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, 2018

or

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

For the Transition Period From__________ To __________

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4788120**
(State or Other Jurisdiction of 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of November 5, 2018, there were 31,780,321 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, 2018

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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, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 159,617	$ 153,826
Securities available for sale, at fair value (amortized cost of $588,097 as of September 30, 2018 and $581,992 as of December 31, 2017)	572,236	578,804
Loans held for sale, at the lower of cost or fair value	4,455	6,394
Loans and leases receivable, net of allowance for loan and lease losses of $31,676 as of September 30, 2018 and $31,043 as of December 31, 2017	4,551,207	4,273,415
Accrued interest receivable	13,646	12,770
Premises and equipment, net	28,552	26,655
Customers' liability on acceptances	1,265	803
Servicing assets	8,878	10,218
Goodwill and other intangible assets, net	12,273	12,544
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Bank-owned life insurance	51,372	50,554
Prepaid expenses and other assets	67,156	68,117
Total assets	**$ 5,487,042**	**$ 5,210,485**
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,313,777	$ 1,312,274
Interest-bearing	3,300,645	3,036,380
Total deposits	4,614,422	4,348,654
Accrued interest payable	8,153	5,309
Bank's liability on acceptances	1,265	803
Borrowings	160,000	150,000
Subordinated debentures	117,670	117,270
Accrued expenses and other liabilities	17,784	25,972
Total liabilities	**4,919,294**	**4,648,008**
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,188,833 shares (32,087,236 shares outstanding) as of September 30, 2018 and issued 33,083,133 shares (32,431,627 shares outstanding) as of December 31, 2017	33	33
Additional paid-in capital	568,861	565,627
Accumulated other comprehensive loss, net of tax benefit of $4,566 as of September 30, 2018 and $1,319 as of December 31, 2017	(11,295)	(1,869)
Retained earnings	93,768	70,575
Less: treasury stock, at cost; 1,101,597 shares as of September 30, 2018 and 651,506 shares as of December 31, 2017	(83,619)	(71,889)
Total stockholders' equity	**567,748**	**562,477**
Total liabilities and stockholders' equity	**$ 5,487,042**	**$ 5,210,485**

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,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans and leases	$ 56,361	$ 50,265	$ 161,643	$ 143,614
Interest on securities	3,238	3,188	9,541	8,657
Dividends on FHLB stock	286	286	858	943
Interest on deposits in other banks	151	123	398	323
Total interest and dividend income	60,036	53,862	172,440	153,537
Interest expense:				
Interest on deposits	11,694	7,071	28,944	18,687
Interest on borrowings	1,264	198	2,959	714
Interest on subordinated debentures	1,749	1,667	5,170	3,677
Total interest expense	14,707	8,936	37,073	23,078
Net interest income before provision for loan and lease losses	45,329	44,926	135,367	130,459
Loan and lease loss provision	200	269	949	611
Net interest income after provision for loan and lease losses	45,129	44,657	134,418	129,848
Noninterest income:				
Service charges on deposit accounts	2,513	2,678	7,352	7,667
Trade finance and other service charges and fees	1,128	1,133	3,449	3,449
Gain on sales of Small Business Administration ("SBA") loans	1,114	2,546	3,970	6,678
Disposition gains on Purchased Credit Impaired ("PCI") loans	21	979	166	1,702
Net gain (loss) on sales of securities	19	267	(341)	1,473
Other operating income	1,420	1,213	3,624	4,764
Total noninterest income	6,215	8,816	18,220	25,733
Noninterest expense:				
Salaries and employee benefits	17,436	16,947	53,590	50,674
Occupancy and equipment	3,685	3,883	11,839	11,743
Data processing	1,745	1,779	4,976	5,148
Professional fees	1,626	1,210	4,210	3,912
Supplies and communications	805	755	2,206	2,135
Advertising and promotion	814	1,147	2,724	2,964
Merger and integration costs (income)	466	—	846	(40)
Other operating expenses	2,431	2,939	7,883	8,307
Total noninterest expense	29,008	28,660	88,274	84,843
Income before income tax expense	22,336	24,813	64,364	70,738
Income tax expense	6,255	9,890	17,880	27,576
Net income	**$ 16,081**	**$ 14,923**	**$ 46,484**	**$ 43,162**
Basic earnings per share	$ 0.50	$ 0.46	$ 1.44	$ 1.34
Diluted earnings per share	$ 0.50	$ 0.46	$ 1.43	$ 1.33
Weighted-average shares outstanding:				
Basic	32,155,132	32,095,286	32,171,558	32,058,705
Diluted	32,275,277	32,255,814	32,306,041	32,230,319

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,	
	2018	2017	2018	2017
Net income	**$ 16,081**	**$ 14,923**	**$ 46,484**	**$ 43,162**
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on securities:				
Unrealized holding (loss) gain arising during period	(2,750)	529	(13,115)	6,059
Less: reclassification adjustment for net gain included in net income	(19)	(267)	(87)	(1,473)
Income tax benefit (expense) related to items of other comprehensive income	798	(109)	3,793	(1,902)
Other comprehensive (loss) income, net of tax	(1,971)	153	(9,409)	2,684
Comprehensive income	**$ 14,110**	**$ 15,076**	**$ 37,075**	**$ 45,846**

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, 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**
Balance at January 1, 2018	**33,083,133**	**(651,506)**	**32,431,627**	**$ 33**	**$ 565,627**	**$ (1,869)**	**$ 70,575**	**$ (71,889)**	**$ 562,477**
Adjustments related to adoption of new accounting standards:									
ASU 2016-01 (See Notes 1 and 2)	—	—	—	—	—	382	(382)	—	—
ASU 2018-02 (See Notes 1 and 5)	—	—	—	—	—	(399)	399	—	—
Adjusted balance at January 1, 2018	**33,083,133**	**(651,506)**	**32,431,627**	**$ 33**	**$ 565,627**	**$ (1,886)**	**$ 70,592**	**$ (71,889)**	**$ 562,477**
Stock options exercised	25,750	—	25,750	—	570	—	—	—	570
Restricted stock awards, net of forfeitures	79,950	—	79,950	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,664	—	—	—	2,664
Restricted stock surrendered due to employee tax liability	—	(20,533)	(20,533)	—	—	—	—	(607)	(607)
Repurchase of common stock	—	(429,558)	(429,558)	—				(11,123)	(11,123)
Cash dividends declared	—	—	—	—	—	—	(23,308)		(23,308)
Net income	—	—	—	—	—	—	46,484	—	46,484
Change in unrealized loss on securities available for sale, net of income taxes	—	—	—	—	—	(9,409)	—	—	(9,409)
Balance at September 30, 2018	**33,188,833**	**(1,101,597)**	**32,087,236**	**$ 33**	**$ 568,861**	**$ (11,295)**	**$ 93,768**	**$ (83,619)**	**$ 567,748**

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,	
	2018	**2017**
Cash flows from operating activities:		
Net income	**$ 46,484**	**$ 43,162**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,510	9,353
Share-based compensation expense	2,664	2,071
Loan and lease loss provision	949	611
Loss (gain) on sales of securities	341	(1,473)
Gain on sales of SBA loans	(3,970)	(6,678)
Disposition gains on PCI loans	(166)	(1,702)
Origination of SBA loans held for sale	(56,244)	(81,716)
Proceeds from sales of SBA loans	63,057	92,715
Change in accrued interest receivable	(876)	(1,111)
Change in bank-owned life insurance	(818)	(828)
Change in prepaid expenses and other assets	3,223	1,829
Change in accrued interest payable	2,844	1,504
Change in accrued expenses and other liabilities	(7,069)	(1,914)
Net cash provided by operating activities	**58,929**	**55,823**
Cash flows from investing activities:		
Proceeds from matured, called and repayment of securities	79,309	51,117
Proceeds from sales of securities available for sale	34,751	70,333
Proceeds from sales of other real estate owned ("OREO")	1,902	5,710
Change in loans and leases receivable, excluding purchases	(214,670)	(191,594)
Purchases of securities	(124,964)	(201,398)
Purchases of premises and equipment	(3,800)	(147)
Purchases of loans receivable	(66,966)	(161,253)
Net cash used in investing activities	**(294,438)**	**(427,232)**
Cash flows from financing activities:		
Change in deposits	265,768	489,273
Change in overnight FHLB borrowings	10,000	(205,000)
Issuance of subordinated debentures	—	97,735
Proceeds from exercise of stock options	570	270
Cash paid for treasury shares acquired in respect of share-based compensation	(607)	(935)
Repurchase of common stock	(11,123)	—
Cash dividends paid	(23,308)	(19,030)
Net cash provided by financing activities	**241,300**	**362,313**
Net increase (decrease) in cash and cash equivalents	**5,791**	**(9,096)**
Cash and cash equivalents at beginning of year	153,826	147,235
Cash and cash equivalents at end of period	**$ 159,617**	**$ 138,139**
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 34,229	$ 23,078
Income taxes	$ 13,553	$ 25,146
Non-cash activities:		
Transfer of loans receivable to other real estate owned	$ 938	$ 143
Income tax benefit (expense) related to items in other comprehensive income	$ 3,793	$ (1,902)
Change in unrealized loss (gain) in accumulated other comprehensive income	$ 13,115	$ (6,059)
Cash dividends declared	$ (23,308)	$ (19,030)

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 August 2018, the Company's Board of Directors adopted a stock repurchase program. Under this repurchase program, the Company may repurchase up to 5% of its outstanding shares or approximately 1.6 million shares of its common stock. The program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate the Company to purchase any particular number of shares. During the three months ended September 30, 2018, the Company repurchased 429,558 shares of common stock at a cost of $11.1 million under this program.

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, 2018, 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 prepared in conformity with GAAP and in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "2017 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. 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. Actual results could differ from those estimates.

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 2017 Annual Report on Form 10-K.

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)* and ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220).* Summaries of ASU 2016-01 and 2018-02 and the impact of their adoption are included in Notes 2 and 5 to the Consolidated Financial Statements, respectively. In addition to other provisions, ASU 2016-01 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Beginning with the quarter ended March 31, 2018, the Company measured the fair value of certain financial instruments, included in Note 10 to the Consolidated Financial Statements, using an exit price notion.

The Company also adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* as of January 1, 2018, as required. ASU 2014-09 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. See Note 14 to the Consolidated Financial Statements for the impact of the adoption of this new standard on the Company's consolidated financial statements.

