilities	3,187,395	2,651,505	3,084,094	2,600,851
Average stockholders’ equity	551,763	528,581	543,503	515,403
Average tangible equity	539,087	527,072	530,740	513,813
Per share data:				
Earnings per share – basic [(2)]	$ 0.46	$ 0.41	$ 1.34	$ 1.31
Earnings per share – diluted [(2)]	$ 0.46	$ 0.41	$ 1.33	$ 1.31
Book value per share [(3)]	$ 17.25	$ 16.47	$ 17.25	$ 16.47
Tangible book value per share [(4)]	$ 16.86	$ 16.42	$ 16.86	$ 16.42
Cash dividends per share	$ 0.21	$ 0.19	$ 0.59	$ 0.47
Common shares outstanding	32,413,082	32,252,774	32,413,082	32,252,774
Performance ratios:				
Return on average assets [(5)] [(6)]	1.18 %	1.19 %	1.18 %	1.30 %
Return on average stockholders’ equity [(5)] [(7)]	10.73 %	9.88 %	10.62 %	10.90 %
Return on average tangible equity [(5)] [(8)]	10.98 %	9.90 %	10.87 %	10.94 %
Net interest margin [(9)]	3.79 %	3.86 %	3.83 %	3.95 %
Net interest margin excluding acquisition accounting [(9)]	3.76 %	3.75 %	3.79 %	3.76 %
Efficiency ratio [(10)]	53.33 %	58.72 %	54.32 %	57.47 %
Dividend payout ratio [(11)]	45.45 %	46.50 %	53.66 %	35.83 %
Average stockholders’ equity to average assets	10.97 %	12.02 %	11.13 %	11.94 %

Capital ratios (15)**:**				
Total risk-based capital:				
Hanmi Financial	15.58%	14.99 %	15.58%	14.99 %
Hanmi Bank	15.32%	14.61 %	15.32%	14.61 %
Tier 1 risk-based capital:				
Hanmi Financial	12.56%	13.89 %	12.56%	13.89 %
Hanmi Bank	14.55%	13.50 %	14.55%	13.50 %
Common equity Tier 1 capital:				
Hanmi Financial	12.20%	13.73 %	12.20%	13.73 %
Hanmi Bank	14.55%	13.50 %	14.55%	13.50 %
Tier 1 leverage:				
Hanmi Financial	10.92%	11.68 %	10.92%	11.68 %
Hanmi Bank	12.66%	11.36 %	12.66%	11.36 %
Asset quality ratios:				
Nonperforming Non-PCI loans and leases to loans and leases (12)	0.35%	0.31 %	0.35%	0.31 %
Nonperforming assets to assets (13)	0.32%	0.50 %	0.32%	0.50 %
Net loan and lease charge-offs (recoveries) to average loans and leases	0.15%	(0.08)%	—%	(0.02)%
Allowance for loan lease losses to loans and leases	0.77%	1.10 %	0.77%	1.10 %
Allowance for loan and lease losses to non-performing loans and leases (12) (14)	217.74%	305.43 %	217.74%	305.43 %
Acquired loans:				
PCI loans, net of discounts	$ 8,704	$ 15,540	$ 8,704	$ 15,540
Allowance for loan losses on PCI loans	794	5,533	794	5,533
Non-PCI loans, net of discounts	91,013	108,434	91,013	108,434
Unamortized acquisition discounts on Non-PCI loans	4,999	7,087	4,999	7,087

(1) *Loans and leases receivable, net of allowance for loan and lease losses*
(2) *Calculation based on net income allocated to common shares*
(3) *Stockholders' equity divided by common shares outstanding*
(4) *Tangible equity divided by common shares outstanding*
(5) *Calculation based on annualized net income*
(6) *Net income divided by average assets*
(7) *Net income divided by average stockholders' equity*
(8) *Net income divided by average tangible equity*
(9) *Net interest income on a taxable equivalent basis before provision for loan and lease losses divided by average interest-earning assets*
(10) *Noninterest expenses divided by the sum of net interest income before provision for loan and lease losses and noninterest income*
(11) *Dividend declared per share divided by basic earnings per share*
(12) *Excludes PCI loans*
(13) *Nonperforming assets consist of nonperforming loans and leases (see footnote (12) above) and OREO*
(14) *Excludes allowance for loan and lease losses allocated to PCI loans*
(15) *Basel III rules, including certain transitional provisions, became effective January 1, 2015*

Non-GAAP Financial Measures

The Company calculates certain supplemental financial information determined by methods other than in accordance with U.S. GAAP, including tangible assets, tangible stockholders' equity, tangible book value per share, core interest income and yield, and net interest income and margin excluding acquisition accounting. These non-GAAP measures are used by management in analyzing Hanmi Financial's capital strength, core loan and lease interest income and yield, and net interest income and margin without the impact of the CBI acquisition.

Tangible equity is calculated by subtracting goodwill created from acquisition of the Commercial Equipment Leasing Division and core deposit intangible from stockholders' equity. Banking and financial institution regulators also exclude goodwill and core deposit intangible from stockholders' equity when assessing the capital adequacy of a financial institution. Core loan and lease interest income and yield are calculated by subtracting accretion of discount on purchased loans. Net interest income and net interest margin are calculated by adjusting the reported amounts and rates for the impact of the CBI acquisition, including accretion of discount on purchased loans, accretion of time deposit premium and amortization of subordinated debentures discount.

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

Tangible Assets, Tangible Stockholders' Equity and Tangible Book Value Per Share

The following table reconciles these non-GAAP performance measures to the most comparable GAAP performance measures as of the dates indicated:

	September 30,	
	2017	2016
	(in thousands, except per share data)	
Total assets	**$ 5,111,396**	**$ 4,402,180**
Less goodwill	(11,031)	—
Less other intangible assets, net	(1,597)	(1,456)
Tangible assets	**$ 5,098,768**	**$ 4,400,724**
Total stockholders' equity	$ 559,247	$ 531,198
Less goodwill	(11,031)	—
Less other intangible assets, net	(1,597)	(1,456)
Tangible stockholders' equity	**$ 546,619**	**$ 529,742**
Book value per share	$ 17.25	$ 16.47
Effect of goodwill	(0.34)	—
Effect of other intangible assets	(0.05)	(0.05)
Tangible book value per share	**$ 16.86**	**$ 16.42**

Core Loan and Lease Yield and Net Interest Margin

The impact of acquisition accounting adjustments on core loan and lease interest income and yield and net interest margin are summarized in the following table:

	Three Months Ended			
	September 30, 2017		September 30, 2016	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Core loan and lease interest income and yield	**$ 49,924**	**4.84 %**	**$ 40,476**	**4.63 %**
Accretion of discount on purchased loans	341	0.03 %	674	0.08 %
As reported	**$ 50,265**	**4.87 %**	**$ 41,150**	**4.71 %**
Net interest income and net interest margin excluding acquisition accounting[(1)]	**$ 45,048**	**3.76 %**	**$ 38,874**	**3.75 %**
Accretion of discount on Non-PCI loans and leases	303	0.03 %	648	0.06 %
Accretion of discount on PCI loans and leases	38	— %	26	— %
Accretion of time deposits premium	116	0.01 %	610	0.06 %
Amortization of subordinated debentures discount	(85)	(0.01)%	(67)	(0.01)%
Net impact	372	0.03 %	1,217	0.11 %
As reported on a fully taxable equivalent basis	**$ 45,420**	**3.79 %**	**$ 40,091**	**3.86 %**

