# 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 June 30, 2019**

**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)**

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | 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 September 27, 2019, there were31,173,881 outstanding shares of the Registrant's Common Stock.

**Hanmi Financial Corporation and Subsidiaries**
**Quarterly Report on Form 10-Q**
**Three and Six Months Ended June 30, 2019**

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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) June 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 130,851 | $ 155,376 |
| Securities available for sale, at fair value (amortized cost of $636,657 as of June 30, 2019 and $583,444 as of December 31, 2018) | 639,995 | 574,908 |
| Loans held for sale, at the lower of cost or fair value | 6,029 | 9,390 |
| Loans and leases receivable, net of allowance for loan and lease losses of $49,386 as of June 30, 2019 and $31,974 as of December 31, 2018 | 4,506,416 | 4,568,566 |
| Accrued interest receivable | 12,946 | 13,331 |
| Premises and equipment, net | 26,698 | 27,752 |
| Customers' liability on acceptances | 849 | 173 |
| Servicing assets | 7,567 | 8,520 |
| Goodwill and other intangible assets, net | 12,028 | 12,182 |
| Federal Home Loan Bank ("FHLB") stock, at cost | 16,385 | 16,385 |
| Bank-owned life insurance | 52,222 | 51,661 |
| Prepaid expenses and other assets | 99,766 | 63,975 |
| **Total assets** | **$ 5,511,752** | **$ 5,502,219** |
| **Liabilities and stockholders' equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 1,312,577 | $ 1,284,530 |
| Interest-bearing | 3,449,491 | 3,462,705 |
| Total deposits | 4,762,068 | 4,747,235 |
| Accrued interest payable | 11,438 | 11,379 |
| Bank's liability on acceptances | 849 | 173 |
| Borrowings | — | 55,000 |
| Subordinated debentures | 118,087 | 117,808 |
| Accrued expenses and other liabilities | 54,852 | 18,056 |
| **Total liabilities** | **4,947,294** | **4,949,651** |
| Stockholders' equity: | | |
| Preferred Stock, $0.001 par value; authorized 10,000,000 shares; no shares issued as of June 30, 2019 and December 31, 2018 | — | — |
| Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,271,832 shares (30,975,163 shares outstanding) as of June 30, 2019 and issued 33,202,369 shares (30,928,437 shares outstanding) as of December 31, 2018 | 33 | 33 |
| Additional paid-in capital | 571,105 | 569,712 |
| Accumulated other comprehensive Income (loss), net of tax expense of $961 as of June 30, 2019 and benefit of $2,457 as of December 31, 2018 | 2,375 | (6,079) |
| Retained earnings | 100,021 | 97,539 |
| Less: treasury stock, at cost; 2,296,669 shares as of June 30, 2019 and 2,273,932 shares as of December 31, 2018 | (109,076) | (108,637) |
| **Total stockholders' equity** | **564,458** | **552,568** |
| **Total liabilities and stockholders' equity** | **$ 5,511,752** | **$ 5,502,219** |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Interest and dividend income: | | | | |
| Interest and fees on loans and leases | $ 56,872 | $ 53,708 | $ 115,206 | $ 105,283 |
| Interest on securities | 3,770 | 3,198 | 7,226 | 6,302 |
| Dividends on FHLB stock | 283 | 283 | 572 | 572 |
| Interest on deposits in other banks | 557 | 133 | 892 | 247 |
| Total interest and dividend income | 61,482 | 57,322 | 123,896 | 112,404 |
| Interest expense: | | | | |
| Interest on deposits | 16,728 | 9,465 | 32,410 | 17,250 |
| Interest on borrowings | — | 1,015 | 72 | 1,694 |
| Interest on subordinated debentures | 1,764 | 1,728 | 3,536 | 3,421 |
| Total interest expense | 18,492 | 12,208 | 36,018 | 22,365 |
| Net interest income before provision for loan and lease losses | 42,990 | 45,114 | 87,878 | 90,039 |
| Loan and lease loss provision | 16,699 | 100 | 17,816 | 749 |
| Net interest income after provision for loan and lease losses | 26,291 | 45,014 | 70,062 | 89,290 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 2,486 | 2,328 | 4,844 | 4,839 |
| Trade finance and other service charges and fees | 1,204 | 1,149 | 2,328 | 2,322 |
| Gain on sales of Small Business Administration (“SBA”) loans | 1,060 | 1,408 | 1,986 | 2,856 |
| Net gain (loss) on sales of securities | 570 | 67 | 1,295 | (361) |
| Other operating income | 2,409 | 993 | 3,530 | 2,350 |
| Total noninterest income | 7,729 | 5,945 | 13,983 | 12,006 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 16,881 | 17,453 | 32,619 | 36,155 |
| Occupancy and equipment | 3,468 | 4,082 | 7,989 | 8,154 |
| Data processing | 2,140 | 1,554 | 4,223 | 3,231 |
| Professional fees | 1,983 | 1,214 | 3,632 | 2,583 |
| Supplies and communications | 649 | 693 | 1,493 | 1,401 |
| Advertising and promotion | 945 | 1,034 | 1,705 | 1,911 |
| Other operating expenses | 4,078 | 3,480 | 7,549 | 5,833 |
| Total noninterest expense | 30,144 | 29,510 | 59,210 | 59,268 |
| Income before income tax expense | 3,876 | 21,449 | 24,835 | 42,028 |
| Income tax expense | 1,220 | 5,901 | 7,507 | 11,625 |
| **Net income** | **$ 2,656** | **$ 15,548** | **$ 17,328** | **$ 30,403** |
| Basic earnings per share | $ 0.09 | $ 0.48 | $ 0.56 | $ 0.94 |
| Diluted earnings per share | $ 0.09 | $ 0.48 | $ 0.56 | $ 0.94 |
| Weighted-average shares outstanding: | | | | |
| Basic | 30,685,301 | 32,189,096 | 30,688,698 | 32,167,111 |
| Diluted | 30,727,681 | 32,336,775 | 30,729,020 | 32,316,648 |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Net income** | **$ 2,656** | **$ 15,548** | **$ 17,328** | **$ 30,403** |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on securities: | | | | |
| Unrealized holding gain (loss) arising during period | 6,548 | (1,502) | 13,167 | (10,366) |
| Less: reclassification adjustment for net gain included in net income | (570) | (67) | (1,295) | (67) |
| Income tax (expense) benefit related to items of other comprehensive income | (1,721) | 452 | (3,418) | 2,995 |
| Other comprehensive income (loss), net of tax | 4,257 | (1,117) | 8,454 | (7,438) |
| **Comprehensive income** | **$ 6,913** | **$ 14,431** | **$ 25,782** | **$ 22,965** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

## Hanmi Financial Corporation and Subsidiaries
## Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
## For the Three Months Ended June 30,
*(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 April 1, 2018** | **33,167,768** | **(665,110)** | **32,502,658** | **$ 33** | **$ 567,081** | **$ (8,207)** | **$ 77,691** | **$ (72,320)** | **$ 564,278** |
| Restricted stock awards, net of forfeitures | 17,428 | — | 17,428 | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 930 | — | — | — | 930 |
| Restricted stock surrendered due to employee tax liability | — | (6,568) | (6,568) | — | — | — | — | (158) | (158) |
| Cash dividends declared: | | | | | | | | | |
| Common Stock, $0.24/share | — | — | — | — | — | — | (7,774) | — | (7,774) |
| Net income | — | — | — | — | — | — | 15,548 | — | 15,548 |
| Change in unrealized loss on securities available for sale, net of income taxes | — | — | — | — | — | (1,117) | — | — | (1,117) |
| **Balance at June 30, 2018** | **33,185,196** | **(671,678)** | **32,513,518** | **33** | **568,011** | **(9,324)** | **85,465** | **(72,478)** | **571,707** |
| **Balance at April 1, 2019** | **33,153,888** | **(2,293,355)** | **30,860,533** | **$ 33** | **$ 570,432** | **$ (1,882)** | **$ 104,771** | **$ (109,062)** | **$ 564,292** |
| Stock options exercised | 1,250 | — | 1,250 | — | 13 | — | — | — | 13 |
| Restricted stock awards, net of forfeitures | 116,694 | — | 116,694 | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 660 | — | — | — | 660 |
| Restricted stock surrendered due to employee tax liability | — | (3,314) | (3,314) | — | — | — | — | (14) | (14) |
| Cash dividends declared: | | | | | | | | | |
| Common Stock, $0.24/share | — | — | — | — | — | — | (7,406) | — | (7,406) |
| Net income | — | — | — | — | — | — | 2,656 | — | 2,656 |
| Change in unrealized gain on securities available for sale, net of income taxes | — | — | — | — | — | 4,257 | — | — | 4,257 |
| **Balance at June 30, 2019** | **33,271,832** | **(2,296,669)** | **30,975,163** | **$ 33** | **$ 571,105** | **$ 2,375** | **$ 100,021** | **$ (109,076)** | **$ 564,458** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