Note 2 — Securities

The following is a summary of securities available for sale as ofSeptember 30, 2018 and December 31, 2017:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
September 30, 2018				
Mortgage-backed securities *(1)*	$ 308,054	$ 51	$ 9,719	$ 298,386
Collateralized mortgage obligations *(1)*	121,541	6	3,892	117,655
U.S. government agency securities	7,499	—	147	7,352
Municipal bonds-tax exempt	111,328	9	2,059	109,278
U.S. treasury securities	39,675	—	110	39,565
Total securities available for sale	**$ 588,097**	**$ 66**	**$ 15,927**	**$ 572,236**
December 31, 2017				
Mortgage-backed securities *(1)*	$ 306,166	$ 145	$ 2,702	$ 303,609
Collateralized mortgage obligations *(1)*	119,658	8	1,898	117,768
U.S. government agency securities	7,499	—	85	7,414
Municipal bonds-tax exempt	125,601	1,943	69	127,475
U.S. treasury securities	152	—	—	152
Mutual funds	22,916	—	530	22,386
Total securities available for sale	**$ 581,992**	**$ 2,096**	**$ 5,284**	**$ 578,804**

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

The amortized cost and estimated fair value of securities as ofSeptember 30, 2018, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$ 18,067	$ 18,027
Over one year through five years	116,744	114,401
Over five years through ten years	228,679	222,171
Over ten years	224,607	217,637
Total	**$ 588,097**	**$ 572,236**

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, 2018 and December 31, 2017:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
September 30, 2018									
Mortgage-backed securities	$ 2,484	$ 109,384	44	$ 7,235	$ 183,568	72	$ 9,719	$ 292,952	116
Collateralized mortgage obligations	453	26,235	7	3,439	89,706	47	3,892	115,941	54
U.S. government agency securities	—	—	—	147	7,352	3	147	7,352	3
Municipal bonds-tax exempt	1,811	98,667	43	248	7,034	4	2,059	105,701	47
U.S. treasury securities	110	39,565	5	—	—	—	110	39,565	5
Total	**$ 4,858**	**$ 273,851**	**99**	**$ 11,069**	**$ 287,660**	**126**	**$ 15,927**	**$ 561,511**	**225**
December 31, 2017									
Mortgage-backed securities	$ 1,855	$ 197,621	66	$ 847	$ 56,998	25	$ 2,702	$ 254,619	91
Collateralized mortgage obligations	773	65,726	20	1,125	49,986	32	1,898	115,712	52
U.S. government agency securities	15	1,484	1	70	5,930	2	85	7,414	3
Municipal bonds-tax exempt	48	11,541	6	21	2,737	2	69	14,278	8
Mutual funds	—	—	—	530	22,382	6	530	22,382	6
Total	**$ 2,691**	**$ 276,372**	**93**	**$ 2,593**	**$ 138,033**	**67**	**$ 5,284**	**$ 414,405**	**160**

All individual securities that have been in a continuous unrealized loss position for12 months or longer as of September 30, 2018 and December 31, 2017 included securities with issuers which have not established any cause for default on these securities. 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 securities 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, 2018 and December 31, 2017 were not other-than-temporarily impaired, and therefore, no impairment charges as of September 30, 2018 and December 31, 2017 were warranted.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Gross realized gains on sales of securities	$ 19	$ 267	$ 87	$ 1,473
Gross realized losses on sales of securities	—	—	(957)	—
Net realized (losses) gains on sales of securities	**$ 19**	**$ 267**	**$ (870)**	**$ 1,473**
Proceeds from sales of securities	$ 3,426	$ 17,644	$ 34,751	$ 70,333

In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-01,*Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825).* This new guidance, among other provisions, amends accounting related to the classification and measurement of investments in equity securities. We adopted this guidance, as required, in the first quarter of 2018. ASU 2016-01 requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale be reclassified to retained earnings. The Company reduced the balance of securities by $529,000 as of January 1, 2018, representing the loss related to all of our mutual fund equity securities, which resulted in a net reduction of retained earnings of $382,000 and an increase of $147,000 in net deferred tax assets based on the transition requirements of this standard.

For the three months ended September 30, 2018 and 2017, there was a $19,000 and $267,000 net gain in earnings resulting from the sale of securities, respectively. Net unrealized gains of $21,000 and $227,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period in 2018 and 2017, respectively.

During the nine months ended September 30, 2018, there was $87,000 in gains included in earnings resulting from sale of securities which had $116,000 in previously recorded unrealized gains in accumulated other comprehensive income. Additionally, during the nine months ended September 30, 2018, we sold all of our mutual fund equity securities with gross realized losses of $957,000. The Company recorded a $428,000 net loss in earnings resulting from the sale of these securities in the three months ended March 31, 2018. The remaining loss of $529,000 related to these sold securities was recorded as a transition adjustment upon adoption of ASU 2016-01 as of the beginning of the period as described in the preceding paragraph. There was a $1.5 million net gain in earnings resulting from sales of securities during the nine months ended September 30, 2017, that had previously been recorded as net unrealized gains of $971,000 in comprehensive income.

Securities available for sale with market values of $29.7 million and $130.1 million as of September 30, 2018 and December 31, 2017, 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, 2018	December 31, 2017
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 924,007	$ 915,273
Hospitality	809,287	681,325
Other [(1)]	1,474,406	1,417,273
Total commercial property loans	3,207,700	3,013,871
Construction	67,682	55,190
Residential property	516,968	521,853
Total real estate loans	3,792,350	3,590,914
Commercial and industrial loans:		
Commercial term	186,249	182,685
Commercial lines of credit	178,570	181,894
International loans	31,564	34,622
Total commercial and industrial loans	396,383	399,201
Leases receivable	379,455	297,284
Consumer loans [(2)]	14,695	17,059
Loans and leases receivable	**4,582,883**	**4,304,458**
Allowance for loan and lease losses	(31,676)	(31,043)
Loans and leases receivable, net	**$ 4,551,207**	**$ 4,273,415**

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

(2) *Consumer loans include home equity lines of credit of $10.9 million and $14.2 million as of September 30, 2018 and December 31, 2017, respectively.*

Accrued interest on loans and leases receivable was$11.2 million and $10.2 million at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, loans receivable of$1.1 billion 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, 2018 and 2017:

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
		(in thousands)	
September 30, 2018			
Balance at beginning of period	$ 2,785	$ 2,564	$ 5,349
Originations	5,408	13,469	18,877
Sales	(6,453)	(13,299)	(19,752)
Principal payoffs and amortization	(3)	(16)	(19)
Balance at end of period	**$ 1,737**	**$ 2,718**	**$ 4,455**
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**

The following is the activity for SBA loans held for sale for the nine months ended September 30, 2018 and 2017:

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
		(in thousands)	
September 30, 2018			
Balance at beginning of period	$ 3,746	$ 2,648	$ 6,394
Originations	25,996	30,248	56,244
Sales	(28,000)	(30,043)	(58,043)
Principal payoffs and amortization	(5)	(135)	(140)
Balance at end of period	**$ 1,737**	**$ 2,718**	**$ 4,455**
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**

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,		As of and for the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 31,818	$ 33,758	$ 31,043	$ 32,429
Charge-offs	(1,246)	(2,405)	(3,535)	$ (3,256)
Recoveries on loans and leases previously charged off	904	871	3,219	$ 2,709
Net charge-offs	(342)	(1,534)	(316)	(547)
Loan and lease loss provision	200	268	949	$ 610
Balance at end of period	**$ 31,676**	**$ 32,492**	**$ 31,676**	**$ 32,492**

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; size, 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 loans, commercial loans and leases and SBA loans to small and middle market businesses primarily in California, Texas, Illinois and New York.

The following table details the information on the allowance for loan and lease losses by portfolio segment as of and for the three months ended September 30, 2018 and 2017:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
	(In thousands)					
As of and for the Three Months Ended September 30, 2018						
Allowance for loan and lease losses on loans and leases:						
Beginning balance	$ 17,916	$ 7,120	6,649	$ 109	$ 24	$ 31,818
Charge-offs	(220)	(232)	(794)	—	—	(1,246)
Recoveries on loans and leases previously charged off	577	237	90	—	—	904
Loan and lease loss provision (income)	(184)	(38)	446	—	(24)	200
Ending balance	**$ 18,089**	**$ 7,087**	**$ 6,391**	**$ 109**	**$ —**	**$ 31,676**
Individually evaluated for impairment	$ 2,428	$ 631	$ 1,763	$ —	$ —	$ 4,822
Collectively evaluated for impairment	$ 15,661	$ 6,456	$ 4,628	$ 109	$ —	$ 26,854
Loans and leases receivable:	**$ 3,792,350**	**$ 396,383**	**$ 379,455**	**$ 14,695**	**$ —**	**$ 4,582,883**
Individually evaluated for impairment	$ 20,596	$ 3,767	$ 5,093	$ 881	$ —	$ 30,337
Collectively evaluated for impairment	$ 3,771,754	$ 392,616	$ 374,362	$ 13,814	$ —	$ 4,552,546

	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 loans and leases:						
Beginning balance	$ 23,433	$ 7,020	2,033	$ 95	$ 1,177	$ 33,758
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)	(3,293)	1,183	2,867	(30)	(459)	268
Ending balance	**$ 20,337**	**$ 6,535**	**$ 4,837**	**$ 65**	**$ 718**	**$ 32,492**
Individually evaluated for impairment	$ 3,882	$ 531	$ 2,008	$ —	$ —	$ 6,421
Collectively evaluated for impairment	$ 16,455	$ 6,004	$ 2,829	$ 65	$ 718	$ 26,071
Loans and leases receivable:	**$ 3,539,558**	**$ 364,456**	**$ 272,271**	**$ 19,070**	**$ —**	**$ 4,195,355**
Individually evaluated for impairment	$ 19,466	$ 3,610	$ 3,378	$ 1,045	$ —	$ 27,499
Collectively evaluated for impairment	$ 3,520,092	$ 360,846	$ 268,893	$ 18,025	$ —	$ 4,167,856

The following table details the information on the allowance for loan and lease losses by portfolio segment as of and for the nine months ended September 30, 2018 and 2017:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(In thousands)			
As of and for the Nine Months Ended September 30, 2018						
Allowance for loan and lease losses on loans and leases:						
Beginning balance	$ 17,012	$ 7,400	6,279	$ 122	$ 230	$ 31,043
Charge-offs	(1,249)	(597)	(1,689)	—	—	(3,535)
Recoveries on loans and leases previously charged off	1,833	1,170	214	2	—	3,219
Loan and lease loss provision (income)	493	(886)	1,587	(15)	(230)	949
Ending balance	**$ 18,089**	**$ 7,087**	**$ 6,391**	**$ 109**	**$ —**	**$ 31,676**
Individually evaluated for impairment	$ 2,428	$ 631	$ 1,763	$ —	$ —	$ 4,822
Collectively evaluated for impairment	$ 15,661	$ 6,456	$ 4,628	$ 109	$ —	$ 26,854
Loans and leases receivable:	**$ 3,792,350**	**$ 396,383**	**$ 379,455**	**$ 14,695**	**$ —**	**$ 4,582,883**
Individually evaluated for impairment	$ 20,596	$ 3,767	$ 5,093	$ 881	$ —	$ 30,337
Collectively evaluated for impairment	$ 3,771,754	$ 392,616	$ 374,362	$ 13,814	$ —	$ 4,552,546

	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 loans and leases:						
Beginning balance	$ 26,134	$ 5,623	307	$ 199	$ 166	$ 32,429
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)	(6,942)	1,908	5,241	(149)	552	610
Ending balance	**$ 20,337**	**$ 6,535**	**$ 4,837**	**$ 65**	**$ 718**	**$ 32,492**
Individually evaluated for impairment	$ 3,882	$ 531	$ 2,008	$ —	$ —	$ 6,421
Collectively evaluated for impairment	$ 16,455	$ 6,004	$ 2,829	$ 65	$ 718	$ 26,071
Loans and leases receivable:	**$ 3,539,558**	**$ 364,456**	**$ 272,271**	**$ 19,070**	**$ —**	**$ 4,195,355**
Individually evaluated for impairment	$ 19,466	$ 3,610	$ 3,378	$ 1,045	$ —	$ 27,499
Collectively evaluated for impairment	$ 3,520,092	$ 360,846	$ 268,893	$ 18,025	$ —	$ 4,167,856

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, 2018 and December 31, 2017, pass/pass-watch, special mention and classified loans and leases, disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
	(In thousands)			
September 30, 2018				
Real estate loans:				
Commercial property				
Retail	$ 917,990	$ 9	$ 6,008	$ 924,007
Hospitality	797,772	10	11,505	809,287
Other	1,465,285	2,996	6,125	1,474,406
Total commercial property loans	3,181,047	3,015	23,638	3,207,700
Construction	67,682	—	—	67,682
Residential property	516,826	—	142	516,968
Total real estate loans	3,765,555	3,015	23,780	3,792,350
Commercial and industrial loans:				
Commercial term	177,342	5,366	3,541	186,249
Commercial lines of credit	149,071	29,499	—	178,570
International loans	31,564	—	—	31,564
Total commercial and industrial loans	357,977	34,865	3,541	396,383
Leases receivable	374,362	—	5,093	379,455
Consumer loans	13,716	195	784	14,695
Total loans and leases	**$ 4,511,610**	**$ 38,075**	**$ 33,198**	**$ 4,582,883**
December 31, 2017				
Real estate loans:				
Commercial property				
Retail	$ 909,682	$ 454	$ 5,137	$ 915,273
Hospitality	667,254	4,976	9,095	681,325
Other	1,397,658	11,045	8,570	1,417,273
Total commercial property loans	2,974,594	16,475	22,802	3,013,871
Construction	55,190	—	—	55,190
Residential property	521,261	305	287	521,853
Total real estate loans	3,551,045	16,780	23,089	3,590,914
Commercial and industrial loans:				
Commercial term	179,835	439	2,411	182,685
Commercial lines of credit	181,462	250	182	181,894
International loans	34,622	—	—	34,622
Total commercial and industrial loans	395,919	689	2,593	399,201
Leases receivable	292,832	—	4,452	297,284
Consumer loans	15,995	—	1,064	17,059
Total loans and leases	**$ 4,255,791**	**$ 17,469**	**$ 31,198**	**$ 4,304,458**