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

	Nine Months Ended			
	September 30, 2017		September 30, 2016	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Core loan and lease interest income and yield	**$ 142,183**	**4.78 %**	**$ 117,066**	**4.69 %**
Accretion of discount on purchased loans	1,431	0.05 %	3,796	0.15 %
As reported	**$ 143,614**	**4.83 %**	**$ 120,862**	**4.84 %**
Net interest income and net interest margin excluding acquisition accounting[(1)]	**$ 130,409**	**3.79 %**	**$ 113,710**	**3.76 %**
Accretion of discount on Non-PCI loans and leases	1,287	0.04 %	3,396	0.11 %
Accretion of discount on PCI loans and leases	144	— %	400	0.01 %
Accretion of time deposits premium	358	0.01 %	2,343	0.08 %
Amortization of subordinated debentures discount	(243)	(0.01)%	(185)	(0.01)%
Net impact	1,546	0.04 %	5,954	0.19 %
As reported on a fully taxable equivalent basis	**$ 131,955**	**3.83 %**	**$ 119,664**	**3.95 %**

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

Executive Overview

For the three months ended September 30, 2017, net income was $14.9 million, or $0.46 per diluted share, compared with $13.1 million, or $0.41 per diluted share, for the three months ended September 30, 2016. Net income for the third quarter of 2017 increased 13.7%, or $1.8 million. Income before the provision for income taxes for the third quarter of 2017 increased 16.1%, or $3.4 million principally because of the 13.5%, or $5.3 million, increase in net interest income driven by an increase in loans and leases receivable. The increase in net interest income however was partially offset by an increase in the loan and lease loss provision of $1.7 million and a $0.3 million increase in non-interest expenses.

For the nine months ended September 30, 2017, net income was $43.2 million, or $1.33 per diluted share, compared with $42.1 million, or $1.31 per diluted share, for the nine months ended September 30, 2016. Net income for the first nine months of 2017 increased 2.6%, or $1.1 million. Income before the provision for income taxes for the first nine months of 2017 increased 8.2%, or $5.4 million, principally because of the 10.4%, or $12.3 million, increase in net interest income driven by an increase in loans and leases receivable. The increase in net interest income however was partially offset by an increase in the loan and lease loss provision of $5.1 million and a $2.6 million increase in non-interest expenses.

Other financial highlights include the following:

- Loans and leases receivable, before the allowance for loan and lease losses, were $4.20 billion at the end of the third quarter of 2017, up $350.6 million, or 9.1 percent, from $3.84 billion at the end of 2016.

- Deposits at September 30, 2017 were $4.30 billion, an increase of $89.3 million, or 12.8 percent, from $3.81 billion at the end of 2016.

- Non-performing assets were $16.5 million, or 0.32 percent of assets, at the end of the third quarter of 2017 compared with $18.9 million, or 0.40 percent of total assets at the end of 2016.

Results of Operations

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets, and interest paid on liabilities obtained to fund those assets. Our net interest income is affected by changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on loans and leases are affected principally by changes to interest rates, the demand for such loans and leases, the supply of money available for lending purposes, and other competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

The following tables show the average balances of assets, liabilities and stockholders' equity; the amount of interest income, on a tax-equivalent basis, and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated. All average balances are daily average balances.

	Three Months Ended					
	September 30, 2017			September 30, 2016		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans and leases receivable [(1)]	$ 4,092,131	$ 50,265	4.87%	$ 3,477,428	$ 41,150	4.71%
Securities [(2)]	611,538	3,683	2.41%	589,832	3,210	2.18%
FRB and FHLB stock	16,385	286	6.93%	19,207	419	8.73%
Interest-bearing deposits in other banks	38,981	123	1.25%	43,678	55	0.50%
Total interest-earning assets	4,759,035	54,357	4.53%	4,130,145	44,834	4.32%
Noninterest-earning assets:						
Cash and due from banks	114,108			116,779		
Allowance for loan and lease losses	(34,252)			(40,214)		
Other assets	188,813			190,993		
Total assets	**$ 5,027,704**			**$ 4,397,703**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 90,720	$ 18	0.08%	$ 93,852	$ 19	0.08%
Money market and savings	1,526,951	3,311	0.86%	1,141,747	1,834	0.64%
Time deposits	1,384,724	3,742	1.07%	1,244,127	2,505	0.80%
Total interest-bearing deposits	3,002,395	7,071	0.93%	2,479,726	4,358	0.70%
FHLB advances	67,935	198	1.16%	152,935	179	0.47%
Subordinated debentures	117,065	1,667	5.68%	18,844	206	4.35%
Total interest-bearing liabilities	3,187,395	8,936	1.11%	2,651,505	4,743	0.71%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,257,954			1,189,693		
Other liabilities	30,592			27,924		
Stockholders' equity	551,763			528,581		
Total liabilities and stockholders' equity	**$ 5,027,704**			**$ 4,397,703**		
Net interest income (taxable equivalent)		**$ 45,421**			**$ 40,091**	
Cost of deposits [(3)]			**0.66%**			**0.47%**
Net interest spread [(4)]			**3.42%**			**3.61%**
Net interest margin [(5)]			**3.79%**			**3.86%**

[(1)] *Loans and leases receivable include LHFS and exclude the allowance for loan and lease losses. Nonaccrual loans and leases are* *included in the average loan and lease balance.*

(2) *Amounts calculated on a fully 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.

	Three Months Ended September 30, 2017 vs. September 30, 2016 Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans and leases receivable	$ 7,646	$ 1,469	$ 9,115
Securities	122	351	473
FRB and FHLB stock	(55)	(78)	(133)
Interest-bearing deposits in other banks	(7)	75	68
Total interest and dividend income	**$ 7,706**	**$ 1,817**	**$ 9,523**
Interest expense:			
Demand: interest-bearing	$ (1)	$ —	$ (1)
Money market and savings	732	745	1,477
Time deposits	310	927	1,237
FHLB advances	(140)	159	19
Subordinated debentures	1,380	81	1,461
Total interest expense	**$ 2,281**	**$ 1,912**	**$ 4,193**
Change in net interest income (taxable equivalent)	**$ 5,425**	**$ (95)**	**$ 5,330**

Interest income, on a taxable equivalent basis, increased $9.5 million, or 21.2 percent, to $54.4 million for the three months ended September 30, 2017 from $44.8 million for the same period in 2016. Interest expense increased $4.2 million, or 88.4 percent, to $8.9 million for the three months ended September 30, 2017 from $4.7 million for the same period in 2016. For the three months ended September 30, 2017 and 2016, net interest income, on a taxable equivalent basis, was $45.4 million and $40.1 million, respectively. The increase in net interest income was primarily attributable to the 17.7 percent growth in average loans and leases and the change in the mix of interest earning assets with average loans and leases at 86.0 percent of average interest-earning assets for the third quarter of 2017, up from 84.2 percent for the third quarter of 2016, offset by higher rates paid on interest-bearing deposit and increases in other borrowings balances and rates. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended September 30, 2017 were 3.42 percent and 3.79 percent, respectively, compared with 3.61 percent and 3.86 percent, respectively, for the same period in 2016. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.76 percent and 3.75 percent for the three months ended September 30, 2017 and 2016, respectively.

Average loans and leases increased $614.7 million, or 17.7 percent, to $4.10 billion for the three months ended September 30, 2017 from $3.48 billion for the same period in 2016. Average securities increased $21.7 million, or 3.7 percent, to $611.5 million for the three months ended September 30, 2017 from $589.8 million for the same period in 2016. Average interest-earning assets increased $628.9 million, or 15.2 percent, to $4.76 billion for the three months ended September 30, 2017 from $4.13 billion for the same period in 2016. The increase in average loans and leases was due mainly to new loan production and the commencement of the Commercial Equipment Leasing Division in the fourth quarter of 2016. Average interest-bearing liabilities increased $535.9 million, or 20.2 percent, to $3.19 billion for the three months ended September 30, 2017, compared with $2.65 billion for the same period in 2016. The increase in average interest-bearing liabilities resulted primarily from an increase in money market and savings deposits, time deposits and the $100 million of subordinated debt issued in the first quarter of 2017. In addition, average noninterest-bearing demand deposits increased $68.3 million, or 5.7 percent, to $1.26 billion for the third quarter of 2017 from $1.19 billion in the same period in 2016.