**Hanmi Financial Corporation and Subsidiaries**
**Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**
**For the Six Months Ended June 30,**
*(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, 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 | 76,313 | — | 76,313 | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 1,814 | — | — | — | 1,814 |
| Restricted stock surrendered due to employee tax liability | — | (20,172) | (20,172) | — | — | — | — | (589) | (589) |
| Cash dividends declared: | | | | | | | | | |
| Common Stock, $0.24/share | — | — | — | — | — | — | (15,530) | — | (15,530) |
| Net income | — | — | — | — | — | — | 30,403 | — | 30,403 |
| Change in unrealized loss on securities available for sale, net of income taxes | — | — | — | — | — | (7,438) | — | — | (7,438) |
| **Balance at June 30, 2018** | **33,185,196** | **(671,678)** | **32,513,518** | **$ 33** | **$ 568,011** | **$ (9,324)** | **$ 85,465** | **$ (72,478)** | **$ 571,707** |
| **Balance at January 1, 2019** | **33,202,369** | **(2,273,932)** | **30,928,437** | **$ 33** | **$ 569,712** | **$ (6,079)** | **$ 97,539** | **$ (108,637)** | **$ 552,568** |
| Stock options exercised | 1,900 | — | 1,900 | — | 22 | — | — | — | 22 |
| Restricted stock awards, net of forfeitures | 67,563 | — | 67,563 | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 1,371 | — | — | — | 1,371 |
| Restricted stock surrendered due to employee tax liability | — | (22,737) | (22,737) | — | — | — | — | (439) | (439) |
| Cash dividends declared: | | | | | | | | | |
| Common Stock, $0.24/share | — | — | — | — | — | — | (14,846) | — | (14,846) |
| Net income | — | — | — | — | — | — | 17,328 | — | 17,328 |
| Change in unrealized gain on securities available for sale, net of income taxes | — | — | — | — | — | 8,454 | — | — | 8,454 |
| **Balance at June 30, 2019** | **33,271,832** | **(2,296,669)** | **30,975,163** | **$ 33** | **$ 571,105** | **$ 2,375** | **$ 100,021** | **$ (109,076)** | **$ 564,458** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Cash flows from operating activities:** | | |
| **Net income** | **$ 17,328** | **$ 30,403** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,694 | 5,228 |
| Share-based compensation expense | 1,371 | 1,814 |
| Loan and lease loss provision | 17,816 | 749 |
| (Gain) loss on sales of securities | (1,295) | 361 |
| Gain on sales of SBA loans | (1,986) | (2,856) |
| Loss (gain) on disposition of fixed assets | (1,191) | — |
| Origination of SBA loans held for sale | (27,523) | (37,367) |
| Proceeds from sales of SBA loans | 32,856 | 41,852 |

| | | |
|---|---|---|
| Change in accrued interest receivable | 385 | (170) |
| Change in bank-owned life insurance | (561) | (533) |
| Change in prepaid expenses and other assets | (2,461) | 1,705 |
| Change in accrued interest payable | 59 | 466 |
| Change in accrued expenses and other liabilities | (1,560) | (2,618) |
| **Net cash provided by operating activities** | **37,932** | **39,034** |
| **Cash flows from investing activities:** | | |
| Proceeds from matured, called and repayment of securities | 63,528 | 48,695 |
| Proceeds from sales of securities available for sale | 113,306 | 31,325 |
| Proceeds from sales of other real estate owned ("OREO") | 22 | 1,902 |
| Proceeds from disposition of fixed assets | 3,055 | — |
| Change in loans and leases receivable, excluding purchases | 43,689 | (174,621) |
| Purchases of securities available for sale | (230,112) | (80,244) |
| Purchases of premises and equipment | (515) | (969) |
| Purchases of loans and leases receivable | — | (64,806) |
| **Net cash used in investing activities** | **(7,027)** | **(238,718)** |
| **Cash flows from financing activities:** | | |
| Change in deposits | 14,833 | 77,881 |
| Change in borrowings | (55,000) | 120,000 |
| Proceeds from exercise of stock options | 22 | 570 |
| Cash paid for surrender of vested shares due to employee tax liability | (439) | (589) |
| Cash dividends paid | (14,846) | (15,530) |
| **Net cash (used in) provided by financing activities** | **(55,430)** | **182,332** |
| **Net decrease in cash and cash equivalents** | **(24,525)** | **(17,352)** |
| Cash and cash equivalents at beginning of year | 155,376 | 153,826 |
| **Cash and cash equivalents at end of period** | **$ 130,851** | **$ 136,474** |
| **Supplemental disclosures of cash flow information:** | | |
| Interest expense paid | $ 35,959 | $ 21,899 |
| Change in income taxes | $ (3,587) | $ 8,743 |
| Non-cash activities: | | |
| Transfer of loans receivable to other real estate owned | $ — | $ 334 |
| Income tax (expense) benefit related to items in other comprehensive income | $ (3,418) | $ 2,995 |
| Change in unrealized (gain) loss in accumulated other comprehensive income | $ (11,872) | $ 10,433 |
| Right-of-use asset obtained in exchange for lease liability | $ (43,110) | $ — |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

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

In management's opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended June 30, 2019, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. The unaudited consolidated financial statements are prepared in conformity with GAAP and in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report on Form 10-K").

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

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 2018 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 unaudited 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 unaudited 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 13 to the accompanying unaudited consolidated financial statements for the impact of the adoption of this new standard on the Company's consolidated financial statements.

Effective January 1, 2019, the Company adopted ASU 2016-02,*Leases (Topic 842),* which requires lessees to recognize a right of use asset and a lease liability on their balance sheet for all leases, including operating leases, with a term of greater than 12 months. In July 2018, the FASB issued ASU 2018-11, which adds a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. Under this transition option, comparative reporting would not be required, and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. The Company elected to use the optional transition method provided by ASU 2018-11. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carry forward its ASC 840 assessment regarding definition of a lease, lease classification, and initial direct costs. The following practical expedients were applied during implementation of this standard:

- We did not reassess whether any expired or existing contracts are, or contain, leases. Additionally, we did not reassess for lease classifications of expired or existing leases, or initial direct costs for any existing leases.

- We applied incremental borrowing rates as of adoption date of January 1, 2019.

- We elected to not separate non-lease components from lease components and, instead, to account for each separate lease component and the non-lease components associated with it as a single lease component recognized on the balance sheet. This election has been made for all classes of leases.

- We elected the short-term lease exception, which allows us to account for leases with a lease term of twelve months or less to be accounted for similar to existing operating leases. The cost of these leases is disclosed, but is not recognized in the right-of-use asset and lease liability balances. Consistent with ASC 842 requirements, leases that are one month or less are not included in the disclosures.

- We have elected to account for the leases under the portfolio approach applying them prospectively for this accounting change. The portfolio approach allows us to present multiple similar leased assets in a pool and prospectively allows us to commence the calculation of the portfolio of leases using the remaining commitments from adoption date forward.

See Note 14 to the unaudited consolidated financial statements for the impact of the adoption of this new standard on the Company's 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 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. On July 2 2019, the FASB voted to delay CECL's effective date for non-public companies and Small Reporting Companies who are public filers. Due to the Company's categorization as a large public filer, this delay will not have any impact on its adoption of ASU 2016-13. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has established a steering committee comprised of senior executives from the Accounting and Credit Risk functions and has engaged third party consultants to support CECL adoption activities.

The Company is currently engaged in CECL implementation activities and has completed development of its methodology, data/input gathering and validation, and initial testing of its designed models. The Company plans to leverage an approach consisting of four forecasting models aligned with the Bank's major pools of in-scope financial instruments. The Company plans to leverage multiple loss rate methodologies across the different models developed and will incorporate linear regression approaches to quantify the relationship between loan default behavior and a set of macroeconomic factors for use in model estimation.

The Company plans to perform parallel processing and review of the model outputs starting in the third quarter 2019. In addition, the Company has devised risk documentation and policies and procedures associated with CECL to support the ongoing estimation activities and the continuous assessment of risks related to the methodology and its models, and data governance. As of June 30, 2019, the Company is still evaluating the impacts of ASU 2016-13 on its consolidated financial statements.

**Note 2 — Securities**

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

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|---|
| | *(in thousands)* | | | |
| **June 30, 2019** | | | | |
| U.S. Treasury securities | $ 49,728 | $ 334 | $ — | $ 50,062 |
| U.S. government agency and sponsored agency obligations: | | | | |
| Mortgage-backed securities | 400,656 | 3,013 | (685) | 402,984 |
| Collateralized mortgage obligations | 167,312 | 1,081 | (580) | 167,813 |
| Debt securities | 18,961 | 194 | (19) | 19,136 |
| Total U.S. government agency and sponsored agency obligations | 586,929 | 4,288 | (1,284) | 589,933 |
| **Total securities available for sale** | **$ 636,657** | **$ 4,622** | **$ (1,284)** | **$ 639,995** |
| **December 31, 2018** | | | | |
| U.S. Treasury securities | $ 39,768 | $ 69 | $ (7) | $ 39,830 |
| U.S. government agency and sponsored agency obligations: | | | | |
| Mortgage-backed securities | 300,957 | 61 | (5,984) | 295,034 |
| Collateralized mortgage obligations | 124,550 | 74 | (2,332) | 122,292 |
| Debt securities | 7,499 | — | (97) | 7,402 |
| Total U.S. government agency and sponsored agency obligations | 433,006 | 135 | (8,413) | 424,728 |
| Municipal bonds-tax exempt | 110,670 | 197 | (517) | 110,350 |
| **Total securities available for sale** | **$ 583,444** | **$ 401** | **$ (8,937)** | **$ 574,908** |

The amortized cost and estimated fair value of securities as ofJune 30, 2019, 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 | $ 37,753 | $ 37,842 |
| Over one year through five years | 164,874 | 165,747 |
| Over five years through ten years | 226,806 | 228,576 |
| Over ten years | 207,224 | 207,830 |
| **Total** | **$ 636,657** | **$ 639,995** |

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 June 30, 2019 and December 31, 2018:

| | 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) | | | | | | | | |
| **June 30, 2019** | | | | | | | | | |
| U.S. government agency and sponsored agency obligations | | | | | | | | | |
| Mortgage-backed securities | $ (4) | $ 14,114 | 3 | $ (681) | $ 124,833 | 61 | $ (685) | $ 138,947 | 64 |
| Collateralized mortgage obligations | (18) | 7,141 | 2 | (562) | 62,006 | 41 | (580) | 69,147 | 43 |
| Debt securities | — | — | — | (19) | 4,480 | 2 | (19) | 4,480 | 2 |
| Total U.S. government agency and sponsored agency obligations | (22) | 21,255 | 5 | (1,262) | 191,319 | 104 | (1,284) | 212,574 | 109 |
| **Total** | **$ (22)** | **$ 21,255** | **5** | **$ (1,262)** | **$ 191,319** | **104** | **$ (1,284)** | **$ 212,574** | **109** |
| **December 31, 2018** | | | | | | | | | |
| U.S. Treasury securities | $ (7) | $ 14,797 | 2 | $ — | $ — | — | $ (7) | $ 14,797 | 2 |
| U.S. government agency and sponsored agency obligations | | | | | | | | | |
| Mortgage-backed securities | $ (226) | $ 41,527 | 10 | $ (5,758) | $ 244,550 | 106 | $ (5,984) | $ 286,077 | 116 |
| Collateralized mortgage obligations | (59) | 13,732 | 3 | (2,273) | 92,532 | 49 | (2,332) | 106,264 | 52 |
| Debt securities | — | — | — | (97) | 7,402 | 3 | (97) | 7,402 | 3 |
| Total U.S. government agency and sponsored agency obligations | (285) | 55,259 | 13 | (8,128) | 344,484 | 158 | (8,413) | 399,743 | 171 |
| Municipal bonds-tax exempt | (29) | 8,196 | 5 | (488) | 65,644 | 30 | (517) | 73,840 | 35 |
| **Total** | **$ (321)** | **$ 78,252** | **20** | **$ (8,616)** | **$ 410,128** | **188** | **$ (8,937)** | **$ 488,380** | **208** |

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2019 and December 31, 2018 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of June 30, 2019 and December 31, 2018. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of their amortized cost basis. 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 June 30, 2019 and December 31, 2018 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2019 and December 31, 2018 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (in thousands) | | | |
| Gross realized gains on sales of securities | $ 634 | $ 67 | $ 1,359 | $ 67 |
| Gross realized losses on sales of securities | (64) | — | (64) | (428) |
| **Net realized gains (losses) on sales of securities** | **$ 570** | **$ 67** | **$ 1,295** | **$ (361)** |
| Proceeds from sales of securities | $ 44,119 | $ 9,366 | $ 113,306 | $ 31,325 |

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 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.