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
			(in thousands)			
September 30, 2018						
Real estate loans:						
Commercial property						
Retail	$ 221	$ 765	$ 359	$ 1,345	$ 922,662	$ 924,007
Hospitality	—	—	2,314	2,314	806,973	809,287
Other	37	609	1,411	2,057	1,472,349	1,474,406
Total commercial property loans	258	1,374	4,084	5,716	3,201,984	3,207,700
Construction	—	—	—	—	67,682	67,682
Residential property	2,210	682	—	2,892	514,076	516,968
Total real estate loans	2,468	2,056	4,084	8,608	3,783,742	3,792,350
Commercial and industrial loans:						
Commercial term	256	144	1,397	1,797	184,452	186,249
Commercial lines of credit	587	—	—	587	177,983	178,570
International loans	—	—	—	—	31,564	31,564
Total commercial and industrial loans	843	144	1,397	2,384	393,999	396,383
Leases receivable	2,815	666	3,390	6,871	372,584	379,455
Consumer loans	105	—	—	105	14,590	14,695
Total loans and leases	**$ 6,231**	**$ 2,866**	**$ 8,871**	**$ 17,968**	**$ 4,564,915**	**$ 4,582,883**
December 31, 2017						
Real estate loans:						
Commercial property						
Retail	$ 96	$ 15	$ 630	$ 741	$ 914,532	$ 915,273
Hospitality	3,421	168	398	3,987	677,338	681,325
Other	1,245	1,333	563	3,141	1,414,132	1,417,273
Total commercial property loans	4,762	1,516	1,591	7,869	3,006,002	3,013,871
Construction	—	—	—	—	55,190	55,190
Residential property	609	—	—	609	521,244	521,853
Total real estate loans	5,371	1,516	1,591	8,478	3,582,436	3,590,914
Commercial and industrial loans:						
Commercial term	430	567	829	1,826	180,859	182,685
Commercial lines of credit	250	—	182	432	181,462	181,894
International loans	—	—	—	—	34,622	34,622
Total commercial and industrial loans	680	567	1,011	2,258	396,943	399,201
Leases receivable	2,295	944	3,554	6,793	290,491	297,284
Consumer loans	—	—	—	—	17,059	17,059
Total loans and leases	**$ 8,346**	**$ 3,027**	**$ 6,156**	**$ 17,529**	**$ 4,286,929**	**$ 4,304,458**

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; 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; when current information or events make it unlikely to collect in full according to the contractual terms of the loan or lease agreements; there is a deterioration in the borrower’s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan and lease impairment in accordance with 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, 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, 2018					
Real estate loans:					
Commercial property					
Retail	$ 3,108	$ 3,621	$ 2,772	$ 336	$ 54
Hospitality	6,860	8,208	2,441	4,419	2,284
Other	8,793	9,522	7,151	1,642	90
Total commercial property loans	18,761	21,351	12,364	6,397	2,428
Residential property	1,835	1,968	1,835	—	—
Total real estate loans	20,596	23,319	14,199	6,397	2,428
Commercial and industrial loans	3,767	3,928	765	3,002	631
Leases receivable	5,093	5,138	1,095	3,998	1,763
Consumer loans	881	1,117	761	120	—
Total loans and leases	**$ 30,337**	**$ 33,502**	**$ 16,820**	**$ 13,517**	**$ 4,822**
December 31, 2017					
Real estate loans:					
Commercial property					
Retail	$ 1,403	$ 1,423	$ 1,246	$ 157	$ 1
Hospitality	6,184	7,220	2,144	4,040	1,677
Other	8,513	9,330	7,569	944	394
Total commercial property loans	16,100	17,973	10,959	5,141	2,072
Residential property	2,563	2,728	824	1,739	21
Total real estate loans	18,663	20,701	11,783	6,880	2,093
Commercial and industrial loans	3,039	3,081	1,068	1,971	441
Leases receivable	4,452	4,626	455	3,997	3,334
Consumer loans	1,029	1,215	919	110	10
Total loans and leases	**$ 27,183**	**$ 29,623**	**$ 14,225**	**$ 12,958**	**$ 5,878**

	Three Months Ended		Nine Months Ended	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
September 30, 2018				
Real estate loans:				
Commercial property				
Retail	$ 2,671	$ 93	$ 1,936	$ 141
Hospitality	7,146	104	7,639	376
Other	8,659	187	8,021	430
Total commercial property loans	18,476	384	17,596	947
Residential property	1,966	23	2,269	80
Total real estate loans	20,442	407	19,865	1,027
Commercial and industrial loans	3,819	40	3,266	119
Leases receivable	5,424	11	5,072	33
Consumer loans	1,018	17	1,031	45
Total loans and leases	**$ 30,703**	**$ 475**	**$ 29,234**	**$ 1,224**
September 30, 2017				
Real estate loans:				
Commercial property				
Retail	$ 1,487	$ 24	$ 1,551	$ 85
Hospitality	6,476	143	6,268	309
Other	9,489	202	9,681	601
Total commercial property loans	17,452	369	17,500	995
Residential property	2,794	26	2,797	87
Total real estate loans	20,246	395	20,297	1,082
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 loans and leases	**$ 29,562**	**$ 476**	**$ 29,850**	**$ 1,320**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms	$ 819	$ 696	$ 2,150	$ 1,934
Less: Interest income recognized on impaired loans and leases	(475)	(476)	(1,224)	(1,320)
Interest foregone on impaired loans and leases	**$ 344**	**$ 220**	**$ 926**	**$ 614**

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 nonaccrual PCI loans of $1.6 million and $0.9 million as of September 30, 2018 and December 31, 2017, respectively, disaggregated by loan class, as of the dates indicated:

	September 30, 2018	December 31, 2017
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 987	$ 224
Hospitality	6,121	5,263
Other	2,205	2,462
Total commercial property loans	9,313	7,949
Residential property	142	591
Total real estate loans	9,455	8,540
Commercial and industrial loans	2,974	1,892
Leases receivable	5,093	4,452
Consumer loans	761	921
Total nonaccrual loans and leases	**$ 18,283**	**$ 15,805**

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

	September 30, 2018	December 31, 2017
	(in thousands)	
Nonaccrual loans and leases	$ 18,283	$ 15,805
Loans and leases 90 days or more past due and still accruing	—	—
Total nonperforming loans and leases	**18,283**	**15,805**
Other real estate owned ("OREO")	877	1,946
Total nonperforming assets	**$ 19,160**	**$ 17,751**

OREO is included in prepaid expenses and other assets in the accompanying Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017.

Troubled Debt Restructurings

The following table details TDRs as of September 30, 2018 and December 31, 2017:

	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, 2018										
Real estate loans	$ 1,136	$ 3,560	$ 178	$ —	$ 4,874	$ 3,387	$ —	$ 1,160	$ 746	$ 5,293
Commercial and industrial loans	394	107	690	448	1,639	—	172	415	191	778
Consumer loans	761	—	—	—	761	—	—	97	—	97
Total TDR loans	**$ 2,291**	**$ 3,667**	**$ 868**	**$ 448**	**$ 7,274**	**$ 3,387**	**$ 172**	**$ 1,672**	**$ 937**	**$ 6,168**
December 31, 2017										
Real estate loans	$ 1,935	$ 3,761	$ 64	$ —	$ 5,760	$ 3,409	$ —	$ 1,387	$ 1,237	$ 6,033
Commercial and industrial loans	131	123	1,173	102	1,529	6	182	503	427	1,118
Consumer loans	811	—	—	—	811	—	—	108	—	108
Total TDR loans	**$ 2,877**	**$ 3,884**	**$ 1,237**	**$ 102**	**$ 8,100**	**$ 3,415**	**$ 182**	**$ 1,998**	**$ 1,664**	**$ 7,259**

As of September 30, 2018 and December 31, 2017, total TDRs were $13.4 million and $15.4 million, respectively. A debt restructuring is considered a TDR if we grant a concession, that we would not have otherwise considered, to the borrower for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for 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, 2018 and December 31, 2017, $2.8 million and $2.2 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.

Note 4 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the three months ended September 30, 2018 and 2017 were as follows:

	2018	2017
	(in thousands)	
Servicing assets:		
Balance at beginning of period	$ 9,255	$ 10,480
Addition related to sale of SBA loans	378	755
Amortization	(755)	(807)
Balance at end of period	**$ 8,878**	**$ 10,428**
Servicing liabilities:		
Balance at beginning of period	$ 1,837	$ 2,553
Amortization	(172)	(183)
Balance at end of period	**$ 1,665**	**$ 2,370**

The changes in servicing assets and liabilities for the nine months ended September 30, 2018 and 2017 were as follows:

	2018	2017
	(in thousands)	
Servicing assets:		
Balance at beginning of period	$ 10,218	$ 10,564
Addition related to sale of SBA loans	1,219	1,949
Amortization	(2,559)	(2,415)
Reversal of allowance	—	330
Balance at end of period	**$ 8,878**	**$ 10,428**
Servicing liabilities:		
Balance at beginning of period	$ 2,217	$ 3,143
Amortization	(552)	(706)
Reversal of allowance	—	(67)
Balance at end of period	**$ 1,665**	**$ 2,370**

At September 30, 2018 and December 31, 2017, we serviced loans sold to unaffiliated parties in the amounts of $455.5 million and $476.5 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, 2018 and 2017. The Company recorded servicing fee income of $3.5 million for each of the nine month periods ended September 30, 2018 and 2017. 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 $583,000 and $624,000 for the three months ended September 30, 2018 and 2017, respectively, and $2.0 million and $1.7 million for the nine months ended September 30, 2018 and 2017, respectively.

Note 5 — Income Taxes

The Company's income tax expense was $6.3 million and $9.9 million representing an effective income tax rate of 28.0 percent and 39.9 percent for the three months ended September 30, 2018 and 2017, respectively. The Company's income tax expense was $17.9 million and $27.6 million representing an effective income tax rate of 27.8 percent and 39.0 percent for the nine months ended September 30, 2018 and 2017, respectively.

Management concluded that as of September 30, 2018 and December 31, 2017, a valuation allowance of $2.8 million was appropriate against certain state net operating losses and certain tax credits. For all other deferred tax assets, management believes it was more likely than not that these deferred tax assets will be realized principally through future taxable income and reversal of existing taxable temporary differences. A net deferred tax asset of $36.2 million and $32.5 million and a net current tax asset of $3.0 million and $5.8 million as of September 30, 2018 and December 31, 2017, respectively, are included in prepaid expenses and other assets in the accompanying Consolidated Balance Sheets.

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

The Tax Act was enacted into U.S. tax law on December 22, 2017. The Tax Act makes numerous changes to the U.S. tax code, including (although not limited to) reducing the U.S. federal corporate tax rate to 21 percent, eliminating the corporate alternative minimum tax (AMT), limiting deductible interest expense, increasing limitations on certain executive compensation, and enhancing bonus depreciation to provide for full expensing of qualified property. On that same date, the SEC staff also issued SAB 118, which provided guidance regarding financial statement accounting of the tax effects of the Tax Act. SAB 118 provides for the completion of the accounting related effects of the Tax Act in accordance with a measurement period of one year from the Tax Act enactment date. Those aspects of the Tax Act for which the accounting under ASC 740 is complete is to be reflected in the financial statements under SAB 118. To the extent that the company's accounting for certain income taxes effects of the Tax Act is incomplete, however where a reasonable estimate is determinable, SAB 118 provides that a provisional estimate should be included in the financial statements. Finally, if a provisional estimate cannot be determined, a company should continue to apply ASC 740 based on the tax laws that were in effect immediately before the enactment of the Tax Act.