The average yield on loans and leases increased to 4.87 percent for the three months ended September 30, 2017 from 4.71 percent for the same period in 2016, primarily due to new loan production and the commencement of the Commercial Equipment Leasing Division in the fourth quarter of 2016. The average yield on securities, on a taxable equivalent basis, increased to 2.41 percent for the three months ended September 30, 2017 from 2.18 percent for the same period in 2016, attributable primarily to purchasing higher yielding U.S. Government agency mortgage-backed securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 21 basis points to 4.53 percent for the three months ended September 30, 2017 from 4.32 percent for the same period in 2016, due mainly to the higher percentage of loans in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 40 basis points to 1.11 percent for the three months ended September 30, 2017 from 0.71 percent for the same period in 2016.

The following tables show the average balances of assets, liabilities and stockholders' equity; the amount of interest income, on a tax-equivalent basis, and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated. All average balances are daily average balances.

	Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans and leases receivable [(1)]	$ 3,976,021	$ 143,614	4.83%	$ 3,333,419	$ 120,862	4.84%
Securities [(2)]	574,801	10,153	2.36%	643,125	10,136	2.10%
FRB and FHLB stock	16,385	943	7.69%	26,809	1,540	7.66%
Interest-bearing deposits in other banks	41,663	323	1.04%	42,127	152	0.48%
Total interest-earning assets	4,608,870	155,033	4.50%	4,045,480	132,690	4.38%
Noninterest-earning assets:						
Cash and due from banks	116,206			115,235		
Allowance for loan and lease losses	(33,550)			(41,401)		
Other assets	190,001			195,748		
Total assets	**$ 4,881,527**			**$ 4,315,062**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 94,040	$ 56	0.08%	$ 95,264	$ 56	0.08%
Money market and savings	1,489,302	9,200	0.83%	996,578	4,130	0.55%
Time deposits	1,293,412	9,431	0.97%	1,286,120	7,583	0.79%
Total interest-bearing deposits	2,876,754	18,687	0.87%	2,377,962	11,769	0.66%
FHLB advances	118,736	714	0.80%	204,106	673	0.44%
Subordinated debentures	88,604	3,677	5.52%	18,783	584	4.15%
Total interest-bearing liabilities	3,084,094	23,078	1.00%	2,600,851	13,026	0.67%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,224,886			1,166,427		
Other liabilities	29,044			32,381		
Stockholders' equity	543,503			515,403		
Total liabilities and stockholders' equity	**$ 4,881,527**			**$ 4,315,062**		
Net interest income (taxable equivalent)		**$ 131,955**			**$ 119,664**	
Cost of deposits [(3)]			**0.61%**			**0.44%**
Net interest spread [(4)]			**3.50%**			**3.71%**
Net interest margin [(5)]			**3.83%**			**3.95%**

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

(2) *Amounts calculated on a fully 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.

	Nine Months Ended September 30, 2017 vs. September 30, 2016 Increases (Decreases) Due to Change In		
	Volume	**Rate**	**Total**
	(in thousands)		
Interest and dividend income:			
Loans and leases receivable	$ 23,006	$ (254)	$ 22,752
Securities	(1,152)	1,169	17
FRB and FHLB stock	(603)	6	(597)
Interest-bearing deposits in other banks	(2)	173	171
Total interest and dividend income	**$ 21,249**	**$ 1,094**	**$ 22,343**
Interest expense:			
Money market and savings	$ 2,499	$ 2,571	$ 5,070
Time deposits	44	1,804	1,848
FHLB advances	(110)	151	41
Subordinated debentures	2,840	253	3,093
Total interest expense	**$ 5,273**	**$ 4,779**	**$ 10,052**
Change in net interest income (taxable equivalent)	**$ 15,976**	**$ (3,685)**	**$ 12,291**

Interest income, on a taxable equivalent basis, increased $22.3 million, or 16.8 percent, to $155.0 million for the nine months ended September 30, 2017 from $132.7 million for the same period in 2016. Interest expense increased $10.1 million, or 77.2 percent, to $23.1 million for the nine months ended September 30, 2017 from $13.0 million for the same period in 2016. For the nine months ended September 30, 2017 and 2016, net interest income, on a taxable equivalent basis, was $132.0 million and $119.7 million, respectively. The increase in net interest income was primarily attributable to the 19.3 percent growth in average loans and leases and the change in the mix of interest earning assets with average loans and leases at 86.3 percent of average interest-earning assets for the first nine months of 2017, up from 82.4 percent for the same period in 2016. The net interest spread and net interest margin, on a taxable equivalent basis, for the nine months ended September 30, 2017 were 3.50 percent and 3.83 percent, respectively, compared with 3.71 percent and 3.95 percent, respectively, for the same period in 2016. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.79 percent and 3.76 percent for the nine months ended September 30, 2017 and 2016, respectively.

Average loans and leases increased $642.6 million, or 19.3 percent, to $3.98 billion for the nine months ended September 30, 2017 from $3.33 billion for the same period in 2016. Average securities decreased $68.3 million, or 10.6 percent, to $574.8 million for the nine months ended September 30, 2017 from $643.1 million for the same period in 2016. Average interest-earning assets increased $563.4 million, or 13.9 percent, to $4.61 billion for the nine months ended September 30, 2017 from $4.05 billion for the same period in 2016. The increase in average loans and leases was due mainly to new loan production and the commencement of the Commercial Equipment Leasing Division in the fourth quarter of 2016. Average interest-bearing liabilities increased $483.2 million, or 18.6 percent, to $3.08 billion for the nine months ended September 30, 2017, compared with $2.60 billion for the same period in 2016. The increase in average interest-bearing liabilities resulted primarily from an increase in money market and savings deposits and the $100 million of subordinated debt issued in the first quarter of 2017. In addition, average noninterest-bearing demand deposits increased $58.5 million, or 5.0 percent, to $1.22 billion for the first nine months of 2017 from $1.17 billion in the same period in 2016.

The average yield on loans and leases decreased to 4.83 percent for the nine months ended September 30, 2017 from 4.84 percent for the same period in 2016, primarily due to a decrease in discount accretion on purchased loans. The average yield on securities, on a taxable equivalent basis, increased to 2.36 percent for the nine months ended September 30, 2017 from

2.10 percent for the same period in 2016, attributable primarily to purchasing higher yielding U.S. government agency mortgage-backed securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 12 basis points to 4.50 percent for the nine months ended September 30, 2017 from 4.38 percent for the same period in 2016, due mainly to the higher percentage of loans in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 33 basis points to 1.00 percent for the nine months ended September 30, 2017 from 0.67 percent for the same period in 2016.

Provision for Loan and Lease Losses

In anticipation of credit risks inherent in our lending business, we set aside an allowance for loan and lease losses through charges to earnings. These charges are made not only for our outstanding loan and lease portfolio, but also for off-balance sheet items, such as commitments to extend credit, or letters of credit. The provisions, whether a charge or a credit, made for our outstanding loan and lease portfolio are recorded to the allowance for loan and lease losses, whereas charges or credits to other noninterest expense for off-balance sheet items are recorded to the allowance for off-balance sheet items, and are presented as a component of other liabilities.

The provision for loan and lease losses was $0.3 million for the third quarter of 2017. For the same period in 2016, the provision for loan and lease losses was a negative $1.5 million. The charge to other noninterest expense for losses on off-balance sheet items was a negative $0.2 million for the three months ended September 30, 2017 compared to none for the same period in 2016.