During the three months ended June 30, 2019 and 2018, there was a $570,000 and $67,000 net gain in earnings resulting from the sale of securities, respectively. A net unrealized gain of $792,000 and $95,000 related to these securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period in 2019 and 2018, respectively.

During the six months ended June 30, 2019, there was $1.3 million in net gains in earnings resulting from the sale of securities which had $586,000 in previously recorded unrealized gains in accumulated other comprehensive income. During the six months ended June 30, 2018, there was a $361,000 net loss in earnings resulting from the sale of securities. Additionally, during the six months ended June 30, 2019, we sold all of our tax exempt municipal bonds with a gross realized gain of $634,000.

During the three months ended March 31, 2018, we sold all of our mutual fund equity securities with gross realized losses of $957,000. No such securities were held during the six months ended June 30, 2019.

Securities available for sale with market values of $30.2 million and $29.9 million as of June 30, 2019 and December 31, 2018, 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**

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

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Real estate loans: | | |
| Commercial property | | |
| Retail | $ 873,682 | $ 906,260 |
| Hospitality | 855,853 | 830,679 |
| Other [(1)] | 1,418,146 | 1,449,270 |
| Total commercial property loans | 3,147,681 | 3,186,209 |
| Construction | 65,454 | 71,583 |
| Residential property | 458,328 | 500,563 |
| Total real estate loans | 3,671,463 | 3,758,355 |
| Commercial and industrial loans: | | |
| Commercial term | 195,312 | 206,691 |
| Commercial lines of credit | 186,103 | 194,032 |
| International loans | 28,087 | 29,180 |
| Total commercial and industrial loans | 409,502 | 429,903 |
| Leases receivable | 460,519 | 398,858 |
| Consumer loans [(2)] | 14,318 | 13,424 |
| **Loans and leases receivable** | **4,555,802** | **4,600,540** |
| Allowance for loan and lease losses | (49,386 ) | (31,974 ) |
| **Loans and leases receivable, net** | **$ 4,506,416** | **$ 4,568,566** |

(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 $9.4 million and $10.3 million as of June 30, 2019 and December 31, 2018, respectively.*

Accrued interest on loans and leases receivable was$11.2 million and $10.9 million at June 30, 2019 and December 31, 2018, respectively. At June 30, 2019 and December 31, 2018, loans and leases receivable of$1.2 billion and $1.1 billion, respectively, were pledged to secure advances from the FHLB.

**Loans Held for Sale**

The following is the activity for SBA loans held for sale for the three months ended June 30, 2019 and 2018:

| | SBA Loans Held for Sale | | |
|---|---|---|---|
| | Real Estate | Commercial and Industrial | Total |
| | *(in thousands)* | | |
| **June 30, 2019** | | | |
| Balance at beginning of period | $ 6,500 | $ 640 | $ 7,140 |
| Originations | 6,650 | 7,650 | 14,300 |
| Sales | (10,474) | (4,937) | (15,411) |
| **Balance at end of period** | **$ 2,676** | **$ 3,353** | **$ 6,029** |
| **June 30, 2018** | | | |
| Balance at beginning of period | $ 2,151 | $ 3,857 | $ 6,008 |
| Originations | 10,155 | 8,407 | 18,562 |
| Sales | (9,519) | (9,585) | (19,104) |
| Principal paydowns and amortization | (2) | (115) | (117) |
| **Balance at end of period** | **$ 2,785** | **$ 2,564** | **$ 5,349** |

The following is the activity for SBA loans held for sale for the six months ended June 30, 2019 and 2018:

| | SBA Loans Held for Sale | | |
|---|---|---|---|
| | Real Estate | Commercial and Industrial | Total |
| | *(in thousands)* | | |
| **June 30, 2019** | | | |
| Balance at beginning of period | $ 5,194 | $ 4,196 | $ 9,390 |
| Originations | 15,713 | 11,810 | 27,523 |
| Sales | (18,229) | (12,641) | (30,870) |
| Principal paydowns and amortization | (2) | (12) | (14) |
| **Balance at end of period** | **$ 2,676** | **$ 3,353** | **$ 6,029** |
| **June 30, 2018** | | | |
| Balance at beginning of period | $ 3,746 | $ 2,648 | $ 6,394 |
| Originations | 20,588 | 16,779 | 37,367 |
| Sales | (21,547) | (16,744) | (38,291) |
| Principal paydowns and amortization | (2) | (119) | (121) |
| **Balance at end of period** | **$ 2,785** | **$ 2,564** | **$ 5,349** |

**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 June 30, | | As of and for the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | *(in thousands)* | | | |
| Balance at beginning of period | $ 32,896 | $ 31,777 | $ 31,974 | $ 31,043 |
| Loans and leases charged off | (1,536) | (657) | (2,634) | $ (2,289) |
| Recoveries on loans and leases previously charged off | 1,327 | 598 | 2,230 | $ 2,315 |
| Net (charge-offs) recoveries | (209) | (59) | (404) | 26 |
| Loan and lease loss provision | 16,699 | 100 | 17,816 | $ 749 |
| **Balance at end of period** | **$ 49,386** | **$ 31,818** | **$ 49,386** | **$ 31,818** |

Management believes the allowance for loan and lease losses is appropriate to provide for probable incurred 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. Further, our regulators, in reviewing our loan and lease portfolio may require us to increase our allowance for loan and lease losses.

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 June 30, 2019 and 2018:

| | Real Estate | Commercial and Industrial | Leases Receivable | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **As of and for the Three Months Ended June 30, 2019** | | | | | | |
| **Allowance for loan and lease losses on loans and leases:** | | | | | | |
| Beginning balance | $ 18,306 | $ 8,711 | 5,580 | $ 89 | $ 210 | $ 32,896 |
| Less loans and leases charged off | — | (562) | (974) | — | — | (1,536) |
| Recoveries on loans and leases previously charged off | 1,133 | 89 | 105 | — | — | 1,327 |
| Loan and lease loss provision | 14,565 | 997 | 1,357 | (10) | (210) | 16,699 |
| **Ending balance** | **$ 34,004** | **$ 9,235** | **$ 6,068** | **$ 79** | **$ —** | **$ 49,386** |
| Individually evaluated for impairment | $ 14,724 | $ 3,072 | $ 662 | $ 1 | $ — | $ 18,459 |
| Collectively evaluated for impairment | $ 19,280 | $ 6,163 | $ 5,406 | $ 78 | $ — | $ 30,927 |
| **Loans and leases receivable:** | **$ 3,671,463** | **$ 409,502** | **$ 460,519** | **$ 14,318** | **$ —** | **$ 4,555,802** |
| Individually evaluated for impairment | $ 39,885 | $ 21,706 | $ 3,233 | $ 1,351 | $ — | $ 66,175 |
| Collectively evaluated for impairment | $ 3,631,578 | $ 387,796 | $ 457,286 | $ 12,967 | $ — | $ 4,489,627 |

| | Real Estate | Commercial and Industrial | Leases Receivable | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **As of and for the Three Months Ended June 30, 2018** | | | | | | |
| **Allowance for loan and lease losses on loans and leases:** | | | | | | |
| Beginning balance | $ 17,640 | $ 6,890 | 7,110 | $ 125 | $ 12 | $ 31,777 |
| Less loans and leases charged off | (40) | (86) | (531) | — | — | (657) |
| Recoveries on loans and leases previously charged off | 371 | 197 | 29 | 1 | — | 598 |
| Loan and lease loss provision | (55) | 119 | 41 | (17) | 12 | 100 |
| **Ending balance** | **$ 17,916** | **$ 7,120** | **$ 6,649** | **$ 109** | **$ 24** | **$ 31,818** |
| Individually evaluated for impairment | $ 1,540 | $ 578 | $ 1,859 | $ — | $ — | $ 3,977 |
| Collectively evaluated for impairment | $ 16,376 | $ 6,542 | $ 4,790 | $ 109 | $ 24 | $ 27,841 |
| **Loans and leases receivable:** | **$ 3,781,209** | **$ 396,522** | **$ 350,578** | **$ 13,817** | **$ —** | **$ 4,542,126** |
| Individually evaluated for impairment | $ 18,261 | $ 3,000 | $ 4,801 | $ 877 | $ — | $ 26,939 |
| Collectively evaluated for impairment | $ 3,762,948 | $ 393,522 | $ 345,777 | $ 12,940 | $ — | $ 4,515,187 |