During the year ended December 31, 2017, the Company made a provisional estimate of the impact of the Tax Act, which was discussed in Note 11 to our Consolidated Financial Statement included in our Annual Report on Form 10-K filed for that period. The Company is continuing to evaluate the impact of the Tax Act on its financial statements, and has not made any adjustments to this estimate during the period ended September 30, 2018.

The Company is subject to examination by various federal and state tax authorities for certain years ended December 31, 2008 through 2016. As of September 30, 2018, the Company was subject to audit or examination by the 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 — Borrowings and Subordinated Debentures

Borrowings

The Bank had advances from the FHLB of $160.0 million and $150.0 million as of September 30, 2018 and December 31, 2017, respectively. The FHLB advances were all overnight borrowings at September 30, 2018 and December 31, 2017. For the three months ended September 30, 2018 and 2017, interest expense on FHLB advances was $1.3 million and $198,000, respectively, and the weighted-average interest rate was 2.09 percent and 1.16 percent, respectively. For the nine months ended September 30, 2018 and 2017, interest expense on FHLB advances was $3.0 million and $714,000, respectively, and the weighted-average interest rate was 1.87 percent and 0.80 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 $933.4 million in borrowing capacity, of which $663.4 million remained available at September 30, 2018.

The Bank also has securities with market values of $29.7 million pledged with the Federal Reserve Bank ("FRB"), which provides $29.1 million in available borrowing capacity through the Fed Discount Window. There were no outstanding borrowings with the FRB as of September 30, 2018 and December 31, 2017.

Subordinated Debentures

The Company issued Fixed-to-Floating Subordinated Notes (the “Notes”) of $100 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes have an initial fixed interest rate of 5.45% per annum, payable semi-monthly on March 30 and September 30 of each year. From and including March 30, 2022 and thereafter, the Notes bear interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315% payable quarterly. If the then current three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero. Debt issuance cost was $2.3 million, which is being amortized through the Notes' maturity date. At September 30, 2018 and December 31, 2017, the balance of Notes included in the Company's consolidated balance sheet, net of debt issuance cost, was $98.1 million and $98.0 million, respectively. The amortization of debt issuance cost was $46,000 and $43,000 for the three months ended September 30, 2018 and 2017, respectively, and $136,000 and $90,000 for the nine months ended September 30, 2018 and 2017, respectively.

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of the acquisition of Central Bancorp Inc. ("CBI") in 2014 with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount is being amortized to interest expense through the debentures' maturity date of March 15, 2036. 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 three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At September 30, 2018 and December 31, 2017, the balance of Subordinated Debentures included in the Company's consolidated balance sheets, net of discount of $7.5 million and $7.7 million, was $19.6 million and $19.3 million, respectively. The amortization of discount was $92,000 and $85,000 for the three months ended September 30, 2018, and 2017, respectively, and $264,000 and $243,000 for the nine months ended September 30, 2018, and 2017, 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 unvested restricted stock under the treasury method. Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method. 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,	
	2018	2017	2018	2017
	(in thousands, except for share and per share data)			
Basic EPS:				
Net income	$ 16,081	$ 14,923	$ 46,484	$ 43,162
Less: income allocated to unvested restricted shares	101	93	284	270
Income allocated to common shares	$ 15,980	$ 14,830	$ 46,200	$ 42,892
Weighted-average shares for basic EPS	32,155,132	32,095,286	32,171,558	32,058,705
Basic EPS	**$ 0.50**	**$ 0.46**	**$ 1.44**	**$ 1.34**
Effect of dilutive securities - options and unvested restricted stock	120,145	160,528	134,483	171,614
Diluted EPS:				
Income allocated to common shares	$ 15,980	$ 14,830	**$ 46,200**	**$ 42,892**
Weighted-average shares for diluted EPS	32,275,277	32,255,814	32,306,041	32,230,319
Diluted EPS	**$ 0.50**	**$ 0.46**	**$ 1.43**	**$ 1.33**

There were no stock options with an anti-dilutive effect for the three andnine months ended September 30, 2018 or 2017.

Note 8 – Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the three months ended September 30, 2018 and 2017 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities	Tax Benefit (Expense)	Total
		(in thousands)	
September 30, 2018			
Balance at beginning of period	$ (13,092)	$ 3,768	$ (9,324)
Other comprehensive loss before reclassification	(2,750)	798	(1,952)
Reclassification from accumulated other comprehensive income	(19)	—	(19)
Period change	(2,769)	798	(1,971)
Balance at end of period	**$ (15,861)**	**$ 4,566**	**$ (11,295)**
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**

For the three months ended September 30, 2018, there was a $19,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $19,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $21,000 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, 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.

Activity in accumulated other comprehensive income for the nine months ended September 30, 2018 and 2017 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities	Tax Benefit (Expense)	Total
		(in thousands)	
September 30, 2018			
Balance at beginning of period	$ (3,188)	$ 1,319	$ (1,869)
Other comprehensive loss before reclassification	(13,115)	3,793	(9,322)
Reclassification from accumulated other comprehensive income	(87)	—	(87)
Adjustment to accumulated other comprehensive income related to adoption of ASU 2016-01 and 2018-02 (see Notes 2 and 5)	529	(546)	(17)
Period change	(12,673)	3,247	(9,426)
Balance at end of period	**$ (15,861)**	**$ 4,566**	**$ (11,295)**
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**

The Company recorded a net $17,000 adjustment related to adoption of two new accounting standards (ASU 2016-01 and ASU 2018-02) effective January 1, 2018. The $17,000 adjustment includes a $529,000 reduction of unrealized losses related to the Company's mutual funds equity securities upon adoption of ASU 2016-01 and a $546,000 reduction in tax benefits upon adoption of ASU 2016-01 and ASU 2018-02. All mutual fund equity securities were sold during the three months ended March 31, 2018. See Notes 2 and 5 to the Consolidated Financial Statements for additional information on adoption of ASU 2016-01 and ASU 2018-02, respectively.

For the nine months ended September 30, 2018, there was a $87,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $87,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $116,000 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, 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.

Note 9 — Regulatory Matters

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 was 0.625% 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 6.21% and 6.76%, respectively, as of September 30, 2018, and 6.55% and 7.20%, respectively, as of December 31, 2017.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

The capital ratios of Hanmi Financial and the Bank as ofSeptember 30, 2018 and December 31, 2017 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, 2018						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 702,278	15.01%	$ 374,228	8.00%	N/A	N/A
Hanmi Bank	$ 689,866	14.76%	$ 373,906	8.00%	$ 467,382	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 571,146	12.21%	$ 280,671	6.00%	N/A	N/A
Hanmi Bank	$ 656,833	14.05%	$ 280,429	6.00%	$ 373,906	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 551,575	11.79%	$ 210,503	4.50%	N/A	N/A
Hanmi Bank	$ 656,833	14.05%	$ 210,322	4.50%	$ 303,798	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 571,146	10.53%	$ 217,047	4.00%	N/A	N/A
Hanmi Bank	$ 656,833	12.11%	$ 217,044	4.00%	$ 271,304	5.00%
December 31, 2017						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 684,272	15.50%	$ 353,171	8.00%	N/A	N/A
Hanmi Bank	$ 670,896	15.20%	$ 353,091	8.00%	$ 441,364	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 553,970	12.55%	$ 264,878	6.00%	N/A	N/A
Hanmi Bank	$ 638,557	14.47%	$ 264,818	6.00%	$ 353,091	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 537,950	12.19%	$ 198,658	4.50%	N/A	N/A
Hanmi Bank	$ 638,557	14.47%	$ 198,614	4.50%	$ 286,886	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 553,970	10.79%	$ 205,344	4.00%	N/A	N/A
Hanmi Bank	$ 638,557	12.44%	$ 205,385	4.00%	$ 256,731	5.00%

Note 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, 2018, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2018 and December 31, 2017, 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, 2018				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$ —	$ 298,386	$ —	$ 298,386
Collateralized mortgage obligations	—	117,655	—	117,655
U.S. government agency securities	—	7,352	—	7,352
Municipal bonds-tax exempt	—	109,278	—	109,278
U.S. treasury securities	39,565	—	—	39,565
Total securities available for sale	**$ 39,565**	**$ 532,671**	**$ —**	**$ 572,236**
December 31, 2017				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$ —	$ 303,609	$ —	$ 303,609
Collateralized mortgage obligations	—	117,768	—	117,768
U.S. government agency securities	—	7,414	—	7,414
Municipal bonds-tax exempt	—	127,475	—	127,475
U.S. treasury securities	152	—	—	152
Mutual funds	22,386	—	—	22,386
Total securities available for sale	**$ 22,538**	**$ 556,266**	**$ —**	**$ 578,804**

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

As of September 30, 2018 and December 31, 2017, 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, 2018
	(in thousands)			
September 30, 2018				
Assets:				
Impaired loans [1]	$ —	$ 5,287	$ 1,955	$ 3,473
OREO	—	877	—	—
				Loss During the Twelve Months Ended December 31, 2017
December 31, 2017				
Assets:				
Impaired loans [2]	$ —	$ 6,121	$ 2,436	$ 2,730
OREO	—	1,946	—	—

(1) *Consist of real estate loans of $5.7 million and commercial and industrial loans of $1.6 million.*

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

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

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

Effective January 1, 2018, the Company adopted ASU 2016-01,*Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825).* This standard, among other provisions, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Other than certain financial instruments for which we have concluded that the carrying amounts approximate fair value, the fair value estimates shown below have are based on an exit price notion as of September 30, 2018, as required by ASU 2016-01. The financial instruments for which we have concluded that the carrying amounts approximate fair value include, cash and due from banks, accrued interest receivable and payable, FHLB stock, and noninterest-bearing deposits. The fair values of off-balance sheet items are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans.

The estimated fair values of financial instruments were as follows:

	September 30, 2018			
	Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	159,617	159,617	—	—
Securities available for sale	572,236	39,565	532,671	—
Loans and leases receivable, net of allowance for loan and lease losses	4,551,207	—	—	4,477,912
Loans held for sale	4,455	—	4,755	—
Accrued interest receivable	13,646	13,646	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,313,777	—	1,313,777	—
Interest-bearing deposits	3,300,645	—	—	3,294,348
Borrowings and subordinated debentures	277,670	—	93,858	159,842
Accrued interest payable	8,153	8,153	—	—
Off-balance sheet items:				
Commitments to extend credit	358,570	—	—	358,570
Standby letters of credit	29,404	—	—	29,404
Commercial letters of credit	10,975	—	—	10,975

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

Note 11 — Share-Based Compensation

Share-Based Compensation Expense

For the three months ended September 30, 2018 and 2017, share-based compensation expenses were $850,000 and $709,000, respectively, and net tax benefits recognized from stock option and restricted stock awards were $238,000 and $291,000, respectively. For the nine months ended September 30, 2018 and 2017, share-based compensation expenses were $2.7 million and $2.1 million, respectively, and net tax benefits recognized from stock option and restricted stock awards were $746,000 and $666,000, respectively. Excess tax benefits related to the Company's share-based compensation are recognized as income tax expense in the consolidated statement of income.

Unrecognized Share-Based Compensation Expense

As of September 30, 2018, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	(in thousands)	
Restricted stock awards	$ 5,069	2.0 years

There was no unrecognized share-based compensation expense for stock options at September 30, 2018.

Stock Option Awards

The table below provides stock option information for the three months ended September 30, 2018:

	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	338,338	$ 17.52	5.5 years	$ 3,657 [(1)]
Options outstanding at end of period	**338,338**	**$ 17.52**	**5.1 years**	**$ 2,498** [(2)]
Options exercisable at end of period	**338,338**	**$ 17.52**	**5.1 years**	**$ 2,498** [(2)]

(1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $28.35 as of June 30, 2018, 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 $24.90 as of September 30, 2018, over the exercise price, multiplied by the number of options.*

There were no stock option exercises during the three months ended September 30, 2018.