The provision for loan and lease losses was $0.6 million for the first nine months of 2017, which included a negative loan loss provision of $0.2 million related to Purchased Credit Impaired loans from the 2014 acquisition. For the same period in 2016, the provision for loan and lease losses was a negative $4.5 million, which included a loan loss provision of $0.2 million related to Purchased Credit Impaired loans. The charge to other noninterest expense for losses on off-balance sheet items was a negative $0.3 million for the nine months ended September 30, 2017 compared to $0.5 million for the same period in 2016.

See also “Allowance for Loan and Lease Losses and Allowance for Off-Balance Sheet Items" for further details.

Noninterest Income

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

	Three Months Ended September 30,		Increase (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$ 2,678	$ 2,883	$ (205)	(7.1)%
Trade finance and other service charges and fees	1,133	992	141	14.2 %
Other operating income	1,213	2,348	(1,135)	(48.3)%
Subtotal service charges, fees and other income	5,024	6,223	(1,199)	(19.3)%
Gain on sale of SBA loans	2,546	1,616	930	57.5 %
Disposition gains on PCI loans	979	789	190	24.1 %
Net gain on sales of securities	267	46	221	480.4 %
Total noninterest income	**$ 8,816**	**$ 8,674**	**$ 142**	1.6 %

For the three months ended September 30, 2017, noninterest income was $8.8 million, an increase of $0.1 million, or 1.6 percent, compared with $8.7 million for the same period in 2016. The increase was primarily attributable to increased gains on the sale of SBA loans and securities transactions offset by lower other operating income. Gains on SBA loan sales were $2.5 million for the third quarter of 2017, an increase of $0.9 million from the third quarter of 2016 as the volume of loan sales increased to $32.5 million from $24.1 million in the same quarter last year. Sales of securities resulted in a net gain of $267,000 for the third quarter of 2017 compared with $46,000 for the same period in 2016. Other operating income was $1.2 million for the third quarter of 2017, a decrease of $1.1 million, or 48.3%, compared with $2.3 million for the third quarter of 2016. The decrease in other operating income was due to the gain from the sale of a branch facility in the third quarter of 2016.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$ 7,667	$ 8,782	$ (1,115)	(12.7)%
Trade finance and other service charges and fees	3,449	3,099	350	11.3 %
Other operating income	4,764	5,423	(659)	(12.2)%
Subtotal service charges, fees and other income	15,880	17,304	(1,424)	(8.2)%
Gain on sale of SBA loans	6,678	4,247	2,431	57.2 %
Disposition gains on PCI loans	1,473	3,411	(1,938)	(56.8)%
Net gain on sales of securities	1,702	46	1,656	3,600.0 %
Total noninterest income	**$ 25,733**	**$ 25,008**	**$ 725**	2.9 %

For the nine months ended September 30, 2017, noninterest income was $25.7 million, an increase of $0.7 million, or 2.9 percent, compared with $25.0 million for the same period in 2016. The increase was primarily attributable to increased gains on the sale of SBA loans and securities transactions offset by lower gains from the resolution or disposition of PCI loans and service charges on deposit accounts. Gains on SBA loan sales were $6.7 million for the first nine months of 2017, an increase of $2.4 million from the first nine months of 2016 as the volume of loan sales increased to $84.5 million from $55.9 million in the same quarter last year. Sales of securities resulted in a net gain of $1.7 million for the first nine months of 2017 compared with $46,000 for the same period in 2016. Disposition gains on PCI loans were $1.5 million for the nine months ended September 30, 2107 compared with $3.4 million the same period in 2016.

Noninterest Expense

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

	Three Months Ended September 30,		Increase (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 16,947	$ 15,950	$ 997	6.3 %
Occupancy and equipment	3,883	3,917	(34)	-0.9 %
Data processing	1,779	1,330	449	33.8 %
Professional fees	1,210	1,090	120	11.0 %
Supplies and communications	755	821	(66)	-8.0 %
Advertising and promotion	1,147	1,153	(6)	-0.5 %
OREO expense	(16)	73	(89)	-121.9 %
Other operating expenses	2,955	4,003	(1,048)	-26.2 %
Total noninterest expense	**$ 28,660**	**$ 28,337**	**$ 323**	1.1 %

For the three months ended September 30, 2017, noninterest expense was $28.7 million, an increase of $0.3 million or 1.1 percent, compared with $28.3 million for the same period in 2016. The increase was due primarily to increases in salaries and employee benefits, OREO and data processing, offset by a decrease in other operating expenses. The increase in salaries and employee benefits is largely due to personnel added with the commencement of the Commercial Equipment Leasing Division and annual merit increases compared to the same period in 2016. The decrease in other operating expenses is mainly due to a $1.4 million charge for the three months ended September 30, 2016 related to the finalization of prior year FDIC loss share claims.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 50,674	$ 47,710	$ 2,964	6.2 %
Occupancy and equipment	11,743	11,351	392	3.5 %
Data processing	5,148	4,219	929	22.0 %
Professional fees	3,912	4,063	(151)	-3.7 %
Supplies and communications	2,135	2,266	(131)	-5.8 %
Advertising and promotion	2,964	2,769	195	7.0 %
OREO expense	402	721	(319)	-44.2 %
Merger and integration costs (income)	(40)	—	(40)	-100.0 %
Other operating expenses	7,905	9,170	(1,265)	-13.8 %
Total noninterest expense	**$ 84,843**	**$ 82,269**	**$ 2,574**	3.1 %

For the nine months ended September 30, 2017, noninterest expense was $84.8 million, an increase of $2.6 million or 3.1 percent, compared with $82.3 million for the same period in 2016. The increase was due primarily to increases in salaries and employee benefits, data processing and occupancy and equipment expense, offset by a decrease in other operating expense. The increase in salaries and employee benefits is largely due to personnel added with the commencement of the Commercial Equipment Leasing Division and annual merit increases compared to the same period in 2016. The decrease in other operating expenses is mainly due to a $1.4 million charge for the three months ended September 30, 2016 related to the finalization of prior year FDIC loss share claims.

Income Tax Expense

Income tax expense was $9.9 million for the three months ended September 30, 2017, compared with $8.2 million for the same period in 2016. The effective income tax rate was 39.9 percent for the three months ended September 30, 2017 and 38.6 percent for the same period in 2016.

Income tax expense was $27.6 million for the nine months ended September 30, 2017, compared with $23.3 million for the same period in 2016. The effective income tax rate was 39.0 percent for the nine months ended September 30, 2017, compared with 35.6 percent for the same period in 2016. Income tax expense for the first nine months of 2016 included a $1.8 million benefit arising from the finalization of the 2014 amended income tax returns.

Financial Condition

Securities

As of September 30, 2017, our securities portfolio was composed primarily of U.S. government agency mortgage-backed securities and collateralized mortgage obligations, as well as tax exempt municipal bonds. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of Sepember 30, 2017 and December 31, 2016.