The following table details the information on the allowance for loan and lease losses by portfolio segment as of and for the six months ended June 30, 2019 and 2018:

| | Real Estate | Commercial and Industrial | Leases Receivable | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **As of and for the Six Months Ended June 30, 2019** | | | | | | |
| **Allowance for loan and lease losses on loans and leases:** | | | | | | |
| Beginning balance | $ 18,384 | $ 7,162 | 6,303 | $ 98 | $ 27 | $ 31,974 |
| Less loans and leases charged off | (113) | (695) | (1,826) | — | — | (2,634) |
| Recoveries on loans and leases previously charged off | 1,563 | 471 | 196 | — | — | 2,230 |
| Loan and lease loss provision | 14,170 | 2,297 | 1,395 | (19) | (27) | 17,816 |
| **Ending balance** | **$ 34,004** | **$ 9,235** | **$ 6,068** | **$ 79** | **$ —** | **$ 49,386** |
| Individually evaluated for impairment | $ 14,724 | $ 3,072 | $ 662 | $ 1 | $ — | $ 18,459 |
| Collectively evaluated for impairment | $ 19,280 | $ 6,163 | $ 5,406 | $ 78 | $ — | $ 30,927 |
| **Loans and leases receivable:** | **$ 3,671,463** | **$ 409,502** | **$ 460,519** | **$ 14,318** | **$ —** | **$ 4,555,802** |
| Individually evaluated for impairment | $ 39,885 | $ 21,706 | $ 3,233 | $ 1,351 | $ — | $ 66,175 |
| Collectively evaluated for impairment | $ 3,631,578 | $ 387,796 | $ 457,286 | $ 12,967 | $ — | $ 4,489,627 |

| | Real Estate | Commercial and Industrial | Leases Receivable | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **As of and for the Six Months Ended June 30, 2018** | | | | | | |
| **Allowance for loan and lease losses on loans and leases:** | | | | | | |
| Beginning balance | $ 17,012 | $ 7,400 | 6,279 | $ 122 | $ 230 | $ 31,043 |
| Less loans and leases charged off | (1,029) | (365) | (895) | — | — | (2,289) |
| Recoveries on loans and leases previously charged off | 1,256 | 933 | 124 | 2 | — | 2,315 |
| Loan and lease loss provision | 677 | (848) | 1,141 | (15) | (206) | 749 |
| **Ending balance** | **$ 17,916** | **$ 7,120** | **$ 6,649** | **$ 109** | **$ 24** | **$ 31,818** |
| Individually evaluated for impairment | $ 1,540 | $ 578 | $ 1,859 | $ — | $ — | $ 3,977 |
| Collectively evaluated for impairment | $ 16,376 | $ 6,542 | $ 4,790 | $ 109 | $ 24 | $ 27,841 |
| **Loans and leases receivable:** | **$ 3,781,209** | **$ 396,522** | **$ 350,578** | **$ 13,817** | **$ —** | **$ 4,542,126** |
| Individually evaluated for impairment | $ 18,261 | $ 3,000 | $ 4,801 | $ 877 | $ — | $ 26,939 |
| Collectively evaluated for impairment | $ 3,762,948 | $ 393,522 | $ 345,777 | $ 12,940 | $ — | $ 4,515,187 |

**Loan Quality Indicators**

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

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

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

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

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

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

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 June 30, 2019 and December 31, 2018, 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)* | | | |
| **June 30, 2019** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 862,505 | $ 6,255 | $ 4,922 | $ 873,682 |
| Hospitality | 850,004 | 2 | 5,847 | 855,853 |
| Other | 1,405,239 | 2,658 | 10,249 | 1,418,146 |
| Total commercial property loans | 3,117,748 | 8,915 | 21,018 | 3,147,681 |
| Construction | 29,774 | 7,744 | 27,936 | 65,454 |
| Residential property | 456,708 | 802 | 817 | 458,327 |
| Total real estate loans | 3,604,230 | 17,461 | 49,771 | 3,671,462 |
| Commercial and industrial loans: | | | | |
| Commercial term | 177,389 | 386 | 17,537 | 195,312 |
| Commercial lines of credit | 176,466 | 5,241 | 4,396 | 186,103 |
| International loans | 28,087 | — | — | 28,087 |
| Total commercial and industrial loans | 381,942 | 5,627 | 21,933 | 409,502 |
| Leases receivable | 457,286 | — | 3,233 | 460,519 |
| Consumer loans | 12,838 | 732 | 749 | 14,319 |
| **Total loans and leases receivable** | **$ 4,456,296** | **$ 23,820** | **$ 75,686** | **$ 4,555,802** |
| **December 31, 2018** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 901,354 | $ 16 | $ 4,890 | $ 906,260 |
| Hospitality | 821,542 | 168 | 8,969 | 830,679 |
| Other | 1,441,219 | 2,723 | 5,328 | 1,449,270 |
| Total commercial property loans | 3,164,115 | 2,907 | 19,187 | 3,186,209 |
| Construction | 71,583 | — | — | 71,583 |
| Residential property | 500,424 | — | 139 | 500,563 |
| Total real estate loans | 3,736,122 | 2,907 | 19,326 | 3,758,355 |
| Commercial and industrial loans: | | | | |
| Commercial term | 197,992 | 4,977 | 3,722 | 206,691 |
| Commercial lines of credit | 172,338 | 21,107 | 587 | 194,032 |
| International loans | 29,180 | — | — | 29,180 |
| Total commercial and industrial loans | 399,510 | 26,084 | 4,309 | 429,903 |
| Leases receivable | 393,729 | — | 5,129 | 398,858 |
| Consumer loans | 12,454 | 191 | 779 | 13,424 |
| **Total loans and leases receivable** | **$ 4,541,815** | **$ 29,182** | **$ 29,543** | **$ 4,600,540** |

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)* | | | |
| **June 30, 2019** | | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ 66 | $ 153 | $ 84 | $ 303 | $ 873,379 | $ 873,682 |
| Hospitality | 941 | 147 | 1,020 | 2,108 | 853,745 | 855,853 |
| Other | 644 | 5 | 871 | 1,520 | 1,416,626 | 1,418,146 |
| Total commercial property loans | 1,651 | 305 | 1,975 | 3,931 | 3,143,750 | 3,147,681 |
| Construction | — | — | — | — | 65,454 | 65,454 |
| Residential property | 2,240 | 1,849 | 40 | 4,129 | 454,198 | 458,327 |
| Total real estate loans | 3,891 | 2,154 | 2,015 | 8,060 | 3,663,402 | 3,671,462 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 253 | 233 | 16 | 502 | 194,810 | 195,312 |
| Commercial lines of credit | — | — | — | — | 186,103 | 186,103 |
| International loans | — | — | — | — | 28,087 | 28,087 |
| Total commercial and industrial loans | 253 | 233 | 16 | 502 | 409,000 | 409,502 |
| Leases receivable | 4,948 | 1,097 | 1,755 | 7,800 | 452,719 | 460,519 |
| Consumer loans | 82 | — | — | 82 | 14,237 | 14,319 |
| **Total loans and leases receivable** | **$ 9,174** | **$ 3,484** | **$ 3,786** | **$ 16,444** | **$ 4,539,358** | **$ 4,555,802** |
| **December 31, 2018** | | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ 221 | $ — | $ 986 | $ 1,207 | $ 905,053 | $ 906,260 |
| Hospitality | 65 | 1,203 | 1,893 | 3,161 | 827,518 | 830,679 |
| Other | 816 | 206 | 1,205 | 2,227 | 1,447,043 | 1,449,270 |
| Total commercial property loans | 1,102 | 1,409 | 4,084 | 6,595 | 3,179,614 | 3,186,209 |
| Construction | — | — | — | — | 71,583 | 71,583 |
| Residential property | 3,947 | 273 | 44 | 4,264 | 496,299 | 500,563 |
| Total real estate loans | 5,049 | 1,682 | 4,128 | 10,859 | 3,747,496 | 3,758,355 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 334 | 49 | 1,117 | 1,500 | 205,191 | 206,691 |
| Commercial lines of credit | — | — | 587 | 587 | 193,445 | 194,032 |
| International loans | — | — | — | — | 29,180 | 29,180 |
| Total commercial and industrial loans | 334 | 49 | 1,704 | 2,087 | 427,816 | 429,903 |
| Leases receivable | 4,681 | 845 | 3,737 | 9,263 | 389,595 | 398,858 |
| Consumer loans | 146 | — | — | 146 | 13,278 | 13,424 |
| **Total loans and leases receivable** | **$ 10,210** | **$ 2,576** | **$ 9,569** | **$ 22,355** | **$ 4,578,185** | **$ 4,600,540** |

There were no loans and leases that were 90 days or more past due and accruing interest as ofJune 30, 2019. As of December 31, 2018, $4,000 of loans and leases were 90 days or more past due and accruing interest.

**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. Loans 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 estimated value 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 reserve 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)* | | |
| **June 30, 2019** | | | | | |
| Real estate loans: | | | | | |
| Commercial property | | | | | |
| Retail | $ 951 | $ 996 | $ 800 | $ 151 | $ 1 |
| Hospitality | 1,454 | 1,842 | 1,454 | — | — |
| Other | 8,093 | 8,432 | 7,884 | 209 | 15 |
| Total commercial property loans | 10,498 | 11,270 | 10,138 | 360 | 16 |
| Construction | 27,936 | 28,000 | — | 27,936 | 14,708 |
| Residential property | 1,451 | 1,596 | 1,451 | — | — |
| Total real estate loans | 39,885 | 40,866 | 11,589 | 28,296 | 14,724 |
| Commercial and industrial loans | 21,706 | 21,910 | 1,136 | 20,570 | 3,072 |
| Leases receivable | 3,233 | 3,292 | 873 | 2,360 | 662 |
| Consumer loans | 1,351 | 1,613 | 1,267 | 84 | 1 |
| **Total** | **$ 66,175** | **$ 67,681** | **$ 14,865** | **$ 51,310** | **$ 18,459** |
| **December 31, 2018** | | | | | |
| Real estate loans: | | | | | |
| Commercial property | | | | | |
| Retail | $ 2,166 | $ 2,207 | $ 1,894 | $ 272 | $ — |
| Hospitality | 4,282 | 5,773 | 4,032 | 250 | — |
| Other | 7,525 | 8,016 | 6,253 | 1,272 | 1 |
| Total commercial property loans | 13,973 | 15,996 | 12,179 | 1,794 | 1 |
| Residential property | 788 | 929 | 788 | — | — |
| Total real estate loans | 14,761 | 16,925 | 12,967 | 1,794 | 1 |
| Commercial and industrial loans | 4,396 | 4,601 | 1,644 | 2,752 | 428 |
| Leases receivable | 5,129 | 5,162 | 1,256 | 3,873 | 1,383 |
| Consumer loans | 839 | 1,073 | 746 | 93 | — |
| **Total** | **$ 25,125** | **$ 27,761** | **$ 16,613** | **$ 8,512** | **$ 1,812** |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | *(in thousands)* | | | |
| **June 30, 2019** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 955 | $ 11 | $ 978 | $ 27 |
| Hospitality | 1,570 | 80 | 2,468 | 152 |
| Other | 8,320 | 119 | 8,688 | 260 |
| Total commercial property loans | 10,845 | 210 | 12,134 | 439 |
| Construction | 18,667 | 249 | 9,333 | 249 |
| Residential property | 1,577 | 16 | 1,378 | 28 |
| Total real estate loans | 31,089 | 475 | 22,845 | 716 |
| Commercial and industrial loans | 22,623 | 191 | 24,883 | 601 |
| Leases receivable | 3,455 | 6 | 4,375 | 13 |
| Consumer loans | 1,501 | 24 | 1,512 | 48 |
| **Total** | **$ 58,668** | **$ 696** | **$ 53,615** | **$ 1,378** |
| **June 30, 2018** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 1,728 | $ 26 | $ 1,568 | $ 48 |
| Hospitality | 7,667 | 131 | 7,886 | 272 |
| Other | 7,562 | 133 | 7,702 | 243 |
| Total commercial property loans | 16,957 | 290 | 17,156 | 563 |
| Residential property | 2,260 | 27 | 2,420 | 57 |
| Total real estate loans | 19,217 | 317 | 19,576 | 620 |
| Commercial and industrial loans | 3,063 | 39 | 2,989 | 79 |
| Leases receivable | 5,188 | 12 | 4,896 | 22 |
| Consumer loans | 1,027 | 14 | 1,037 | 28 |
| **Total** | **$ 28,495** | **$ 382** | **$ 28,498** | **$ 749** |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | *(in thousands)* | | | |
| Interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms | $ 1,120 | $ 678 | $ 2,009 | $ 1,332 |
| Less: Interest income recognized on impaired loans and leases | (696) | (382) | (1,378) | (749) |
| **Interest foregone on impaired loans and leases** | **$ 424** | **$ 296** | **$ 631** | **$ 583** |