The table below provides stock option information for the nine months ended September 30, 2018:

	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	364,088	$ 17.86	5.9 years	$ 4,548	(1)
Options exercised	(25,750)	$ 22.06	5.9 years	—	
Options outstanding at end of period	**338,338**	**$ 17.52**	**5.1 years**	**$ 2,498**	(2)
Options exercisable at end of period	**338,338**	**$ 17.52**	**5.1 years**	**$ 2,498**	(2)

(1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $30.35 as of December 31, 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 $24.90 as of September 30, 2018, over the exercise price, multiplied by the number of options.*

There were 25,750 stock options exercised during the nine months ended September 30, 2018.

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, 2018:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	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	315,505	$ 22.44	317,783	$ 21.09
Restricted stock granted	16,177	25.59	135,571	26.46
Restricted stock vested	(3,826)	23.52	(82,480)	26.40
Restricted stock forfeited	(12,438)	25.69	(55,456)	15.19
Restricted stock at end of period	**315,418**	**23.05**	**315,418**	**23.05**

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, 2018	December 31, 2017
	(in thousands)	
Commitments to extend credit	$ 358,570	$ 318,634
Standby letters of credit	29,404	19,294
Commercial letters of credit	10,975	9,308
Total undisbursed loan commitments	**$ 398,949**	**$ 347,236**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance at beginning of period	$ 1,357	$ 1,135	$ 1,296	$ 1,184
Provision (income)	—	(220)	61	(269)
Balance at end of period	**$ 1,357**	**$ 915**	**$ 1,357**	**$ 915**

Note 13 — Subsequent Events

On May 21, 2018, the Company announced entering into an Agreement and Plan of Merger (the "Merger Agreement"), dated May 18, 2018, to acquire SWNB Bancorp, Inc. ("SWNB"), a privately-held bank holding company for Southwestern National Bank, headquartered in Houston, Texas with total assets of approximately $411 million, for total consideration of approximately $76.7 million. On August 28, 2018, SWNB failed to obtain the requisite vote of its shareholders to approve the Merger Agreement and on September 26, 2018, the Company's Board of Directors announced that it provided notification to SWNB that it has terminated the Merger Agreement effective immediately, on the basis of SWNB's willful and material breaches of its covenants and the failure of SWNB to obtain the required SWNB shareholder vote.

On October 3, 2018, the Company announced that it has filed a complaint in the United States District Court for the Southern District of Texas against SWNB and SWNB's directors, alleging breach of contract under the Merger Agreement and breach of the implied covenant of good faith and fair dealing under the voting agreements between the Company and each of the directors. The complaint alleges, among other things, that SWNB and each of the directors willfully and materially breached their obligations under the Merger Agreement and voting agreements to use its reasonable best efforts to do or cause to be done all things necessary to consummate the transaction, including the directors' obligation to recommend that SWNB shareholders vote in favor of the Merger Agreement. The lawsuit seeks damages for losses incurred as a result of SWNB's and the directors' breach of the agreements as well as the termination fee payable under the Merger Agreement.

Management has evaluated subsequent events through the date of issuance of the financial data included herein. Other than as disclosed above, 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, 2018, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of September 30, 2018.

Note 14 — Revenue Recognition

The Company also adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* as of January 1, 2018. ASU 2014-09 established a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 was to be effective for interim and annual periods beginning after December 15, 2016 and was to be applied on either a modified retrospective or full retrospective basis. In August 2015, the FASB issued ASU 2015-14 which deferred the original effective date for all entities by one year. Public business entities are required to apply the guidance in ASU 2015-14 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

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

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

The Company's noninterest income primarily includes service charges on deposit accounts, trade finance and other service charges and fees, servicing income, bank-owned life insurance income and gains or losses on sale of SBA loans, PCI loans and securities. Based on our assessment of revenue streams related to the Company's noninterest income, we concluded that the Companies performance obligations for such revenue streams are typically satisfied as services are rendered. If applicable, the Company records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers and records contract assets when services are provided to customers before payment is received or before payment is due. The Company's noninterest revenue streams are largely based on transactional activities and since the Company generally receives payments for its services during the period or at the time services are provided, there are no contract asset or receivable balances as of September 30, 2018. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized.

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

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

The following is management’s discussion and analysis of our results of operations and financial condition as of and for the three and nine months ended September 30, 2018. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 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, 2018 (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 are or 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 2017 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 2017 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2017 Annual Report on Form 10-K, except for adoption of three new accounting standards as of January 1, 2018 as described in Note 1 to the Consolidated Financial Statements.

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 2017 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 the Company’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,	
	2018	2017	2018	2017
	(dollars in thousands, except per share data)			
Summary balance sheets:				
Cash and due from banks	$ 159,617	$ 138,139	$ 159,617	$ 138,139
Securities	572,236	598,440	572,236	598,440
Loans and leases receivable, net	4,551,207	4,162,863	4,551,207	4,162,863
Assets	5,487,042	5,111,396	5,487,042	5,111,396
Deposits	4,614,422	4,299,010	4,614,422	4,299,010
Liabilities	4,919,294	4,552,149	4,919,294	4,552,149
Stockholders’ equity	567,748	559,247	567,748	559,247
Tangible equity *(12)*	555,475	546,619	555,475	546,619
Average loans and leases receivable *(1)*	4,551,284	4,092,131	4,551,284	3,976,021
Average securities	589,939	611,538	589,939	574,801
Average assets	5,453,465	5,027,704	5,453,465	4,881,527
Average deposits	4,481,344	4,260,349	4,481,344	4,101,640
Average stockholders’ equity	584,637	551,763	584,637	543,503
Per share data:				
Earnings per share – basic *(2)*	$ 0.50	$ 0.46	$ 1.44	$ 1.34
Earnings per share – diluted *(2)*	$ 0.50	$ 0.46	$ 1.43	$ 1.33
Book value per share *(3)*	$ 17.69	$ 17.25	$ 17.69	$ 17.25
Tangible book value per share *(4) (12)*	$ 17.31	$ 16.86	$ 17.31	$ 16.86
Cash dividends per share	$ 0.24	$ 0.21	$ 0.24	$ 0.59
Common shares outstanding	32,087,236	32,413,082	32,087,236	32,413,082
Performance ratios:				
Return on average assets *(5) (6)*	1.17 %	1.18 %	1.17 %	1.18 %
Return on average stockholders’ equity *(5) (7)*	10.91 %	10.73 %	10.91 %	10.62 %
Net interest margin *(8)*	3.48 %	3.79 %	3.48 %	3.83 %
Efficiency ratio *(9)*	56.28 %	53.33 %	56.28 %	54.32 %
Dividend payout ratio *(10)*	48.00 %	45.45 %	48.00 %	53.66 %
Average stockholders’ equity to average assets	10.72 %	10.97 %	10.72 %	11.13 %
Asset quality ratios:				
Nonperforming loans and leases to loans and leases	0.40 %	0.35 %	0.40 %	0.35 %
Nonperforming assets to assets *(11)*	0.35 %	0.32 %	0.35 %	0.32 %
Net loan and lease charge-offs (recoveries) to average loans and leases	0.03 %	0.15 %	0.03 %	0.02 %
Allowance for loan lease losses to loans and leases	0.69 %	0.77 %	0.69 %	0.77 %
Allowance for loan and lease losses to nonperforming loans and leases	173.3 %	223.2 %	173.3 %	223.2 %

Capital ratios:				
Total risk-based capital:				
Hanmi Financial	15.01%	15.58%	15.01%	15.58%
Hanmi Bank	14.76%	15.32%	14.76%	15.32%
Tier 1 risk-based capital:				
Hanmi Financial	12.21%	12.56%	12.21%	12.56%
Hanmi Bank	14.05%	14.55%	14.05%	14.55%
Common equity Tier 1 capital:				
Hanmi Financial	11.79%	12.20%	11.79%	12.20%
Hanmi Bank	14.05%	14.55%	14.05%	14.55%
Tier 1 leverage:				
Hanmi Financial	10.53%	10.92%	10.53%	10.92%
Hanmi Bank	12.11%	12.66%	12.11%	12.66%

(1) *Average loans and leases receivable include loans held for sale and exclude the 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 interest income on a taxable equivalent basis before provision for loan and lease losses divided by average interest-earning assets*

(9) *Noninterest expense divided by the sum of net interest income before provision for loan and lease losses and noninterest income*

(10) *Dividend declared per share divided by basic earnings per share*

(11) *Nonperforming assets consist of nonperforming loans and leases and OREO*

(12) *See "Non-GAAP Financial Measures" section below*

Non-GAAP Financial Measures

The Company calculates certain supplemental financial information determined by methods other than in accordance with U.S. GAAP, including tangible assets, tangible stockholders' equity and tangible book value per share. These non-GAAP measures are used by management in analyzing Hanmi Financial's capital strength.

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.

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. 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,	
	2018	2017
	(in thousands, except per share data)	
Total assets	$ **5,487,042**	$ **5,111,396**
Less goodwill	(11,031)	(11,031)
Less other intangible assets, net	(1,242)	(1,597)
Tangible assets	**$ 5,474,769**	**$ 5,098,768**
Total stockholders’ equity	$ 567,748	$ 559,247
Less goodwill	(11,031)	(11,031)
Less other intangible assets, net	(1,242)	(1,597)
Tangible stockholders' equity	**$ 555,475**	**$ 546,619**
Book value per share	$ 17.69	$ 17.25
Effect of goodwill	(0.34)	(0.34)
Effect of other intangible assets	(0.04)	(0.05)
Tangible book value per share	**$ 17.31**	**$ 16.86**

Executive Overview

For the three months ended September 30, 2018, net income was $16.1 million, or $0.50 per diluted share, compared with $14.9 million, or $0.46 per diluted share, for the three months ended September 30, 2017, an increase of 7.8 percent or $1.2 million. The increase in net income was mainly due to a decrease of $3.6 million in provision for income taxes, or 36.8 percent, mainly as a result of lower pretax income and a lower effective tax rate. This decrease in provision for income taxes was partially offset by a decrease in noninterest income of $2.6 million, or 29.5 percent, mainly due to lower gains on sales of securities, disposition gains on PCI loans and sales of SBA loans.

For the first nine months of 2018, net income was $46.5 million, or $1.43 per diluted share, compared with $43.2 million, or $1.33 per diluted share, for the nine months ended September 30, 2017, an increase of 7.7 percent or $3.3 million. The increase in net income included a $4.6 million, or 3.5 percent, increase in net interest income after provision for loan and lease losses and a decrease in provision for income taxes of $9.7 million, or 35.2 percent. These changes were offset by an increase in noninterest expense of $3.4 million, or 4.0 percent, mainly due an increase in compensation expense, and a decrease in noninterest income of $7.5 million, or 29.2 percent mainly due to lower gains on disposition of PCI loans, sales of SBA loans and sales of securities.

During the third quarter of 2018, we repurchased 429,558 shares of the Company's common stock, or 1.3% of outstanding shares, under a stock repurchase program, which authorized the buy-back of up to 5%, or 1,600,000, of the Company's outstanding shares.

Other financial highlights include the following:

- Loans and leases receivable, before the allowance for loan and lease losses, were $4.58 billion at the end of the third quarter of 2018, up $278.4 million, or 6.5 percent, from $4.30 billion at the end of 2017.
- Deposits were $4.61 billion at the end of the third quarter of 2018, up $265.8 million, or 6.1 percent, from $4.35 billion at the end of 2017.
- Return on average equity increased to 10.91 percent from 10.73 percent for the three months ended September 30, 2018 and 2017, respectively, and to 10.79 from 10.62 percent for the nine months ended September 30, 2018 and

2017, respectively. Return on average assets remained consistent at 1.17 percent for the three and nine months ended 2018 compared with 1.18 percent for the three and nine months ended 2017, respectively.