The following table summarizes the amortized cost, estimated fair value and unrealized gain (loss) on securities as of the dates indicated:

	September 30, 2017			December 31, 2016		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
	(in thousands)					
Securities available for sale:						
Mortgage-backed securities [1] [2]	$ 310,111	$ 309,750	$ (361)	$ 230,489	$ 229,630	$ (859)
Collateralized mortgage obligations [1]	107,052	106,124	(928)	77,447	76,451	(996)
U.S. government agency securities	7,499	7,457	(42)	7,499	7,441	(58)
SBA loan pool securities	4,036	3,896	(140)	4,356	4,146	(210)
Municipal bonds-tax exempt	146,177	148,524	2,347	159,789	158,030	(1,759)
Municipal bonds-taxable	—	—	—	13,391	13,701	310
Corporate bonds	—	—	—	5,010	5,015	5
U.S. treasury securities	153	153	—	156	156	—
Mutual funds	22,916	22,536	(380)	22,916	22,394	(522)
Total securities available for sale	**$ 597,944**	**$ 598,440**	**$ 496**	**$ 521,053**	**$ 516,964**	**$ (4,089)**

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

[2] *Includes securities collateralized by home equity conversion mortgages with an estimated fair value of $8.1 million and $52.9 million as of September 30, 2017 and December 31, 2016, respectively.*

As of September 30, 2017, securities available for sale increased 15.8 percent to $598.4 million, compared with $517.0 million as of December 31, 2016, due mainly to security purchases. As of September 30, 2017, securities available for sale had a net unrealized gain of $496,000, comprised of $3.2 million of unrealized gains and $2.7 million of unrealized losses. As of December 31, 2016, securities available for sale had a net unrealized loss of $4.1 million, comprised of $1.2 million of unrealized gains and $5.3 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of September 30, 2017:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$ 23,222	1.76%	$ 37,312	2.01%	$ 92,049	2.21%	$ 157,528	2.28%	$ 310,111	2.19%
Collateralized mortgage obligations	21	—%	1,935	1.55%	17,941	1.71%	87,155	1.86%	107,052	1.83%
U.S. government agency securities	—	—%	6,000	1.35%	1,499	2.20%	—	—%	7,499	1.52%
SBA loan pool securities	—	—%	—	—%	—	—%	4,036	1.72%	4,036	1.72%
Municipal bonds-tax exempt (1)	—	—%	5,296	2.64%	85,104	3.20%	55,777	4.18%	146,177	3.55%
Municipal bonds-taxable	—	—%	—	—%	—	—%	—	—%	—	—%
Corporate bonds	—	—%	—	—%	—	—%	—	—%	—	—%
U.S. treasury securities	153	1.20%	—	—%	—	—%	—	—%	153	1.20%
Mutual funds (2)	—	—%	—	—%	—	—%	22,916	2.46%	22,916	2.46%
Total securities available for sale	**$ 23,396**	**1.75%**	**$ 50,543**	**1.98%**	**$ 196,593**	**2.59%**	**$ 327,412**	**2.50%**	**$ 597,944**	**2.46%**

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

(2) *Mutual funds do not have contractual maturities. However, they are included in the table shown above as over ten years, since the Company intends to hold these securities for at least this duration.*

Loans and Leases Receivable, Net

The following table shows the loan and lease portfolio composition by type as of the dates indicated:

	September 30, 2017	December 31, 2016
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 917,823	$ 859,953
Hospitality	733,226	651,158
Gas station	247,430	262,879
Other (1)	1,146,189	1,109,656
Total commercial real estate loans	3,044,668	2,883,646
Construction	64,263	55,962
Residential property	430,627	338,767
Total real estate loans	3,539,558	3,278,375
Commercial and industrial loans:		
Commercial term	170,942	138,168
Commercial lines of credit	149,937	136,231
International loans	43,577	25,821
Total commercial and industrial loans	364,456	300,220
Leases receivable	272,271	243,294
Consumer loans (2)	19,070	22,880
Loans and leases receivable	**4,195,355**	**3,844,769**
Allowance for loan and lease losses	(32,492)	(32,429)
Loans and leases receivable, net	**$ 4,162,863**	**$ 3,812,340**

(1) *Includes other property types which individually represent less than one percent of loans and leases receivable; other property types include mixed-use, apartment, office, industrial, faith-based facilities and warehouse.*

(2) *Consumer loans include home equity lines of credit of $14.7 million and $17.7 million as of September 30, 2017 and December 31, 2016, respectively.*

As of September 30, 2017 and December 31, 2016, net loans and leases receivable were $4.16 billion and $3.81 billion, respectively, representing an increase of $350.5 million, or 9.2 percent. The increase in loans and leases as of September

30, 2017 compared with December 31, 2016 was primarily attributable to new loan and lease production of $702.1 million and loan purchases of $161.3 million.

Our loan and lease portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of loans and leases outstanding:

Industry	Balance at September 30, 2017	Percentage of Loans and Leases Outstanding
	(in thousands)	
Lessor of nonresidential buildings	$ 1,262,200	30.1 %
Hospitality	$ 739,401	17.6 %

There was no other concentration of loans and leases to any one type of industry exceeding 10.0 percent of loans and leases outstanding.

Nonperforming Loans and Leases and Nonperforming Assets

Nonperforming loans and leases (excluding PCI loans) consist of loans and leases on nonaccrual status and loans and leases 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and leases and OREO. Non-purchased credit impaired ("Non-PCI") loans and leases are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless we believe the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular receivable on nonaccrual status earlier, depending upon the individual circumstances surrounding the receivable's delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans and leases not meeting the criteria for nonaccrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Except for nonperforming loans and leases set forth below and PCI loans, we are not aware of any loans or leases as of September 30, 2017 and December 31, 2016 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present repayment terms, or any known events that would result in the receivable being designated as nonperforming at some future date. We cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.

The following table provides information with respect to the components of nonperforming assets (excluding PCI loans) as of the dates indicated:

	September 30, 2017	December 31, 2016	Increase (Decrease) Amount	Increase (Decrease) Percentage
		(dollars in thousands)		
Nonperforming Non-PCI loans and leases:				
Real estate loans:				
Commercial property				
Retail	$ 253	$ 404	$ (151)	-37.4 %
Hospitality	5,368	5,266	102	1.9 %
Gas station	742	1,025	(283)	-27.6 %
Other	2,097	2,033	64	3.1 %
Total commercial real estate loans	8,460	8,728	(268)	-3.1 %
Residential property	621	564	57	10.1 %
Commercial and industrial loans	1,165	824	341	41.4 %
Leases receivable	3,378	901	2,477	274.9 %
Consumer loans	934	389	545	140.1 %
Total nonperforming Non-PCI loans	14,558	11,406	3,152	27.6 %
Loans 90 days or more past due and still accruing	—	—	—	—
Total nonperforming Non-PCI loans and leases[(1)]	**14,558**	**11,406**	**3,152**	27.6 %
OREO	1,946	7,484	(5,538)	-74.0 %
Total nonperforming assets	**$ 16,504**	**$ 18,890**	**$ (2,386)**	-12.6 %
Nonperforming Non-PCI loans and leases as a percentage of Non-PCI loans and leases	0.35 %	0.30 %		
Nonperforming assets as a percentage of assets	0.32 %	0.40 %		
Troubled debt restructured performing Non-PCI loans and leases	$ 8,490	$ 11,146		

(1) *Includes nonperforming TDRs of $7.2 million and $6.9 million as of September 30, 2017 and December 31, 2016, respectively.*

Nonaccrual Non-PCI loans and leases were $14.6 million as of September 30, 2017, compared with $11.4 million as of December 31, 2016, representing an increase of $3.2 million, or 27.6 percent, primarily due to lease receivables. There were no Non-PCI loans or leases past due 90 days or more and still accruing as of September 30, 2017 and December 31, 2016. During the nine months ended September 30, 2017, $8.8 million of loans and leases were placed on nonaccrual status. These additions to nonaccrual loans and leases were partially offset by $1.1 million of nonaccrual loans and leases restored to accrual status and $2.1 million in principal payoffs and pay downs and $0.2 million in OREO transfers.

Delinquent Non-PCI loans and leases (defined as 30 to 89 days past due and still accruing) were $7.6 million as of September 30, 2017, compared with $7.4 million as of December 31, 2016.

The ratio of nonperforming Non-PCI loans and leases to Non-PCI loans and leases increased to 0.35 percent at September 30, 2017 from 0.30 percent at December 31, 2016. Of the $14.6 million nonperforming Non-PCI loans and leases, approximately $14.3 million were impaired based on the definition contained in ASC 310, Receivables, which resulted in an aggregate impairment reserve of $6.4 million as of September 30, 2017. The allowance for collateral-dependent loans is calculated as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of September 30, 2017, OREO consisted of 6 properties with a combined carrying value of $1.9 million, as compared with 12 properties with a combined carrying value of $7.5 million as of December 31, 2016.