There were no commitments to lend additional funds to borrowers whose loans are included 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, disaggregated by loan class, as of the dates indicated:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Real estate loans: | | |
| Commercial property | | |
| Retail | $ 800 | $ 865 |
| Hospitality | 1,442 | 3,625 |
| Other | 6,587 | 1,641 |
| Total commercial property loans | 8,829 | 6,131 |
| Construction | 27,936 | — |
| Residential property | 858 | 182 |
| Total real estate loans | 37,623 | 6,313 |
| Commercial and industrial loans | 21,457 | 3,337 |
| Leases receivable | 3,233 | 5,129 |
| Consumer loans | 718 | 746 |
| **Total nonaccrual loans and leases** | **$ 63,031** | **$ 15,525** |

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

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Nonaccrual loans and leases | $ 63,031 | $ 15,525 |
| Loans and leases 90 days or more past due and still accruing | — | 4 |
| **Total nonperforming loans and leases** | **63,031** | **15,529** |
| Other real estate owned (“OREO”) | 507 | 663 |
| **Total nonperforming assets** | **$ 63,538** | **$ 16,192** |

OREO is included in prepaid expenses and other assets in the accompanying Consolidated Balance Sheets as ofJune 30, 2019 and December 31, 2018.

## Troubled Debt Restructurings

The following table details TDRs loans as of June 30, 2019 and December 31, 2018:

| | 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)* | | | | | |
| **June 30, 2019** | | | | | | | | | | |
| Real estate loans | $ 934 | $ 153 | $ 28,083 | $ 757 | $ 29,927 | $ 2,098 | $ — | $ — | $ — | $ 2,098 |
| Commercial and industrial loans | 250 | 160 | 12,743 | 334 | 13,487 | — | — | 100 | 149 | 249 |
| Consumer loans | 718 | — | — | — | 718 | 549 | — | 84 | — | 633 |
| **Total** | **$ 1,902** | **$ 313** | **$ 40,826** | **$ 1,091** | **$ 44,132** | **$ 2,647** | **$ —** | **$ 184** | **$ 149** | **$ 2,980** |
| **December 31, 2018** | | | | | | | | | | |
| Real estate loans | $ 462 | $ 1,423 | $ 174 | $ — | $ 2,059 | $ 3,345 | $ — | $ 1,148 | $ 741 | $ 5,234 |
| Commercial and industrial loans | 265 | 107 | 669 | 430 | 1,471 | — | 166 | 386 | 150 | 702 |
| Consumer loans | 746 | — | — | — | 746 | — | — | 93 | — | 93 |
| **Total** | **$ 1,473** | **$ 1,530** | **$ 843** | **$ 430** | **$ 4,276** | **$ 3,345** | **$ 166** | **$ 1,627** | **$ 891** | **$ 6,029** |

As of June 30, 2019 and December 31, 2018, total TDRs were $47.1 million and $10.3 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 such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for three months or more or other payment structure modifications. 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. The allowance for loan and lease losses included $15.9 million of specific allowances at June 30, 2019 and $313,000 of specific allowances at December 31, 2018 relating to TDR loans.

There were $30.3 million of real estate loans (seven loans) and $12.7 million of commercial loans (one loan) that were modified during the twelve month period ended June 30, 2019. None of these loans defaulted nor were charged off during the twelve month period ended June 30, 2019. The troubled-debt restructurings described above increased the allowance by $15.7 million during the twelve month period ended June 30, 2019.

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 endedJune 30, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---|---|---|
| | *(in thousands)* | |
| **Servicing assets:** | | |
| Balance at beginning of period | $ 7,978 | $ 9,867 |
| Addition related to sale of SBA loans | 344 | 406 |
| Amortization | (755) | (1,018) |
| **Balance at end of period** | **$ 7,567** | **$ 9,255** |
| **Servicing liabilities:** | | |
| Balance at beginning of period | $ 1,420 | $ 2,022 |
| Amortization | (182) | (185) |
| **Balance at end of period** | **$ 1,238** | **$ 1,837** |

The changes in servicing assets and liabilities for the six months endedJune 30, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---|---|---|
| | *(in thousands)* | |
| **Servicing assets:** | | |
| Balance at beginning of period | $ 8,520 | $ 10,218 |
| Addition related to sale of SBA loans | 659 | 841 |
| Amortization | (1,612) | (1,804) |
| **Balance at end of period** | **$ 7,567** | **$ 9,255** |
| **Servicing liabilities:** | | |
| Balance at beginning of period | $ 1,517 | $ 2,217 |
| Amortization | (279) | (380) |
| **Balance at end of period** | **$ 1,238** | **$ 1,837** |

At June 30, 2019 and December 31, 2018, we serviced loans sold to unaffiliated parties in the amounts of$426.7 million and $448.6 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$1.1 million and $1.2 million for the three months ended June 30, 2019 and 2018, respectively. The Company recorded servicing fee income of $2.2 million and $2.4 million for the six months ended June 30, 2019 and 2018, respectively. Servicing fee income, net of the amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income. Net amortization expense was $573,000 and $833,000 for the three months ended June 30, 2019 and 2018, respectively, and $1.3 million and $1.4 million for the six months ended June 30, 2019 and 2018, respectively.

**Note 5 — Income Taxes**

The Company’s income tax expense was $1.2 million and $5.9 million representing an effective income tax rate of31.5 percent and 27.5 percent for the three months ended June 30, 2019 and 2018, respectively. The Company's income tax expense was$7.5 million and $11.6 million representing an effective income tax rate of30.2 percent and 27.7 percent for the six months ended June 30, 2019 and 2018, respectively.

Management concluded that as of June 30, 2019 and December 31, 2018, a valuation allowance of $4.9 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 $23.2 million and $27.4 million and a net current tax asset of $7.5 million and $8.3 million as of June 30, 2019 and December 31, 2018, 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. The Company completed its accounting required under ASC 740 in 2018.

The Company is subject to examination by various federal and state tax authorities for certain years ended December 31, 2014 through 2018. Management does not anticipate any material changes in our consolidated financial statements which may arise as a result of these audits or examinations. During the quarter ended March 31, 2019, the examination by the California Franchise Tax Board for the 2008 and 2009 tax years closed. The Company recorded a provision expense of $400,000 during the quarter ended March 31, 2019 in connection with both the release of an uncertain tax position and the settlement remitted, net of federal benefit. The Company paid $900,000 in connection with the settlement.

**Note 6 — Borrowings and Subordinated Debentures**

**Borrowings**

The Bank had no advances from the FHLB as of June 30, 2019 and advances of $55.0 million from the FHLB as of December 31, 2018. The FHLB advances were all overnight borrowings at December 31, 2018. There was no interest expense on FHLB advances for the three months ended June 30, 2019 and $1.0 million of interest expense on FHLB advances for the same period of 2018. The weighted-average interest rate for the three months ended June 30, 2018 was 1.90 percent. For the six months ended June 30, 2019 and 2018, interest expense on FHLB advances was $72,000 and $1.7 million, respectively, and the weighted-average interest rate was 2.74 percent and 1.74 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 $1.2 billion of loans pledged as collateral with the FHLB, which provides $1.0 billion in borrowing capacity, of which $905.0 million remained available at June 30, 2019.

The Bank also has securities with market values of $30.0 million pledged with the Federal Reserve Bank ("FRB"), which provides $29.6 million in available borrowing capacity through the Fed Discount Window. There were no outstanding borrowings with the FRB as of June 30, 2019 and December 31, 2018.

**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-annually 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 June 30, 2019 and

December 31, 2018, the balance of Notes included in the Company's consolidated balance sheet, net of debt issuance cost, was$98.2 million and $98.1 million, respectively. The amortization of debt issuance cost was $48,000 and $45,000 for the three months ended June 30, 2019 and 2018, respectively, and $95,000 and $90,000 for the six months ended June 30, 2019 and 2018, 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") at6.26 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 June 30, 2019 and December 31, 2018, the balance of Subordinated Debentures included in the Company's consolidated balance sheets, net of discount of $7.0 million and $7.1 million, was $19.9 million and $19.7 million, respectively. The amortization of discount was $92,000 and $86,000 for the three months ended June 30, 2019, and 2018, respectively, and $184,000 and $172,000 for the six months ended June 30, 2019 and 2018, 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 includes the impact of unvested restricted stock under the treasury method.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | *(dollars in thousands, except per share amounts)* | | | |
| Basic EPS | | | | |
| Net income | $ 2,656 | $ 15,548 | $ 17,328 | $ 30,403 |
| Less: income allocated to unvested restricted stock | 16 | 96 | 99 | 185 |
| Income allocated to common shares | $ 2,640 | $ 15,452 | $ 17,229 | $ 30,218 |
| Weighted-average shares for basic EPS | 30,685,301 | 32,189,096 | 30,688,698 | 32,167,111 |
| **Basic EPS** | **$ 0.09** | **$ 0.48** | **$ 0.56** | **$ 0.94** |
| Effect of dilutive securities-options and unvested restricted stock | 42,380 | 147,679 | 40,322 | 149,537 |
| Diluted EPS | | | | |
| Income allocated to common shares | 2,640 | 15,452 | 17,229 | 30,218 |
| Weighted-average shares for diluted EPS | 30,727,681 | 32,336,775 | 30,729,020 | 32,316,648 |
| **Diluted EPS** | **$ 0.09** | **$ 0.48** | **$ 0.56** | **$ 0.94** |

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

There were no anti-dilutive options and shares of unvested restricted stock outstanding for the three and six months ended June 30, 2019 or 2018.