Results of Operations

Net Interest Income

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

The following 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, 2018			September 30, 2017		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans and leases [(1)]	$ 4,551,284	$ 56,361	4.91%	$ 4,092,131	$ 50,265	4.87%
Securities [(2)]	589,939	3,408	2.31%	611,538	3,683	2.41%
FHLB stock	16,385	286	6.93%	16,385	286	6.93%
Interest-bearing deposits in other banks	30,368	151	1.97%	38,981	123	1.25%
Total interest-earning assets	5,187,976	60,206	4.60%	4,759,035	54,357	4.53%
Noninterest-earning assets:						
Cash and due from banks	124,072			114,108		
Allowance for loan and lease losses	(32,172)			(34,252)		
Other assets	173,589			188,813		
Total assets	**$ 5,453,465**			**$ 5,027,704**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 92,090	$ 36	0.16%	$ 90,720	$ 18	0.08%
Money market and savings	1,377,739	4,011	1.16%	1,526,951	3,311	0.86%
Time deposits	1,687,827	7,647	1.80%	1,384,724	3,742	1.07%
Total interest-bearing deposits	3,157,656	11,694	1.47%	3,002,395	7,071	0.93%
Borrowings	240,054	1,264	2.09%	67,935	198	1.16%
Subordinated debentures	117,584	1,749	5.92%	117,065	1,667	5.68%
Total interest-bearing liabilities	3,515,294	14,707	1.66%	3,187,395	8,936	1.11%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,323,688			1,257,954		
Other liabilities	29,846			30,592		
Stockholders' equity	584,637			551,763		
Total liabilities and stockholders' equity	**$ 5,453,465**			**$ 5,027,704**		
Net interest income (taxable equivalent)		**$ 45,499**			**$ 45,421**	
Cost of deposits [(3)]			**1.04%**			**0.66%**
Net interest spread (taxable equivalent basis) [(4)]			**2.94%**			**3.42%**
Net interest margin (taxable equivalent basis) [(5)]			**3.48%**			**3.79%**

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

(2) Amounts calculated on a fully taxable equivalent basis using the federal tax rate in effect for the periods presented.

(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, 2018 vs. September 30, 2017		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans and leases receivable	$ 5,651	$ 445	$ 6,096
Securities	(127)	(148)	(275)
FHLB stock	—	—	—
Interest-bearing deposits in other banks	(31)	59	28
Total interest and dividend income (taxable equivalent)	**$ 5,493**	**$ 356**	**$ 5,849**
Interest expense:			
Demand: interest-bearing	$ —	$ 18	$ 18
Money market and savings	(348)	1,048	700
Time deposits	951	2,954	3,905
Borrowings	809	256	1,065
Subordinated debentures	7	75	82
Total interest expense	**$ 1,419**	**$ 4,351**	**$ 5,770**
Change in net interest income (taxable equivalent)	**$ 4,074**	**$ (3,995)**	**$ 79**

Interest and dividend income, on a taxable equivalent basis, increased $5.8 million, or 10.8 percent, to $60.2 million for the three months ended September 30, 2018 from $54.4 million for the same period in 2017. Interest expense also increased $5.8 million, or 64.6 percent, to $14.7 million for the three months ended September 30, 2018 from $8.9 million for the same period in 2017. For the three months ended September 30, 2018 and 2017, net interest income, on a taxable equivalent basis, was $45.5 million and $45.4 million, respectively. Net interest income remained relatively unchanged in the 2018 third quarter compared with the same period in 2017 mainly due to increases in rates paid on interest-bearing deposits and higher amounts of borrowings offsetting the growth in average loans and leases. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended September 30, 2018 were 2.94 percent and 3.48 percent, respectively, compared with 3.42 percent and 3.79 percent, respectively, for the same period in 2017.

Average loans and leases increased $459.2 million, or 11.2 percent, to $4.55 billion for the three months ended September 30, 2018 from $4.09 billion for the same period in 2017. Average interest-earning assets increased $428.9 million, or 9.0 percent, to $5.19 billion for the three months ended September 30, 2018 from $4.76 billion for the same period in 2017. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $327.9 million, or 10.3 percent, to $3.52 billion for the three months ended September 30, 2018, compared with $3.19 billion for the same period in 2017. The increase in average interest-bearing liabilities resulted primarily from an increase in average interest-bearing deposits of $155.3 million and average borrowings of $172.1 million, mainly due to an increase in outstanding FHLB advances in the third quarter of 2018 compared with the same period in 2017.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 7 basis points to 4.60 percent for the three months ended September 30, 2018 from 4.53 percent for the same period in 2017, primarily due to the increase in the general level of interest rates and the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 55 basis points to 1.66 percent for the three months ended September 30, 2018 from 1.11 percent for the same period in 2017, mainly due to higher market interest rates.

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, 2018			September 30, 2017		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans and leases [(1)]	$ 4,426,369	$ 161,643	4.88%	$ 3,976,021	$ 143,614	4.83%
Securities [(2)]	590,062	10,087	2.28%	574,801	10,153	2.36%
FHLB stock	16,385	858	7.00%	16,385	943	7.69%
Interest-bearing deposits in other banks	30,526	398	1.74%	41,663	323	1.04%
Total interest-earning assets	5,063,342	172,986	4.57%	4,608,870	155,033	4.50%
Noninterest-earning assets:						
Cash and due from banks	123,680			116,206		
Allowance for loan and lease losses	(32,175)			(33,550)		
Other assets	174,685			190,001		
Total assets	**$ 5,329,532**			**$ 4,881,527**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 92,009	$ 72	0.10%	$ 94,040	$ 56	0.08%
Money market and savings	1,422,514	10,883	1.02%	1,489,302	9,200	0.83%
Time deposits	1,561,541	17,989	1.54%	1,293,412	9,431	0.97%
Total interest-bearing deposits	3,076,064	28,944	1.26%	2,876,754	18,687	0.87%
Borrowings	211,264	2,959	1.87%	118,736	714	0.80%
Subordinated debentures	117,455	5,170	5.86%	88,604	3,677	5.52%
Total interest-bearing liabilities	3,404,783	37,073	1.46%	3,084,094	23,078	1.00%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,318,713			1,224,886		
Other liabilities	30,140			29,044		
Stockholders' equity	575,896			543,503		
Total liabilities and stockholders' equity	**$ 5,329,532**			**$ 4,881,527**		
Net interest income (taxable equivalent)		**$ 135,913**			**$ 131,955**	
Cost of deposits [(3)]			**0.88%**			**0.61%**
Net interest spread (taxable equivalent basis) [(4)]			**3.11%**			**3.50%**
Net interest margin (taxable equivalent basis) [(5)]			**3.59%**			**3.83%**

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

(2) *Amounts calculated on a fully taxable equivalent basis using the federal tax rate in effect for the periods presented.*

(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, 2018 vs. September 30, 2017		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
		(in thousands)	
Interest and dividend income:			
Loans and leases receivable	$ 16,519	$ 1,510	$ 18,029
Securities	273	(339)	(66)
FHLB stock	—	(85)	(85)
Interest-bearing deposits in other banks	(103)	178	75
Total interest and dividend income (taxable equivalent)	**$ 16,689**	**$ 1,264**	**$ 17,953**
Interest expense:			
Demand: interest-bearing	$ —	$ 16	$ 16
Money market and savings	42	1,641	1,683
Time deposits	2,233	6,325	8,558
Borrowings	828	1,417	2,245
Subordinated debentures	1,255	238	1,493
Total interest expense	**$ 4,358**	**$ 9,637**	**$ 13,995**
Change in net interest income (taxable equivalent)	**$ 12,331**	**$ (8,373)**	**$ 3,958**

Interest and dividend income, on a taxable equivalent basis, increased $18.0 million, or 11.6 percent, to $173.0 million for the nine months ended September 30, 2018 from $155.0 million for the same period in 2017. Interest expense increased $14.0 million, or 60.6 percent, to $37.1 million for the nine months ended September 30, 2018 from $23.1 million for the same period in 2017. For the nine months ended September 30, 2018 and 2017, net interest income, on a taxable equivalent basis, was $135.9 million and $132.0 million, respectively, an increase of $4.0 million or 3.0 percent. The change in net interest income for the first nine months in the 2018 compared with the same period in 2017 was mainly due to growth in average loans and leases offset by increases in rates paid on interest-bearing liabilities and higher amounts of time deposits, borrowings and debentures. The net interest spread and net interest margin, on a taxable equivalent basis, for the nine months ended September 30, 2018 were 3.11 percent and 3.59 percent, respectively, compared with 3.50 percent and 3.83 percent, respectively, for the same period in 2017.

Average loans and leases increased $450.3 million, or 11.3 percent, to $4.43 billion for the nine months ended September 30, 2018 from $3.98 billion for the same period in 2017. Average interest-earning assets increased $454.5 million, or 9.9 percent, to $5.06 billion for the nine months ended September 30, 2018 from $4.61 billion for the same period in 2017. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $320.7 million, or 10.4 percent, to $3.40 billion for the nine months ended September 30, 2018, compared with $3.08 billion for the same period in 2017. The increase in average interest-bearing liabilities resulted primarily from increases in average interest-bearing deposits of $199.3 million, average borrowings of $92.5 million and average subordinated debentures of $28.9 million in the first nine months of 2018 compared with the same period in 2017.

The average yield on interest earning assets, on a taxable equivalent basis, increased 7 basis points to 4.57 percent for the nine months ended September 30, 2018 from 4.50 percent for the same period in 2017, primarily due to the increase in the general level of interest rates and the mix of interest earning assets. The average cost of interest-bearing liabilities increased by 46 basis points to 1.46 percent for the nine months ended September 30, 2018 from 1.00 percent for the same period in 2017, mainly due to higher market interest rates and the mix of interest-bearing liabilities.

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 $0.2 million and $0.3 million for the three months ended September 30, 2018 and 2017, respectively. There was no change in the allowance for losses on off-balance sheet items for the three months ended September 30, 2018 compared with $0.2 million income recognized for the three months ended September 30, 2017.

The provision for loan and lease losses was $0.9 million and $0.6 million for the nine months ended September 30, 2018 and 2017, respectively. The charge to other noninterest expense for losses on off-balance sheet items was $0.1 million for the nine months ended September 30, 2018 compared with $0.3 million income recognized for the nine months ended September 30, 2017.

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)	
	2018	**2017**	**Amount**	**Percentage**
	(dollars in thousands)			
Service charges on deposit accounts	$ 2,513	$ 2,678	$ (165)	(6.2)%
Trade finance and other service charges and fees	1,128	1,133	(5)	(0.4)%
Servicing income	673	644	29	4.5 %
Bank-owned life insurance income	285	286	(1)	(0.3)%
All other operating income	462	283	179	63.3 %
Subtotal service charges, fees and other income	5,061	5,024	37	0.7 %
Gain on sale of SBA loans	1,114	2,546	(1,432)	(56.2)%
Disposition gains on PCI loans	21	979	(958)	(97.9)%
Net gain on sales of securities	19	267	(248)	(92.9)%
Total noninterest income	**$ 6,215**	**$ 8,816**	**$ (2,601)**	(29.5)%

For the three months ended September 30, 2018, noninterest income was $6.2 million, a decrease of $2.6 million, or 29.5 percent, compared with $8.8 million for the same period in 2017. The decrease was primarily attributable to a decrease of $1.4 million, or 56.2 percent, in gains recognized on sale of SBA loans, a decrease of $1.0 million, or 97.9 percent, in disposition gains on PCI loans and a decrease in gains on sales of securities of $0.3 million, or 92.9 percent, in the third quarter of 2018 compared with the same quarter a year ago. In the third quarter of 2018, sales of the guaranteed portion of SBA loans were $19.8 million, compared with $32.5 million for the same period a year ago.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$ 7,352	$ 7,667	$ (315)	(4.1)%
Trade finance and other service charges and fees	3,449	3,449	—	— %
Servicing income	1,755	2,067	(312)	(15.1)%
Bank-owned life insurance income	819	828	(9)	(1.1)%
All other operating income	1,050	1,869	(819)	(43.8)%
Subtotal service charges, fees and other income	14,425	15,880	(1,455)	(9.2)%
Gain on sale of SBA loans	3,970	6,678	(2,708)	(40.6)%
Disposition gains on PCI loans	166	1,702	(1,536)	(90.2)%
Net (loss) gain on sales of securities	(341)	1,473	(1,814)	(123.2)%
Total noninterest income	**$ 18,220**	**$ 25,733**	**$ (7,513)**	(29.2)%

For the nine months ended September 30, 2018, noninterest income was $18.2 million, a decrease of $7.5 million, or 29.2 percent, compared with $25.7 million for the same period in 2017. The decrease was primarily attributable to a decrease of $2.7 million, or 40.6 percent, in gains recognized on sale of SBA loans, a decrease of $1.5 million, or 90.2 percent, in disposition gains on PCI loans and a net loss of $0.3 million on sale of securities in the first nine months of 2018 compared with securities gains of $1.5 million for the same period a year ago. In addition, 2017 all other operating income included $0.4 million of upcharge income. For the first nine months of 2018, sales of the guaranteed portion of SBA loans were $58.0 million, compared with $84.5 million for the same period a year ago. The $0.3 million loss on sale of securities in 2018 primarily resulted from the sale of $22.0 million of mutual funds in the first quarter of 2018 and the $1.5 million gain on sales of securities in 2017 mainly resulted from the sales of municipal securities.