Impaired Loans and Leases

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

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

	September 30, 2017		December 31, 2016	
	Recorded Investment	Percentage	Recorded Investment	Percentage
	(dollars in thousands)			
Real estate loans:				
Commercial property				
Retail	$ 1,475	5.4%	$ 1,678	6.4%
Hospitality	6,288	22.9%	6,227	23.6%
Gas station	4,260	15.5%	4,984	18.9%
Other	4,777	17.3%	6,070	23.0%
Total commercial real estate loans	16,800	61.1%	18,959	71.9%
Residential property	2,666	9.7%	2,798	10.6%
Commercial and industrial loans	3,610	13.1%	4,174	15.9%
Leases Receivable	3,378	12.3%	—	—%
Consumer loans	1,045	3.8%	419	1.6%
Total Non-PCI loans and leases	**$ 27,499**	**100.0%**	**$ 26,350**	**100.0%**

Total impaired loans and leases increased $1.1 million, or 4.4 percent, to $27.5 million as of September 30, 2017, from $26.4 million at December 31, 2016. Specific allowances associated with impaired loans and leases were $6.4 million and $4.3 million as of September 30, 2017 and December 31, 2016, respectively.

During the three months ended September 30, 2017 and 2016, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $0.2 million and $0.2 million, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $0.5 million and $0.5 million for the three months ended September 30, 2017 and 2016, respectively.

During the nine months ended September 30, 2017 and 2016, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $0.6 million and $0.5 million, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $1.3 million and $1.8 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	September 30, 2017			December 31, 2016		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)					
Real estate loans						
Commercial property	$ 5,862	$ 5,114	$ 10,976	$ 6,195	$ 6,870	$ 13,065
Residential property	—	919	919	—	1,072	1,072
Commercial and industrial loans	475	2,346	2,821	708	3,085	3,793
Consumer loans	820	111	931	—	119	119
Total Non-PCI loans and leases	**$ 7,157**	**$ 8,490**	**$ 15,647**	**$ 6,903**	**$ 11,146**	**$ 18,049**

For the three months ended September 30, 2017, four loans were restructured and subsequently classified as TDRs. Temporary payment structure modifications included, but were not limited to, reducing the amount of principal and/or interest due monthly and/or allowing for interest only monthly payments for nine months or less.

As of September 30, 2017, TDRs on accrual status were $8.5 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $0.2 million allowance relating to these loans was included in the allowance for loan and lease losses. For the TDRs on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers’ past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms is probable. As of September 30, 2017, TDRs on nonaccrual status were $7.2 million, and a $2.0 million allowance relating to these loans was included in the allowance for loan and lease losses.

As of December 31, 2016, TDRs on accrual status were $11.1 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $0.7 million allowance relating to these loans was included in the allowance for loan and lease losses. As of December 31, 2016, TDRs on nonaccrual status were $6.9 million, and a $2.6 million allowance relating to these loans was included in the allowance for loan and lease losses.

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

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

The Bank evaluates the allowance methodology at least annually. Beginning in the fourth quarter of 2016 through the first nine months of 2017, the Bank utilized a 24-quarter look-back period with equal weighting to all quarters. For the first nine months of 2016, the Bank utilized a 20-quarter look-back period.

To determine general reserve requirements, existing loans and leases are divided into general pools of risk-rated loans, as well as homogeneous pools. During the first nine months of 2016, existing loans were divided into fourteen general loan pools of risk-rated loans as well as three homogeneous loan pools. For the fourth quarter of 2016 through the first nine months of 2017, loans were divided into eleven general pools of risk-rated loans, as well as the three homogeneous pools. For risk-rated loans, migration analysis allocates historical losses by pool and risk grade to determine risk factors for potential loss inherent in the current outstanding portfolio. As three homogeneous pools are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed “impaired.”

When determining the appropriate level for allowance for loan and lease losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan and lease losses associated with the Bank’s current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

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

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

	September 30, 2017			December 31, 2016		
	Allowance Amount	Percentage	Non- PCI Loans and Leases	Allowance Amount	Percentage	Non- PCI Loans and Leases
	(dollars in thousands)					
Real estate loans:						
Commercial property						
Retail	$ 3,442	10.9%	$ 916,236	$ 4,172	13.3%	$ 857,629
Hospitality	7,760	24.5%	731,562	9,171	29.2%	649,540
Gas station	1,136	3.6%	245,042	1,438	4.6%	260,187
Other	5,606	17.6%	1,144,176	7,448	23.7%	1,107,589
Total commercial real estate loans	17,944	56.6%	3,037,016	22,229	70.8%	2,874,945
Construction	659	2.1%	64,263	1,916	6.1%	55,962
Residential property	982	3.1%	429,669	1,067	3.4%	337,791
Total real estate loans	19,585	61.8%	3,530,948	25,212	80.3%	3,268,698
Commercial and industrial loans:						
Commercial term	5,338	16.8%	170,891	3,961	12.6%	138,032
Commercial lines of credit	894	2.8%	149,937	1,297	4.1%	136,231
International loans	262	0.8%	43,577	324	1.0%	25,821
Total commercial and industrial loans	6,494	20.4%	364,405	5,582	17.7%	300,084
Leases receivable	64	0.2%	272,271	307	1.0%	243,294
Consumer loans	4,837	15.3%	19,027	191	0.6%	22,830
Unallocated	718	2.3%	—	166	0.4%	—
Total	**$ 31,698**	**100.0%**	**$ 4,186,651**	**$ 31,458**	**100.0%**	**$ 3,834,906**

	September 30, 2017			December 31, 2016		
	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans
	(dollars in thousands)					
Real estate loans:						
Commercial property						
Retail	$ 97	12.2%	$ 1,587	$ 122	12.6%	$ 2,324
Hospitality	132	16.6%	1,664	138	14.2%	1,618
Gas station	369	46.5%	2,388	589	60.7%	2,692
Other	8	1.0%	2,013	1	0.1%	2,067
Total commercial real estate loans	606	76.3%	7,652	850	87.6%	8,701
Residential property	146	18.4%	958	72	7.4%	976
Total real estate loans	752	94.7%	8,610	922	95.0%	9,677
Commercial and industrial loans:						
Commercial term	41	5.2%	51	41	4.2%	136
Consumer loans	1	0.1%	43	8	0.8%	50
Total	**$ 794**	**100.0%**	**$ 8,704**	**$ 971**	**100.0%**	**$ 9,863**

The following tables set forth certain information regarding allowance for loan and lease losses and allowance for off-balance sheet items for the periods presented. Allowance for off-balance sheet items is determined by applying reserve factors according to pool and grade as well as actual current commitment usage figures by type to existing contingent liabilities.