**Note 8 – Accumulated Other Comprehensive Income**

Activity in accumulated other comprehensive income for the three months ended June 30, 2019 and 2018 was as follows:

| | Unrealized Gains and Losses on Available for Sale Securities | Tax (Expense) Benefit | Total |
|---|---|---|---|
| | *(in thousands)* | | |
| **June 30, 2019** | | | |
| Balance at beginning of period | $ (2,642) | $ 760 | $ (1,882) |
| Other comprehensive loss before reclassification | 6,548 | (1,721) | 4,827 |
| Reclassification from accumulated other comprehensive income | (570) | — | (570) |
| Period change | 5,978 | (1,721) | 4,257 |
| **Balance at end of period** | **$ 3,336** | **$ (961)** | **$ 2,375** |
| **June 30, 2018** | | | |
| Balance at beginning of period | $ (11,523) | $ 3,316 | $ (8,207) |
| Other comprehensive loss before reclassification | (1,502) | 452 | (1,050) |
| Reclassification from accumulated other comprehensive income | (67) | — | (67) |
| Period change | (1,569) | 452 | (1,117) |
| **Balance at end of period** | **$ (13,092)** | **$ 3,768** | **$ (9,324)** |

For the three months ended June 30, 2019, there was a $570,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $570,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $792,000 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 June 30, 2018, there was a$67,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $67,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized loss of $95,000 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 six months ended June 30, 2019 and 2018 was as follows:

| | Unrealized Gains and Losses on Available for Sale Securities | Tax Benefit (Expense) | Total |
|---|---|---|---|
| | | *(in thousands)* | |
| **June 30, 2019** | | | |
| Balance at beginning of period | $ (8,536) | $ 2,457 | $ (6,079) |
| Other comprehensive loss before reclassification | 13,167 | (3,418) | 9,749 |
| Reclassification from accumulated other comprehensive income | (1,295) | — | (1,295) |
| Period change | 11,872 | (3,418) | 8,454 |
| **Balance at end of period** | **$ 3,336** | **$ (961)** | **$ 2,375** |
| **June 30, 2018** | | | |
| Balance at beginning of period | $ (3,188) | $ 1,319 | $ (1,869) |
| Other comprehensive loss before reclassification | (10,366) | 2,995 | (7,371) |
| Reclassification from accumulated other comprehensive income | (67) | — | (67) |
| 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 | (9,904) | 2,449 | (7,455) |
| **Balance at end of period** | **$ (13,092)** | **$ 3,768** | **$ (9,324)** |

For the six months ended June 30, 2019, there was a $1.3 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $1.3 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 $586,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

For the six months ended June 30, 2018, there was a $361,000 reclassification from accumulated other comprehensive loss to reduction in earnings resulting from the sale of available-for-sale securities. The $361,000 reclassification adjustment out of accumulated other comprehensive income was included in net loss on sales of securities under noninterest income. Net unrealized gains of $95,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

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 unaudited consolidated financial statements for additional information on adoption of ASU 2016-01 and ASU 2018-02, respectively.

**Note 9 — Regulatory Matters**

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

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

At June 30, 2019, the Bank’s capital ratios exceeded the minimum requirements for the Bank to be considered “well capitalized” and the Company exceeded all of its applicable minimum regulatory capital ratio requirements.

A capital conservation buffer of 2.5% became effective on January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 6.62% and 6.19% and the Company's capital conservation buffer was 5.83% and 5.74% as of June 30, 2019 and December 31, 2018, respectively.

The capital ratios of Hanmi Financial and the Bank as ofJune 30, 2019 and December 31, 2018 were as follows:

| | Actual | | Minimum Regulatory Requirement | | Minimum to Be Categorized as "Well Capitalized" | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| **June 30, 2019** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 707,761 | 14.99% | $ 377,747 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 689,016 | 14.62% | $ 377,000 | 8.00% | $ 471,250 | 10.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 558,801 | 11.83% | $ 283,311 | 6.00% | N/A | N/A |
| Hanmi Bank | $ 638,296 | 13.54% | $ 282,750 | 6.00% | $ 377,000 | 8.00% |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 538,954 | 11.41% | $ 212,483 | 4.50% | N/A | N/A |
| Hanmi Bank | $ 638,296 | 13.54% | $ 212,063 | 4.50% | $ 306,313 | 6.50% |
| Tier 1 capital (to average assets): | | | | | | |
| Hanmi Financial | $ 558,801 | 10.20% | $ 219,059 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 638,296 | 11.67% | $ 218,867 | 4.00% | $ 273,584 | 5.00% |
| **December 31, 2018** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 682,398 | 14.54% | $ 375,449 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 664,195 | 14.19% | $ 374,538 | 8.00% | $ 468,173 | 10.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 550,839 | 11.74% | $ 281,587 | 6.00% | N/A | N/A |
| Hanmi Bank | $ 630,782 | 13.47% | $ 280,904 | 6.00% | $ 374,538 | 8.00% |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 531,177 | 11.32% | $ 211,190 | 4.50% | N/A | N/A |
| Hanmi Bank | $ 630,782 | 13.47% | $ 210,678 | 4.50% | $ 304,312 | 6.50% |
| Tier 1 capital (to average assets): | | | | | | |
| Hanmi Financial | $ 550,839 | 10.18% | $ 216,526 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 630,782 | 11.67% | $ 216,265 | 4.00% | $ 270,331 | 5.00% |

**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 that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 securities primarily include U.S. government agency and sponsored agency mortgage-backed securities, collateralized mortgage obligations and debt securities as well as municipal bonds in markets that are active. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security held as of each reporting date. The broker-dealers use prices obtained from nationally recognized pricing services to value our fixed income securities. The fair value of the municipal securities is determined based on pricing data provided by nationally recognized pricing services. We review the prices obtained for reasonableness based on our understanding of the marketplace, and also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available, which necessitates the use of significant unobservable inputs.

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 June 30, 2019 and December 31, 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 June 30, 2019 and December 31, 2018, 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)* | | |
| **June 30, 2019** | | | | |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 50,062 | $ — | $ — | $ 50,062 |
| U.S. government agency and sponsored agency obligations: | | | | |
| Mortgage-backed securities | — | 402,984 | — | 402,984 |
| Collateralized mortgage obligations | — | 167,813 | — | 167,813 |
| Debt securities | — | 19,136 | — | 19,136 |
| Total U.S. government agency and sponsored agency obligations | — | 589,933 | — | 589,933 |
| Municipal bonds-tax exempt | — | — | — | — |
| **Total securities available for sale** | **$ 50,062** | **$ 589,933** | **$ —** | **$ 639,995** |
| **December 31, 2018** | | | | |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 39,830 | $ — | $ — | $ 39,830 |
| U.S. government agency and sponsored agency obligations: | | | | |
| Mortgage-backed securities | — | 295,034 | — | 295,034 |
| Collateralized mortgage obligations | — | 122,292 | — | 122,292 |
| Debt securities | — | 7,402 | — | 7,402 |
| Total U.S. government agency and sponsored agency obligations | — | 424,728 | — | 424,728 |
| Municipal bonds-tax exempt | — | 110,350 | — | 110,350 |
| **Total securities available for sale** | **$ 39,830** | **$ 535,078** | **$ —** | **$ 574,908** |

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

As of June 30, 2019 and December 31, 2018, 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 Six Months Ended June 30, 2019 |
| | | (in thousands) | | |
| **June 30, 2019** | | | | |
| **Assets:** | | | | |
| Impaired loans (1) | $ — | $ — | $ 26,727 | $ 17,470 |
| OREO | — | — | 507 | — |
| **December 31, 2018** | | | | |
| **Assets:** | | | | |
| Impaired loans (2) | $ — | $ 3,253 | $ 1,957 | $ 1,184 |
| OREO | — | 663 | — | — |

(1) *Consist of real estate loans of $13.6 million and commercial and industrial loans of $13.1 million.*

(2) *Consist of real estate loans of $3.5 million, commercial and industrial loans of $1.7 million.*

The fair value of the Level 3 impaired loans at June 30, 2019 were determined utilizing the fair value measurement methodology for assets measured on a non-recurring basis. The impaired loans at June 30, 2019 consisted of seven commercial real estate loans with a fair value of$13.6 million and seven commercial and industrial loans with a fair value of $13.1 million. The fair value of collateral dependent loans are determined on a non-recurring basis using either the sales comparison approach or the income approach by obtaining third party appraisals.

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 are based on an exit price notion as of June 30, 2019, as required by ASU 2016-01. The financial instruments for which we have concluded that the carrying amounts approximate fair value include, cash and due from banks, accrued interest receivable and payable, and noninterest-bearing deposits. The fair values of off-balance sheet items are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans.

The estimated fair values of financial instruments were as follows:

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | | |
| | | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| **Financial assets:** | | | | |
| Cash and due from banks | $ 130,851 | $ 130,851 | $ — | $ — |
| Securities available for sale | 639,995 | 50,062 | 589,933 | — |
| Loans held for sale | 6,029 | — | 6,444 | — |
| Loans and leases receivable, net of allowance for loan and lease losses | 4,506,416 | — | — | 4,521,491 |
| Accrued interest receivable | 12,946 | 12,946 | — | — |
| **Financial liabilities:** | | | | |
| Noninterest-bearing deposits | 1,312,577 | — | 1,312,577 | — |
| Interest-bearing deposits | 3,449,491 | — | — | 3,460,753 |
| Subordinated debentures | 118,087 | — | 119,798 | — |
| Accrued interest payable | 11,438 | 11,438 | — | — |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | | |
| | | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| **Financial assets:** | | | | |
| Cash and due from banks | $ 155,376 | $ 155,376 | $ — | $ — |
| Securities available for sale | 574,908 | 39,830 | 535,078 | — |
| Loans held for sale | 9,390 | — | 9,905 | — |
| Loans and leases receivable, net of allowance for loan and lease losses | 4,568,566 | — | — | 4,518,716 |
| Accrued interest receivable | 13,331 | 13,331 | — | — |
| **Financial liabilities:** | | | | |
| Noninterest-bearing deposits | 1,284,530 | — | 1,284,530 | — |
| Interest-bearing deposits | 3,462,705 | — | — | 3,458,523 |
| Borrowings and subordinated debentures | 172,808 | — | 98,020 | 54,939 |
| Accrued interest payable | 11,379 | 11,379 | — | — |

**Note 11 — Share-Based Compensation**

**Share-Based Compensation Expense**

For the three months ended June 30, 2019 and 2018, share-based compensation expenses were $660,000 and $930,000, respectively, and net tax benefits recognized from stock option and restricted stock awards were $198,000 and $262,000, respectively. For the six months ended June 30, 2019 and 2018, share-based compensation expenses were $1.4 million and $1.8 million, respectively, and net tax benefits recognized from stock option and restricted stock awards were $411,000 and $512,000, respectively. Excess tax benefits (incremental tax charges) relating to the Company's vested or exercised share-based compensation are recognized as income tax expense in the consolidated statement of income.