Noninterest Expense

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

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 17,436	$ 16,947	$ 489	2.9 %
Occupancy and equipment	3,685	3,883	(198)	(5.1)%
Data processing	1,745	1,779	(34)	(1.9)%
Professional fees	1,626	1,210	416	34.4 %
Supplies and communications	805	755	50	6.6 %
Advertising and promotion	814	1,147	(333)	(29.0)%
Merger and integration costs (income)	466	—	466	100.0 %
All other operating expenses	2,431	2,939	(508)	(17.3)%
Total noninterest expense	**$ 29,008**	**$ 28,660**	**$ 348**	1.2 %

For the three months ended September 30, 2018, noninterest expense was $29.0 million, an increase of $0.3 million or 1.2 percent, compared with $28.7 million for the same period in 2017. The increase was due primarily to a $0.5 million, or 2.9 percent, increase in salaries and employee benefits, a $0.4 million increase in professional fees and $0.5 million in merger and integration costs associated with the terminated SWNB acquisition, offset by lower occupancy and equipment, advertising and promotion and other operating expenses for the three months ended September 30, 2018 compared with the same period in 2017. The increase in salaries and employee benefits in 2018 compared with 2017 was mainly due to merit increases and approximately 3.6 percent increase in headcount from September 30, 2017 to September 30, 2018.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 53,590	$ 50,674	$ 2,916	5.8 %
Occupancy and equipment	11,839	11,743	96	0.8 %
Data processing	4,976	5,148	(172)	(3.3)%
Professional fees	4,210	3,912	298	7.6 %
Supplies and communications	2,206	2,135	71	3.3 %
Advertising and promotion	2,724	2,964	(240)	(8.1)%
Merger and integration costs (income)	846	(40)	886	2,215.0 %
All other operating expenses	7,883	8,307	(424)	(5.1)%
Total noninterest expense	**$ 88,274**	**$ 84,843**	**$ 3,431**	4.0 %

For the nine months ended September 30, 2018, noninterest expense was $88.3 million, an increase of $3.4 million or 4.0 percent, compared with $84.8 million for the same period in 2017. The increase was due primarily to a $2.9 million, or 5.8 percent, increase in salaries and employee benefits, $0.8 million in merger and integration costs associated with the terminated SWNB acquisition and a $0.3 million increase in professional fees for the nine months ended September 30, 2018 compared with the same period in 2017. The increase in salaries and employee benefits in 2018 compared with 2017 was mainly due to merit increases and approximately 3.6 percent increase in headcount from September 30, 2017 to September 30, 2018.

Income Tax Expense

Income tax expense was $6.3 million and $9.9 million representing an effective income tax rate of 28.0 percent and 39.9 percent for the three months ended September 30, 2018 and 2017, respectively. Income tax expense was $17.9 million and $27.6 million representing an effective income tax rate of 27.8 percent and 39.0 percent for the nine months ended September 30, 2018 and 2017, respectively. The decreases in the effective tax rates in 2018 compared with 2017 are due to a lower federal tax rate as a result of the passage of the tax reform in December 2017.

Financial Condition

Securities

As of September 30, 2018, 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 September 30, 2018 and December 31, 2017.

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

	September 30, 2018			December 31, 2017		
	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	$ 308,054	$ 298,386	$ (9,668)	$ 306,166	$ 303,609	$ (2,557)
Collateralized mortgage obligations	121,541	117,655	(3,886)	119,658	117,768	(1,890)
U.S. government agency securities	7,499	7,352	(147)	7,499	7,414	(85)
Municipal bonds-tax exempt	111,328	109,278	(2,050)	125,601	127,475	1,874
U.S. treasury securities	39,675	39,565	(110)	152	152	—
Mutual funds	—	—	—	22,916	22,386	(530)
Total securities available for sale	**$ 588,097**	**$ 572,236**	**$ (15,861)**	**$ 581,992**	**$ 578,804**	**$ (3,188)**

As of September 30, 2018, securities available for sale decreased $6.6 million or 1.1 percent to $572.2 million, compared with $578.8 million as of December 31, 2017. This decrease was due mainly to sale of all of our mutual funds and an increase in unrealized losses, offset by purchases of mortgage-backed securities and collateralized mortgage obligations. As of September 30, 2018, securities available for sale had a net unrealized loss of $15.9 million, comprised of $0.1 million of unrealized gains and $16.0 million of unrealized losses. As of December 31, 2017, securities available for sale had a net unrealized loss of $3.2 million, comprised of $2.1 million of unrealized gains and $5.3 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of September 30, 2018:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$ 2	3.53%	$ 57,408	2.18%	$ 69,140	2.19%	$ 181,504	2.48%	$ 308,054	2.34%
Collateralized mortgage obligations	—	—%	3,332	1.47%	14,198	1.64%	104,011	2.13%	121,541	2.12%
U.S. government agency securities	3,000	1.20%	4,499	1.73%	—	—%	—		7,499	1.52%
Municipal bonds-tax exempt(1)	—	—%	15,313	2.28%	70,438	2.74%	25,577	3.38%	111,328	2.84%
U.S. treasury securities	14,716	2.42%	24,959	2.66%	—	—%	—	—%	39,675	
Total securities available for sale	**$ 17,718**	**1.72%**	**$ 105,511**	**2.27%**	**$ 153,776**	**2.39%**	**$ 311,092**	**2.44%**	**$ 588,097**	**2.39%**

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

Loans and Leases Receivable, Net

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

	September 30, 2018	December 31, 2017
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 924,007	$ 915,273
Hospitality	809,287	681,325
Other [(1)]	1,474,406	1,417,273
Total commercial property loans	3,207,700	3,013,871
Construction	67,682	55,190
Residential property	516,968	521,853
Total real estate loans	3,792,350	3,590,914
Commercial and industrial loans:		
Commercial term	186,249	182,685
Commercial lines of credit	178,570	181,894
International loans	31,564	34,622
Total commercial and industrial loans	396,383	399,201
Leases receivable	379,455	297,284
Consumer loans [(2)]	14,695	17,059
Loans and leases receivable	**4,582,883**	**4,304,458**
Allowance for loan and lease losses	(31,676)	(31,043)
Loans and leases receivable, net	**$ 4,551,207**	**$ 4,273,415**

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

[(2)] *Consumer loans include home equity lines of credit of $10.9 million and $14.2 million as of September 30, 2018 and December 31, 2017, respectively.*

As of September 30, 2018 and December 31, 2017, net loans and leases receivable were $4.55 billion and $4.27 billion, respectively, representing an increase of $277.8 million, or 6.5 percent. The increase in loans and leases as of September 30, 2018 compared with December 31, 2017 was primarily attributable to new loan and lease production and purchases of $801.1 million, an increase of 2.9 percent compared with new loan and lease production and purchases of $778.8 million for the first nine months of 2017. The additions to loans and leases were offset by payoffs and pay downs of $520.3 million during the first nine months of 2018.

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, 2018	Percentage of Loans and Leases Outstanding
	(in thousands)	
Lessor of nonresidential buildings	$ 1,400,313	30.6 %
Hospitality	$ 826,160	18.0 %

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 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 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, 2018 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present 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 as of the dates indicated:

			Increase (Decrease)	
	September 30, 2018	**December 31, 2017**	**Amount**	**Percentage**
	(dollars in thousands)			
Nonperforming loans and leases:				
Real estate loans:				
Commercial property				
Retail	$ 987	$ 224	$ 763	340.6 %
Hospitality	6,121	5,263	858	16.3 %
Other	2,205	2,462	(257)	(10.4)%
Total commercial property loans	9,313	7,949	1,364	17.2 %
Residential property	142	591	(449)	(76.0)%
Total real estate loans	9,455	8,540	915	10.7 %
Commercial and industrial loans	2,974	1,892	1,082	57.2 %
Leases receivable	5,093	4,452	641	14.4 %
Consumer loans	761	921	(160)	(17.4)%
Total nonperforming loans	18,283	15,805	2,478	15.7 %
Loans 90 days or more past due and still accruing	—	—	—	— %
Total nonperforming loans and leases *(1) (2)*	**18,283**	**15,805**	**2,478**	15.7 %
OREO	877	1,946	(1,069)	(54.9)%
Total nonperforming assets	**$ 19,160**	**$ 17,751**	**$ 1,409**	7.9 %
Nonperforming loans and leases as a percentage of loans and leases	0.40 %	0.37 %		
Nonperforming assets as a percentage of assets	0.35 %	0.34 %		
Troubled debt restructured performing loans and leases	$ 6,168	$ 7,259		

(1) *Includes nonperforming TDRs of $7.3 million and $8.1 million as of September 30, 2018 and December 31, 2017, respectively.*

(2) *Does not include nonperforming PCI loans of $1.6 million and $0.9 million as of September 30, 2018 and December 31, 2017, respectively.*

Nonperforming loans and leases were $18.3 million and $15.8 million as of September 30, 2018 and December 31, 2017, respectively. During the nine months ended September 30, 2018, $11.7 million of loans and leases were placed on nonaccrual status. These additions to nonaccrual loans and leases were partially offset by $7.2 million in principal payoffs and pay downs and $1.3 million in charge-offs and transfers to OREO.

Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were $6.9 million as of September 30, 2018 compared with $11.2 million as of December 31, 2017.

The ratio of nonperforming loans and leases to loans and leases increased to 0.40 percent as of September 30, 2018 compared with 0.37 percent as of December 31, 2017. Of the $18.3 million nonperforming loans and leases, approximately $18.2 million were impaired based on the definition contained in ASC 310, Receivables, which resulted in an aggregate impairment reserve of $4.8 million as of September 30, 2018. 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, 2018, OREO consisted of 10 properties with a combined carrying value of $0.9 million, as compared with 6 properties with a combined carrying value of $1.9 million as of December 31, 2017.

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 as of the dates indicated:

	September 30, 2018		**December 31, 2017**	
	Recorded Investment	**Percentage**	**Recorded Investment**	**Percentage**
	(dollars in thousands)			
Real estate loans:				
Commercial property				
Retail	$ 3,108	10.2%	$ 1,403	5.2%
Hospitality	6,860	22.6%	6,184	22.7%
Other	8,793	29.1%	8,513	31.3%
Total commercial property loans	18,761	61.9%	16,100	59.2%
Residential property	1,835	6.0%	2,563	9.4%
Total real estate loans	20,596	67.9%	18,663	68.6%
Commercial and industrial loans	3,767	12.4%	3,039	11.2%
Leases receivable	5,093	16.8%	4,452	16.4%
Consumer loans	881	2.9%	1,029	3.8%
Total loans and leases	**$ 30,337**	**100.0%**	**$ 27,183**	**100.0%**

Total impaired loans and leases increased $3.1 million, or 11.6 percent, to $30.3 million as of September 30, 2018, from $27.2 million at December 31, 2017. Specific allowances associated with impaired loans and leases were $4.8 million and $5.9 million as of September 30, 2018 and December 31, 2017, respectively.

During the three months ended September 30, 2018 and 2017, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $0.8 million and $0.7 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, 2018 and 2017, respectively.

During the nine months ended September 30, 2018 and 2017, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $2.2 million and $1.9 million, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $1.2 million and $1.3 million for the nine months ended September 30, 2018 and 2017, respectively.