	As of and for the Three Months Ended								
	September 30, 2017			December 31, 2016			September 30, 2016		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
					(dollars in thousands)				
Allowance for loan and Lease losses:									
Balance at beginning of period	$ 33,038	$ 720	$ 33,758	$ 33,439	$ 5,533	$ 38,972	$ 34,259	$ 5,448	$ 39,707
Charge-offs	(2,405)	—	(2,405)	(2,326)	(4,991)	(7,317)	(111)	(5)	(116)
Recoveries on loans previously charged off	871	—	871	623	—	623	831	—	831
Net loan (charge-offs) recoveries	(1,534)	—	(1,534)	(1,703)	(4,991)	(6,694)	720	(5)	715
Loan and lease loss provision (income)	194	74	268	(278)	429	151	(1,540)	90	(1,450)
Balance at end of period	**$ 31,698**	**$ 794**	**$ 32,492**	**$ 31,458**	**$ 971**	**$ 32,429**	**$ 33,439**	**$ 5,533**	**$ 38,972**
Allowance for off-balance sheet items:									
Balance at beginning of period	$ 1,135	$ —	$ 1,135	$ 1,491	$ —	$ 1,491	$ 1,475	$ —	$ 1,475
Provision (income)	(220)	—	(220)	(307)	—	(307)	16	—	16
Balance at end of period	**$ 915**	**$ —**	**$ 915**	**$ 1,184**	**$ —**	**$ 1,184**	**$ 1,491**	**$ —**	**$ 1,491**
Ratios:									
Net loan and lease charge-offs (recoveries) to average loans and leases [(1)]	0.15%	—%	0.15%	0.18%	157.18%	0.73%	(0.08)%	0.13%	(0.08)%
Net loan and lease charge-offs (recoveries) to loans and leases [(1)]	0.15%	—%	0.15%	0.18%	202.41%	0.70%	(0.08)%	0.13%	(0.08)%
Allowance for loan and lease losses to average loans and leases	0.78%	9.08%	0.79%	0.85%	7.64%	0.88%	0.96 %	36.21%	1.12 %
Allowance for loan and lease losses to loans and leases	0.76%	9.12%	0.77%	0.82%	9.84%	0.84%	0.95 %	35.60%	1.10 %
Net loan and lease charge-offs (recoveries) to allowance for loan and lease losses [(1)]	19.36%	—%	18.88%	21.65%	2056.02%	82.57%	(8.61)%	0.36%	(7.34)%
Allowance for loan and lease losses to nonperforming loans and leases	217.74%	—%	223.19%	275.80%	—%	284.32%	305.43 %	—%	355.97 %
Balance:									
Average loans and leases during period	$ 4,125,465	$ 8,744	$ 4,092,131	$ 3,686,013	$ 12,702	$ 3,690,955	$ 3,485,705	$ 15,280	$ 3,477,428
Loans and leases at end of period	$ 4,186,651	$ 8,704	$ 4,195,355	$ 3,834,906	$ 9,863	$ 3,844,769	$ 3,537,119	$ 15,540	$ 3,552,659
Nonperforming loans and leases at end of period	$ 14,558	$ —	$ 14,558	$ 11,406	$ —	$ 11,406	$ 10,948	$ —	$ 10,948

(1) *Net loan charge-offs (recoveries) are annualized to calculate the ratios.*

	As of and for the Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Allowance for loan losses:						
Balance at beginning of period	$ 31,458	$ 971	$ 32,429	$ 37,494	$ 5,441	$ 42,935
Charge-offs	(3,256)	—	(3,256)	(1,410)	(142)	(1,552)
Recoveries on loans previously charged off	2,709	—	2,709	2,079	—	2,079
Net loan (charge-offs) recoveries	(547)	—	(547)	669	(142)	527
Loan and lease loss provision (income)	787	(177)	610	(4,724)	234	(4,490)
Balance at end of period	**$ 31,698**	**$ 794**	**$ 32,492**	**$ 33,439**	**$ 5,533**	**$ 38,972**
Allowance for off-balance sheet items:						
Balance at beginning of period	$ 1,184	$ —	$ 1,184	$ 986	$ —	$ 986
Provision (income)	(269)	—	(269)	505	—	505
Balance at end of period	**$ 915**	**$ —**	**$ 915**	**$ 1,491**	**$ —**	**$ 1,491**
Ratios:						
Net loan charge-offs (recoveries) to average loans [(1)]	0.02%	—%	0.02%	(0.03)%	1.07%	(0.02)%
Net loan charge-offs (recoveries) to loans[(1)]	0.02%	—%	0.02%	(0.03)%	1.22%	(0.02)%
Allowance for loan losses to average loans	0.79%	8.55%	0.82%	1.00 %	31.12%	1.17 %
Allowance for loan losses to loans	0.76%	9.12%	0.77%	0.95 %	35.60%	1.10 %
Net loan charge-offs (recoveries) to allowance for loan losses[(1)]	2.30%	—%	2.24%	(2.67)%	3.42%	(1.80)%
Allowance for loan losses to nonperforming loans	217.75%	—%	223.2%	305.43 %	—%	355.97 %
Balance:						
Average loans during period	$ 4,010,779	$ 9,283	$ 3,976,021	$ 3,350,211	$ 17,777	$ 3,333,419
Loans at end of period	$ 4,186,651	$ 8,704	$ 4,195,355	$ 3,537,119	$ 15,540	$ 3,552,659
Nonperforming loans at end of period	$ 14,558	$ —	$ 14,558	$ 10,948	$ —	$ 10,948

(1) *Net loan charge-offs (recoveries) are annualized to calculate the ratios.*

Allowance for loan and lease losses was $32.5 million, $32.4 million and $39.0 million, as of September 30, 2017, December 31, 2016, and September 30, 2016, respectively. The increase of $63,000, or 0.2 percent, in the allowance for loan and lease losses as of September 30, 2017, compared with December 31, 2016 was due primarily to the in loan and lease receivables. Accordingly, the non-PCI loan and lease loss allowance increased $240,000 to $31.7 million as of September 30, 2017, compared with $31.5 million at December 31, 2016. The PCI loan loss allowance decreased $0.2 million to $0.8 million as of September 30, 2017, compared with $1.0 million at December 31, 2016.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, was $0.9 million, $1.2 million and $1.5 million as of September 30, 2017, December 31, 2016 and September 30, 2016, 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 are adequate for losses inherent in the loan and lease portfolio and for off-balance sheet exposures as of September 30, 2017.

The following table presents a summary of net charge-offs (recoveries):

	As of and for the Three Months Ended			As of and for the Nine Months Ended		
	Charge-offs	Recoveries	Net Charge-offs (Recoveries)	Charge-offs	Recoveries	Net Charge-offs (Recoveries)
			(in thousands)			
September 30, 2017						
Real estate loans	$ 146	$ 343	$ (197)	$ 289	$ 1,434	$ (1,145)
Commercial and industrial loans	1,976	308	1,668	2,015	1,021	994
Leases receivable	283	220	63	952	239	713
Consumer loans	—	—	—		15	(15)
Total Non-PCI loans	**$ 2,405**	**$ 871**	**$ 1,534**	**$ 3,256**	**$ 2,709**	**$ 547**
September 30, 2016						
Real estate loans	$ 18	$ 337	(319)	$ 709	$ 527	182
Commercial and industrial loans	93	494	(401)	701	1,499	(798)
Consumer loans	—	—	—	—	53	(53)
Total Non-PCI loans	**$ 111**	**$ 831**	**$ (720)**	**$ 1,410**	**$ 2,079**	**$ (669)**

For the three months ended September 30, 2017 and 2016, total charge-offs were $2.4 million and $0.1 million, respectively. For the three months ended September 30, 2017, total recoveries were $871,000, an increase of $40,000, or 4.8 percent, from $831,000 for the same period in 2016. For the nine months ended September 30, 2017, total charge-offs were $3.3 million, an increase of $1.8 million or 131.0 percent from $1.4 million for the same period in 2016, and total recoveries were $2.7 million, an increase of $0.6 million or 30.3 percent from $2.1 million for the same period in 2016.

Deposits

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

	September 30, 2017		December 31, 2016	
	Balance	Percent	Balance	Percent
		(dollars in thousands)		
Demand – noninterest-bearing	$ 1,293,538	30.1 %	$ 1,203,240	31.6 %
Interest-bearing:	—			
Demand	90,734	2.1 %	96,856	2.5 %
Money market and savings	1,534,457	35.7 %	1,329,324	34.9 %
Time deposits of $100,000 or more [(1)]	1,074,870	25.0 %	844,386	22.2 %
Other time deposits	305,411	7.1 %	335,931	8.8 %
Total deposits	**$ 4,299,010**	**100.0 %**	**$ 3,809,737**	**100.0 %**

(1) *Includes $430.5 million and $445.4 million of time deposits of $250,000 or more as of September 30, 2017 and December 31, 2016, respectively.*

Deposits increased $489.3 million, or 12.8 percent, to $4.30 billion as of September 30, 2017 from $3.81 billion as of December 31, 2016. The increase in deposits was mainly attributable to the $205.1 million and $200.0 million increase in money market and savings deposits and time deposits, respectively.