**Unrecognized Share-Based Compensation Expense**

As of June 30, 2019, unrecognized share-based compensation expense was as follows:

| | Unrecognized Expense | | Average Expected Recognition Period |
|---|---|---|---|
| | (in thousands) | | |
| Restricted stock awards | $ | 5,809 | 2.2 years |

There was no unrecognized share-based compensation expense for stock options at June 30, 2019.

**Stock Option Awards**

The table below provides stock option information for the three months ended June 30, 2019:

| | 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 | 337,688 | $ | 17.53 | 4.6 years | $ | 1,356 | (1) |
| Options exercised | (1,250) | $ | 10.80 | 0.0 years | | — | |
| **Options outstanding at end of period** | **336,438** | **$** | **17.55** | **4.4 years** | **$** | **1,162** | (2) |
| **Options exercisable at end of period** | **336,438** | **$** | **17.55** | **4.4 years** | **$** | **1,162** | (2) |

(1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $21.27 as of March 31, 2019, 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 $22.27 as of June 30, 2019, over the exercise price, multiplied by the number of options.*

There were 1,250 stock options exercised during the three months ended June 30, 2019 and no stock options exercised during the three months ended June, 2018.

The table below provides stock option information for the six months ended June 30, 2019:

| | 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 | 4.6 years | $ | 1,356 | (1) |
| Options exercised | (1,900) | $ | 11.40 | 1.0 year | | 18 | |
| **Options outstanding at end of period** | **336,438** | **$** | **17.55** | **4.4 years** | **$** | **1,162** | (2) |
| **Options exercisable at end of period** | **336,438** | **$** | **17.55** | **4.4 years** | **$** | **1,162** | (2) |

(1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $19.70 as of December 31, 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 $22.27 as of June 30, 2019, over the exercise price, multiplied by the number of options.*

There were 1,900 and 25,750 stock options exercised during the six months ended June 30, 2019 and 2018.

**Restricted Stock Awards**

Restricted stock awards under the outstanding equity plans become fully vested after a certain number of years or after certain performance criteria are met. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate employment prior to the lapsing of restrictions or if performance criteria are not met. Forfeitures of restricted stock are treated as canceled shares.

The table below provides information for restricted stock awards for the period indicated:

| | Three Months Ended June 30, 2019 | | Six Months Ended June 30, 2019 | |
|---|---|---|---|---|
| | 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 | 186,294 | $ 22.31 | 304,595 | $ 21.98 |
| Restricted stock granted | 150,025 | $ 22.20 | 151,695 | 22.18 |
| Restricted stock vested | (16,789 ) | $ 28.50 | (85,959 ) | 28.09 |
| Restricted stock forfeited | (33,331 ) | $ 10.91 | (84,132 ) | 11.56 |
| **Restricted stock at end of period** | **286,199** | **$ 23.19** | **286,199** | **23.19** |

**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:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Commitments to extend credit | $ 311,129 | $ 325,100 |
| Standby letters of credit | 32,663 | 32,500 |
| Commercial letters of credit | 9,930 | 13,848 |
| **Total undisbursed loan commitments** | **$ 353,722** | **$ 371,448** |

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 June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | | | | *(in thousands)* | | | | |
| Balance at beginning of period | $ | 1,100 | $ | 1,323 | $ | 1,439 | $ | 1,296 |
| Provision (income) | | 233 | | 34 | | (106 ) | | 61 |
| **Balance at end of period** | **$** | **1,333** | **$** | **1,357** | **$** | **1,333** | **$** | **1,357** |

**Note 13 — Revenue Recognition**

The Company 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. 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.

Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under 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 and securities. Based on our assessment of revenue streams related to the Company's noninterest income, we concluded that the Company's performance obligations for such revenue streams are typically satisfied as services are rendered. If applicable, the Company records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers and records contract assets when services are provided to customers before payment is received or before payment is due. The Company's noninterest revenue streams are largely based on transactional activities and since the Company generally receives payments for its services during the period or at the time services are provided, there are no contract asset or receivable balances as of June 30, 2019. Consideration is often received immediately or shortly after the Company satisfies its performance obligations 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 necessary.

**Note 14 — Leases**

As described in Note 1 to the unaudited consolidated financial statements, the Company adopted ASU 2016-02, *Leases (Topic 842),* effective January 1, 2019. We had approximately 45 operating leases for real estate and other assets. These included various leases for our branch and office locations as well as those for postage and copier machines and an advertising billboard. Our leases had initial lease terms of two to twenty-five years. Most leases included one or more options to renew, with renewal terms that can extend the lease term from two to twelve years. We assessed these options using a threshold of reasonably certain. For leases where we were reasonably certain to renew, those option periods were included within the lease term and, therefore, the measurement of the right-of-use asset and lease liability. Certain leases included options to terminate the lease, which allows the contract parties to terminate their obligations under the lease contract, typically in return for an agreed financial consideration. The terms and conditions of the termination options vary by contract. Leases with an initial term of 12 months or less were not recognized on the balance sheet. We recognized lease expense for these leases on a straight-line basis over the lease term. Certain lease agreements included payments based on Consumer Price Index (CPI) on which variable lease payments were determined and included in the right-of-use asset and liability. Variable lease payments that were not based on CPI were excluded from the right-of-use asset and lease liability and recognized in the period in which the obligations for those payments were incurred. Our lease agreements did not contain any material residual value guarantees, restrictions or covenants.

In determining whether a contract contained a lease, we determined whether an arrangement was or included a lease at contract inception. Operating lease right-of-use asset and liability were recognized at commencement date and initially measured based on the present value of lease payments over the defined lease term. The opening balance for both our right-of-use asset and lease liability were $40.9 million as of the adoption date of January 1, 2019 and the outstanding balances were $40.0 million and $40.4 million, respectively, as of June 30, 2019.

We had real estate lease agreements with lease and non-lease components, which are generally accounted for separately. However, we elected the practical expedient to not separate non-lease components from lease components for all classes of underlying assets. For certain equipment leases, such as machine equipment, we accounted for the lease and associated non-lease components as a single lease component.

In determining the discount rates, since most of our leases do not provide an implicit rate, we used our incremental borrowing rate provided by the FHLB of San Francisco based on the information available at commencement date to calculate the present value of lease payments. In order to apply the incremental borrowing rate, a portfolio approach with a collateralized rate was utilized. Assets were grouped based on similar lease terms and economic environments in a manner whereby the Company reasonably expects that the application does not differ materially from a lease-by-lease approach.

The following table presents the Company's right-of-use asset and lease liability for the period indicated:

| | June 30, 2019 |
|---|---|
| | *(in thousands)* |
| **Assets** | |
| Total right-of-use assets - Operating leases | $ 39,978 |
| **Liabilities** | |
| Total lease liabilities - Operating leases | $ 40,378 |

The Company's right-of-use asset is included in prepaid expenses and other assets and our lease liability is included in accrued expenses and other liabilities in the accompanying consolidated balance sheet.

The following table presents the Company's lease costs for the periods indicated:

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| | *(in thousands)* | |
| Operating lease cost *(1)* | $ 1,940 | $ 3,865 |
| Sublease income *(2)* | (33) | (66) |
| Net lease cost | $ 1,907 | $ 3,799 |

(1) *Includes short-term leases and variable lease costs, which are recorded in rent expense.*

(2) *Includes rental income from leased properties, which are included as contra-expense in rent expense.*

The following table presents the Company's remaining lease liability by maturity as ofJune 30, 2019:

| | Operating Leases |
|---|---|
| | *(in thousands)* |
| 2019 | $ 3,802 |
| 2020 | 6,392 |
| 2021 | 5,129 |
| 2022 | 4,843 |
| 2023 | 4,735 |
| Thereafter | 21,726 |
| | 46,627 |
| Interest | (6,249) |
| Present value of lease liability | $ 40,378 |

Weighted average remaining leases terms for the Company's operating leases were8.72 years as of June 30, 2019. Weighted average discount rates used for the Company's operating leases was 3.23 percent as of June 30, 2019. Net lease expense recognized for the three and six months ended June 30, 2019 was $1.9 million and $3.8 million, respectively. The Company chose the practical expedients and reviewed the lease and non-lease components for any impairment or otherwise, subsequently determining that no cumulative-effect adjustment to equity was necessary as part of implementing the modified retrospective approach for its adoption of ASC 842**.**

Cash paid, and included in cash flows from operating activities, for amounts included in the measurement of the lease liability for the Company's operating leases for the three and six months ended June 30, 2019 was $1.7 million and $3.4 million, respectively.

**Note 15 — Subsequent Events**

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 June 30, 2019, or would be required to be recognized in the unaudited consolidated financial statements as of June 30, 2019.

**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 thethree and six months ended June 30, 2019. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 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 June 30, 2019 (this "Report").