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

	September 30, 2018			December 31, 2017		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)					
Real estate loans	$ 4,874	$ 5,293	$ 10,167	$ 5,760	$ 6,033	$ 11,793
Commercial and industrial loans	1,639	778	2,417	1,529	1,118	2,647
Consumer loans	761	97	858	811	108	919
Total TDR loans	**$ 7,274**	**$ 6,168**	**$ 13,442**	**$ 8,100**	**$ 7,259**	**$ 15,359**

There were no newly restructured loans for the three months ended September 30, 2018.

As of September 30, 2018, TDRs on accrual status were $6.2 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $77 thousand 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, 2018, TDRs on nonaccrual status were $7.3 million, and a $2.7 million allowance relating to these loans was included in the allowance for loan and lease losses.

As of December 31, 2017, TDRs on accrual status were $7.3 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $21 thousand allowance relating to these loans was included in the allowance for loan and lease losses. As of December 31, 2017, TDRs on nonaccrual status were $8.1 million, and a $2.2 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. For the year ended December 31, 2017 and the first nine months of 2018, the Bank utilized a 27-quarter and 30-quarter, respectively, look-back period anchored to the first quarter of 2011, with equal weighting to all quarters. Management determined it was appropriate to anchor the look-back period in consideration of the prolonged period of low losses and the procyclical nature of provisioning. The anchoring will allow the Bank to better capture the economic cycle while improving the ability to measure losses.

To determine general reserve requirements, existing loans and leases are divided into general pools of risk-rated loans, as well as homogeneous pools. For the twelve months ended December 31, 2017 and the first nine months in 2018, 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 losses 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, 2018			December 31, 2017		
	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans
	(dollars in thousands)					
Real estate loans:						
Commercial property						
Retail	$ 3,069	9.7%	$ 924,007	$ 2,729	8.8%	$ 915,273
Hospitality	7,009	22.1%	809,287	5,922	19.1%	681,325
Other	5,717	18.0%	1,474,406	5,722	18.4%	1,417,273
Total commercial property loans	15,795	49.8%	3,207,700	14,373	46.3%	3,013,871
Construction	1,177	3.7%	67,682	796	2.6%	55,190
Residential property	1,117	3.5%	516,968	1,843	5.9%	521,853
Total real estate loans	18,089	57.0%	3,792,350	17,012	54.8%	3,590,914
Commercial and industrial loans:						
Commercial term	5,212	16.5%	186,249	5,001	16.1%	182,685
Commercial lines of credit	1,632	5.2%	178,570	2,070	6.7%	181,894
International loans	243	0.8%	31,564	329	1.1%	34,622
Total commercial and industrial loans	7,087	22.5%	396,383	7,400	23.9%	399,201
Leases receivable	6,391	20.2%	379,455	6,279	20.2%	297,284
Consumer loans	109	0.3%	14,695	122	0.4%	17,059
Unallocated	—	—%	—	230	0.7%	—
Total	**$ 31,676**	**100.0%**	**$ 4,582,883**	**$ 31,043**	**100.0%**	**$ 4,304,458**

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 31,818	$ 33,758	$ 31,043	$ 32,429
Charge-offs	(1,246)	(2,405)	(3,535)	(3,256)
Recoveries on loans previously charged off	904	871	3,219	2,709
Net loan (charge-offs) recoveries	(342)	(1,534)	(316)	(547)
Loan and lease loss provision	200	268	949	610
Balance at end of period	**$ 31,676**	**$ 32,492**	**$ 31,676**	**$ 32,492**
Allowance for off-balance sheet items:				
Balance at beginning of period	$ 1,357	$ 1,135	$ 1,296	$ 1,184
Provision (income)	—	(220)	61	(269)
Balance at end of period	**$ 1,357**	**$ 915**	**$ 1,357**	**$ 915**
Net loan and lease (charge-offs) recoveries to average loans and leases[(1)]	(0.03)%	(0.15)%	(0.01)%	(0.02)%
Average loans and leases during period	$ 4,551,284	$ 4,092,131	$ 4,551,284	$ 3,976,021

	As of	
	September 30, 2018	December 31, 2017
Ratios:	*(dollars in thousands)*	
Allowance for loan and lease losses to loans and leases	0.69 %	0.72 %
Nonperforming loans and leases to loans and leases	0.40 %	0.37 %
Allowance for loan and lease losses to nonperforming loans and leases	173.25 %	196.41 %
Balance:		
Allowance for loan and lease losses at end of period	$ 31,676	$ 31,043
Nonperforming loans and leases at end of period	$ 18,283	$ 15,805
Loans and leases at end of period	$ 4,582,883	$ 4,304,458

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

Allowance for loan and lease losses was $31.7 million and $31.0 million as of September 30, 2018 and December 31, 2017, respectively. The increase of $0.7 million, or 2.0 percent, in the allowance for loan and lease losses was due primarily to the increase in loan and lease receivables. The provision for loan and lease losses was $0.2 million and $0.3 million for the three months ended September 30, 2018 and 2017, respectively. Charge-offs of $1.2 million were offset by recoveries of $0.9 million for the three months ended September 30, 2018 compared with charge-offs of $2.4 million and recoveries of $0.9 million for the three months ended September 30, 2017.

The provision for loan and lease losses was $0.9 million and $0.6 million for the nine months ended September 30, 2018 and 2017, respectively. Charge-offs of $3.5 million were offset by recoveries of $3.2 million for the nine months ended September 30, 2018 compared with charge-offs of $3.3 million and recoveries of $2.7 million for the nine months ended September 30, 2017.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, was $1.4 million and $1.3 million as of September 30, 2018 and December 31, 2017, 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, 2018.

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

	For the Three Months Ended			For the Nine Months Ended		
	Charge-offs	Recoveries	Net Charge-offs (Recoveries)	Charge-offs	Recoveries	Net Charge-offs (Recoveries)
	(in thousands)					
September 30, 2018						
Real estate loans	$ 220	$ 577	$ (357)	$ 1,249	$ 1,833	$ (584)
Commercial and industrial loans	232	237	(5)	597	1,170	(573)
Leases receivable	794	90	704	1,689	214	1,475
Consumer loans	—	—	—	—	2	(2)
Total loans	**$ 1,246**	**$ 904**	**$ 342**	**$ 3,535**	**$ 3,219**	**$ 316**
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 loans	**$ 2,405**	**$ 871**	**$ 1,534**	**$ 3,256**	**$ 2,709**	**$ 547**

Net charge-offs of $0.3 million for the three months ended September 30, 2018, compared with a net charge-offs of $1.5 million for the same period in 2017 represented a decrease of $1.2 million, or 77.7 percent. Net charge-offs of $0.3 million for the nine months ended September 30, 2018, compared with a net charge-offs of $0.5 million for the same period in 2017 represented a decrease of $0.2 million, or 42.2 percent.

Deposits

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

	September 30, 2018		December 31, 2017	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Demand – noninterest-bearing	$ 1,313,777	28.5 %	$ 1,312,274	30.2 %
Interest-bearing:				
Demand	90,586	2.0 %	92,948	2.1 %
Money market and savings	1,478,631	32.0 %	1,527,100	35.1 %
Time deposits of $100,000 or more *(1)*	1,514,341	32.8 %	1,131,789	26.0 %
Other time deposits	217,087	4.7 %	284,543	6.6 %
Total deposits	**$ 4,614,422**	**100.0 %**	**$ 4,348,654**	**100.0 %**

(1) *Includes $298.0 million and $462.2 million of time deposits of $250,000 or more as of September 30, 2018 and December 31, 2017, respectively.*

Deposits increased $265.8 million, or 6.1 percent, to $4.61 billion as of September 30, 2018 from $4.35 billion as of December 31, 2017. The increase in deposits was mainly attributable to the $315.1 million, or 22.2 percent increase in time deposits, offset by a decrease of $48.5 million, or 3.2 percent, in money market and savings deposits.

Borrowings and Subordinated Debentures

At September 30, 2018 and December 31, 2017, there were $160.0 million and $150.0 million in overnight advances from the FHLB, respectively. In addition, subordinated debentures were $117.7 million and $117.3 million at September 30, 2018 and December 31, 2017, respectively.

Interest Rate Risk Management

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

The Company performs simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below). 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%	$ 6,184	3.27%	$ 8,240	4.25%
200%	$ 4,024	2.13%	$ 5,298	2.73%
100%	$ 2,330	1.23%	$ 3,392	1.75%
(100)%	$ (6,450)	(3.41)%	$ (12,227)	(6.30)%

	Economic Value of Equity (EVE)	
Change in Interest Rate	**Dollar Change**	**Percentage Change**
	(dollars in thousands)	
300%	$ (8,678)	(1.33)%
200%	$ (6,256)	(0.96)%
100%	$ (1,139)	(0.17)%
(100)%	$ (25,135)	(3.85)%

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, 2018, the Bank's total risk-based capital ratio of 14.76 percent, Tier 1 risk-based capital ratio of 14.05 percent, common equity Tier 1 capital ratio of 14.05 percent and Tier 1 leverage capital ratio of 12.11 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, 2018, the Company's total risk-based capital ratio was 15.01 percent, Tier 1 risk-based capital ratio was 12.21 percent, common equity Tier 1 capital ratio was 11.79 percent and Tier 1 leverage capital ratio was 10.53 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 2017 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, 2018, the Bank had $160.0 million of FHLB advances and $300.6 million of brokered deposits.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30% of its assets. As of September 30, 2018, the total borrowing capacity available based on pledged collateral and remaining available borrowing capacity were $933.4 million and $663.4 million, respectively, compared to $802.9 million and $652.9 million, respectively, as of December 31, 2017. The Bank also had three unsecured federal funds lines totaling $115.0 million with no outstanding balances as of September 30, 2018.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $17.4 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $18.1 million, and had no borrowings under this source as of September 30, 2018.

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 2017 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2017 Annual Report on Form 10-K.

Recently Issued Accounting Standards

FASB ASU 2016-02, ***Leases (Topic 842)***, issued in February 2016, requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on January 1, 2019, with early adoption permitted. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. We expect to elect the “package of practical expedients,” which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new ROU assets and lease liabilities on our balance sheet for our real estate operating leases. We do not expect a significant change in our leasing activities between now and adoption and we do not expect that this standard will have a material effect on our consolidated financial statements.

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. The Company has established a steering committee overseeing a multidisciplinary project team, developed an implementation roadmap, selected a software solution, is in the process of completing a readiness assessment, and is engaged in the implementation phase of the project. The Company, with the assistance of a third party adviser, is working on: (1) developing a new expected loss model with supportable assumptions; (2) identifying data, reporting, and disclosure gaps; (3) assessing updates to accounting and credit risk policies; and (4) documenting new processes and controls. We are still evaluating the impact of this ASU on our 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 does not expect the adoption of this ASU to have a material effect 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 2017-12, ***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, 2018, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer). The purpose of the disclosure controls and procedures is to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that Hanmi Financial's disclosure controls and procedures were effective as of September 30, 2018.

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 2017 Annual Report on Form 10-K.

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

During the three months ended September 30, 2018, the Company acquired 804 shares from employees in connection with the satisfaction of income tax withholding obligations incurred through vesting of Company stock awards. In addition, the following table presents stock purchases made in respect of the stock repurchase program announced on August 30, 2018 that authorized the buy-back of up to 5%, or 1,600,000, of our shares outstanding. The repurchase program will continue until it is completed or terminated by the Company's Board of Directors.

Purchase Dates:	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Program**	**Maximum Shares That May Yet Be Purchased Under the Program**
July 1, 2018 - July 31, 2018	$ —	—	—
August 1, 2018 - August 31, 2018	$ —	—	—
September 1, 2018 - September 30, 2018	$ 25.89	429,558	1,170,442
Total	**$ 25.89**	**429,558**	**1,170,442**

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
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, 2018	By:	/s/ *C. G. Kum*
			C. G. Kum *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, 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, 2018

/s/ *C. G. Kum*
C. G. Kum
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, 2018

/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, 2018, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, C. G. Kum, 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, 2018	/s/ *C. G. Kum*
		C. G. Kum
		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, 2018, 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, 2018	/s/ *Romolo C. Santarosa*
		Romolo C. Santarosa
		Senior Executive Vice President and Chief Financial Officer

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