Borrowings

At September 30, 2017 and December 31, 2016, there were $110.0 million and $315.0 million in overnight advances from the FHLB, respectively. The reduction in FHLB advances was supported by the increase in deposits for the first nine months of 2017. In addition, subordinated debentures were $117.1 million and $19.0 million at September 30, 2017 and December 31, 2016, respectively. The change represents the proceeds from the subordinated note offering that closed on March 21, 2017.

Interest Rate Risk Management

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect our financial performance. We emphasize capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, we prudently manage our assets and liabilities and closely monitor the percentage changes in net interest income and equity value in relation to limits established within our guidelines.

The Company performs simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below). This sensitivity analysis is compared to policy limits, which specify the maximum tolerance level for net interest income exposure over a 1- to 12-month and a 13- to 24-month horizon, given the basis point adjustment in interest rates reflected below.

	Net Interest Income Simulation			
	1- to 12-Month Horizon		13- to 24-Month Horizon	
Change in Interest Rate	Dollar Change	Percentage Change	Dollar Change	Percentage Change
	(dollars in thousands)			
300%	$ (2,297)	(1.25)%	$ 5,326	2.89%
200%	$ (1,547)	(0.84)%	$ 3,582	1.94%
100%	$ (395)	(0.21)%	$ 2,728	1.48%
(100)%	$ (12,406)	(6.74)%	$ (21,438)	(11.63)%

	Economic Value of Equity (EVE)	
Change in Interest Rate	Dollar Change	Percentage Change
	(dollars in thousands)	
300%	$ (20,246)	(3.53)%
200%	$ (12,411)	(2.16)%
100%	$ 788	0.14%
(100)%	$ (45,610)	(7.94)%

The estimated sensitivity does not necessarily represent our forecast, and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including the nature and timing of interest rate levels including yield curve shape, prepayments on loans and leases and securities, pricing strategies on loans and leases and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions, including how customer preferences or competitor influences might change.

Capital Resources and Liquidity

Capital Resources

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, the Board regularly assesses projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, earnings generated from operations, and access to capital from financial markets through the issuance of additional securities, including common stock or notes, to meet our capital needs.

At September 30, 2017, the Bank's total risk-based capital ratio of 15.32 percent, Tier 1 risk-based capital ratio of 14.55 percent, common equity Tier 1 capital ratio of 14.55 percent and Tier 1 leverage capital ratio of 12.66 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 September 30, 2017, the Company's total risk-based capital ratio was 15.58 percent, Tier 1 risk-based capital ratio was 12.56 percent, common equity Tier 1 capital ratio was 12.20 percent and Tier 1 leverage capital ratio was 10.92 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 2016 Annual Report on Form 10-K.

Liquidity

Hanmi Financial

Management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its current obligations.

Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank’s ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank’s primary funding source will continue to be deposits originating from its branch platform. The Bank’s wholesale funds historically consisted of FHLB advances and brokered deposits. As of September 30, 2017, the Bank had $145.2 million of brokered deposits.

We monitor the sources and used 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% of its assets. As of September 30, 2017, the total borrowing capacity available based on pledged collateral and remaining available borrowing capacity were $808.9 million and $698.9 million, respectively, compared to $736.6 million and $421.6 million, respectively as of December 31, 2016.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $8.9 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $9.5 million, and had no borrowings as of September 30, 2017.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 12 - Off-Balance Sheet Commitments included in the Notes to Consolidated Financial Statements (Unaudited) in this Report and “Item 1. Business - Off-Balance Sheet Commitments” in our 2016 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2016 Annual Report on Form 10-K.

Recently Issued Accounting Standards

FASB ASU 2014-09, ***Revenue from Contracts with Customers (Topic 606)***, replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 established a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 was to be effective for interim and annual periods beginning after December 15, 2016 and was to be applied on either a modified retrospective or full retrospective basis. In August 2015, the FASB issued ASU 2015-14 which defers the original effective date for all entities by one year. Public business entities should apply the guidance in ASU 2015-14 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

While the guidance will replace most existing revenue recognition guidance in GAAP, the ASU is not applicable to financial instruments and, therefore, will not impact a majority of the Company's revenue, including net interest income. While in scope of the new guidance, the Company does not expect a material change in the timing or measurement of revenues related to deposit account fees. The Company will continue to evaluate the effect that this guidance will have on other revenue streams within its scope, as well as changes in disclosures required by the new guidance. However, we do not expect adoption of this ASU to have a material impact on the Company's consolidated financial statements.

FASB ASU 2016-01, ***Financial Instruments-Overall Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)***, Recognition and Measurement of Financial Assets and Financial Liabilities, amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The FASB additionally clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. While we are currently evaluating the impact of this ASU, we do not expect its adoption to have a material impact on our consolidated financial statements.

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

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

FASB ASU 2016-13, ***Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments***, introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Current expected credit losses ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. ASU 2016-13 is effective for public entities for interim and annual periods beginning after December 15, 2019. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of this ASU on our consolidated financial statements.

FASB ASU 2016-15, ***Statement of Cash flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)***, addresses eight classification issues related to the statement of cash flows: (1) Debt prepayment of debt extinguishment costs; (2) Settlement of zero-coupon bonds: (3) Contingent consideration payments made after a business combination; (4) Proceeds from the settlement of insurance claims; (5) Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) Distributions received from equity method investees; (7) Beneficial interests in securitization transactions; and (8) Separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

FASB ASU 2016-18, ***Statement of Cash flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*** requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

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

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

FASB ASU 2017-08, ***Receivables-Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities***, shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. ASU 2017-08 applies to securities that have explicit, non-contingent call features that are callable at fixed prices and on preset dates. Securities purchased at a discount and mortgage-backed securities in which early repayment is based on prepayment of the underlying assets of the security are outside the scope of ASU 2017-08. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period, and applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

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

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

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

Disclosure Controls and Procedures

As of September 30, 2017, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer). The purpose of the disclosure controls and procedures is to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that Hanmi Financial’s disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there has been no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that has materially affected or is reasonably likely to materially affect Hanmi Financial's internal control over financial reporting.

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 the risk factors previously disclosed under Part I, Item 1A, "Risk Factors" of our 2016 Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	**Document**
3.1	First Amendment to the Second Amended and Restated Bylaws and Hanmi Financial Corporation, effective September 27, 2017 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on October 2, 2017).
31.1	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.
31.2	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.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

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

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:	November 9, 2017	By:	/s/ *C. G. Kum*
			C. G. Kum *President and Chief Executive Officer* *(Principal Executive Officer)*
		By:	/s/ *Romolo C. Santarosa*
			Romolo C. Santarosa *Senior Executive Vice President and Chief Financial Officer* *(Principal Financial and Accounting Officer)*

Exhibit 31.1

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

I, C. G. Kum, 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: November 9, 2017

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

Exhibit 31.2

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: November 9, 2017

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

Exhibit 32.1

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 September 30, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, C. G. Kum, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 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: November 9, 2017

/s/ *C. G. Kum*
C. G. Kum
President and Chief Executive Officer

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

Exhibit 32.2

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 September 30, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, Romolo C. Santarosa, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section13(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 periods presented.

Date: November 9, 2017

/s/ *Romolo C. Santarosa*
Romolo C. Santarosa
Senior Executive Vice President and Chief Financial Officer

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