**Forward-Looking Statements**

Some of the statements contained in this Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this Report other than statements of historical fact are "forward–looking statements" for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, strategies, outlook, needs, plans, objectives or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; our ability to remediate any material weakness in our internal controls over financial reporting; general economic and business conditions internationally, nationally and in those areas in which we operate; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters; a failure in or breach of our operational or security systems or infrastructure, including cyber attacks; the failure to maintain current technologies; inability to successfully implement future information technology enhancements; difficult business and economic conditions that can adversely affect our industry and business, including competition and lack of soundness of other financial institutions, fraudulent activity and negative publicity; risks associated with Small Business Administration loans; failure to attract or retain key employees; our ability to access cost-effective funding; fluctuations in real estate values; changes in accounting policies and practices; the imposition of tariffs or other domestic or international governmental policies impacting the value of the products of our borrowers; changes in governmental regulation, including, but not limited to, any increase in Federal Deposit Insurance Corporation insurance premiums; ability of Hanmi Bank to make distributions to Hanmi Financial Corporation, which is restricted by certain factors, including Hanmi Bank's retained earnings, net income, prior distributions made, and certain other financial tests; ability to identify a suitable strategic partner or to consummate a strategic transaction; adequacy of our allowance for loan and lease losses; credit quality and the effect of credit quality on our provision for loan and lease losses and allowance for loan and lease losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to control expenses; changes in securities markets; and risks as it relates to cyber security against our information technology infrastructure and those of our third party providers and vendors. For additional information concerning risks we face, see "Item 1A. Risk Factors" in Part I of the 2018 Annual Report on Form 10-K. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

**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 2018 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2018 Annual Report on Form 10-K.

Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our 2018 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 June 30, | | Six Months Ended June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (dollars in thousands, except per share data) | | | |
| **Summary balance sheets:** | | | | |
| Cash and due from banks | $ 130,851 | $ 136,474 | $ 130,851 | $ 136,474 |
| Securities | 639,995 | 565,529 | 639,995 | 565,529 |
| Loans and leases receivable, net (1) | 4,506,416 | 4,510,308 | 4,506,416 | 4,510,308 |
| Assets | 5,511,752 | 5,415,202 | 5,511,752 | 5,415,202 |
| Deposits | 4,762,068 | 4,426,535 | 4,762,068 | 4,426,535 |
| Liabilities | 4,947,294 | 4,843,495 | 4,947,294 | 4,843,495 |
| Stockholders' equity | 564,458 | 571,707 | 564,458 | 571,707 |
| Tangible equity | 552,430 | 559,344 | 552,430 | 559,344 |
| Average loans and leases receivable (2) | 4,491,377 | 4,414,217 | 4,512,134 | 4,362,876 |
| Average securities | 629,062 | 591,493 | 609,414 | 590,123 |
| Average assets | 5,499,649 | 5,318,703 | 5,467,208 | 5,266,538 |
| Average deposits | 4,746,777 | 4,383,557 | 4,731,585 | 4,350,773 |
| Average stockholders' equity | 568,753 | 576,973 | 563,411 | 571,453 |
| **Per share data:** | | | | |
| Earnings per share – basic | $ 0.09 | $ 0.48 | $ 0.56 | $ 0.94 |
| Earnings per share – diluted | $ 0.09 | $ 0.48 | $ 0.56 | $ 0.94 |
| Book value per share (3) | $ 18.22 | $ 17.58 | $ 18.22 | $ 17.58 |
| Tangible book value per share (4) | $ 17.83 | $ 17.20 | $ 17.83 | $ 17.20 |
| Cash dividends per share | $ 0.24 | $ 0.24 | $ 0.48 | $ 0.48 |
| Common shares outstanding | 30,975,163 | 32,513,518 | 30,975,163 | 32,513,518 |
| **Performance ratios:** | | | | |
| Return on average assets (5) (13) | 0.19 % | 1.17 % | 0.64 % | 1.16 % |
| Return on average stockholders' equity (6) (13) | 1.87 % | 10.81 % | 6.20 % | 10.73 % |
| Net interest margin (7) | 3.30 % | 3.60 % | 3.41 % | 3.65 % |
| Efficiency ratio (8) | 59.43 % | 57.80 % | 58.13 % | 58.08 % |
| Dividend payout ratio (9) | 266.67 % | 50.00 % | 85.71 % | 51.06 % |
| Average stockholders' equity to average assets | 10.34 % | 10.85 % | 10.31 % | 10.85 % |
| Tangible common equity to tangible assets (10) | 10.04 % | 10.35 % | 10.04 % | 10.35 % |
| **Asset quality ratios:** | | | | |
| Nonperforming loans & leases to loans and leases, net (11) | 1.40 % | 0.35 % | 1.40 % | 0.35 % |
| Nonperforming assets to assets (12) | 1.15 % | 0.30 % | 1.15 % | 0.30 % |
| Net loan and lease (charge-offs) recoveries to average loans and leases | (0.02 )% | 0.01 % | (0.02 )% | — % |
| Allowance for loan lease losses to loans and leases | 1.08 % | 0.70 % | 1.08 % | 0.70 % |
| Allowance for loan and lease losses to nonperforming loans and leases | 78.35 % | 201.33 % | 78.35 % | 201.33 % |

| Capital ratios: | As of or for the Three Months Ended June 30, 2019 | 2018 | Six Months Ended June 30, 2019 | 2018 |
|---|---|---|---|---|
| Total risk-based capital: | | | | |
| Hanmi Financial | 14.99 % | 15.17% | 14.99 % | 15.17% |
| Hanmi Bank | 14.62 % | 14.86% | 14.62 % | 14.86% |
| Tier 1 risk-based capital: | | | | |
| Hanmi Financial | 11.83 % | 12.35% | 11.83 % | 12.35% |
| Hanmi Bank | 13.54 % | 14.15% | 13.54 % | 14.15% |
| Common equity Tier 1 capital: | | | | |
| Hanmi Financial | 11.41 % | 11.93% | 11.41 % | 11.93% |
| Hanmi Bank | 13.54 % | 14.15% | 13.54 % | 14.15% |
| Tier 1 leverage: | | | | |
| Hanmi Financial | 10.20 % | 10.83% | 10.20 % | 10.83% |
| Hanmi Bank | 11.67 % | 12.42% | 11.67 % | 12.42% |

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

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

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

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

(5) *Net income divided by average assets.*

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

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

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

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

(10) *Tangible common equity divided by tangible assets. Tangible equity and tangible assets are Non-GAAP financial measures, as discussed in the following section.*

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

(12) *Nonperforming assets consist of nonperforming loans and leases and real estate owned.*

(13) *Calculation based on annualized net income.*

**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 and other intangible assets (principally core deposit intangibles) 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 the 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:

| | June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | *(in thousands, except per share data)* | |
| Total assets | **$ 5,511,752** | **$ 5,415,202** |
| Less goodwill | (11,031) | (11,031) |
| Less other intangible assets | (997) | (1,332) |
| **Tangible assets** | **$ 5,499,724** | **$ 5,402,839** |
| Total stockholders’ equity [1] | $ 564,458 | $ 571,707 |
| Less goodwill | (11,031) | (11,031) |
| Less other intangible assets | (997) | (1,332) |
| **Tangible stockholders' equity** [1] | **$ 552,430** | **$ 559,344** |
| Stockholders' equity to assets | 10.24% | 10.56% |
| Tangible common equity to tangible assets[1] | 10.04% | 10.35% |
| Common shares outstanding | 30,975,163 | 32,513,518 |
| Book value per share | $ 18.22 | $ 17.58 |
| Effect of goodwill | (0.36) | (0.34) |
| Effect of other intangible assets | (0.03) | (0.04) |
| **Tangible book value per share** | **$ 17.83** | **$ 17.20** |

[1] There were no preferred shares outstanding at the periods indicated.

**Executive Overview**

Net income was $2.7 million, or $0.09 per diluted share, for the three months ended June 30, 2019 compared with $15.5 million, or $0.48 per diluted share, for the same period a year ago. For the six months ended June 30, 2019 and 2018, net income was $17.3 million, or $0.56 per diluted share, and $30.4 million, or $0.94 per diluted share, respectively. The decline in net income for the quarter and year-to-date periods reflects primarily the increase in the provision for loan and lease losses arising during the three months ended June 30, 2019 from a $15.7 million specific allowance relating to a $40.7 million loan relationship comprised of a $27.9 million land loan and a $12.8 million business loan.

The Bank, as part of its credit administration practices, evaluated the project status of the land loan, considered the approaching December 2019 contractual maturities of both loans and the timeliness of certain liquidity events for the guarantor of both loans during the 2019 second quarter. As a result, although both loans were current, the Bank placed the entire loan relationship on nonaccrual status. After evaluating the recent appraisals for the real and personal property securing the loans, the liquidity and personal guarantee of the borrower, and the appropriate accounting and regulatory guidance, the Bank established an aggregate specific allowance of $15.7 million.

Other financial highlights include the following:

Loans and leases receivable, before the allowance for loan and lease losses, were $4.56 billion at June 30, 2019 compared with $4.60 billion at December 31, 2018.

Deposits were $4.76 billion at June 30, 2019 compared with $4.75 billion at December 31, 2018.

Return on average assets for the three months ended June 30, 2019 and 2018 was 0.19% and 1.17%, respectively, while the return on average stockholders’ equity was 1.87% and 10.81% for the same respective periods.

Return on average assets for the six months ended June 30, 2019 and 2018 was 0.64% and 1.16%, respectively, while the return on average stockholders’ equity was 6.20% and 10.73% for the same respective periods.

Tangible book value per share was $17.83 at June 30, 2019 compared with $17.47 at December 31, 2018; tangible stockholders' equity to tangible assets was 10.04% at June 30, 2019 compared with 9.84% at December 31, 2018.

The Bank continues to be well-capitalized at June 30, 2019 with a Total risk-based capital ratio of 14.62%, a Tier-1 risk-based capital ratio of 13.54%, a Common equity Tier 1 capital ratio of 13.54% and a Tier 1 leverage ratio of 11.67%.

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

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2019 | | | June 30, 2018 | | |
| | Average Balance | Interest Income / Expense | Average Yield / Rate | Average Balance | Interest Income / Expense | Average Yield / Rate |
| | (dollars in thousands) | | | | | |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans and leases receivable [(1)] | $ 4,491,377 | $ 56,872 | 5.08% | $ 4,414,217 | $ 53,708 | 4.88% |
| Securities [(2)] | 629,062 | 3,774 | 2.40% | 591,493 | 3,384 | 2.29% |
| FHLB stock | 16,385 | 283 | 6.93% | 16,385 | 283 | 6.93% |
| Interest-bearing deposits in other banks | 92,753 | 557 | 2.41% | 28,831 | 133 | 1.85% |
| Total interest-earning assets | 5,229,577 | 61,486 | 4.72% | 5,050,926 | 57,508 | 4.57% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 100,916 | | | 124,371 | | |
| Allowance for loan and lease losses | (34,714) | | | (31,871) | | |
| Other assets | 203,870 | | | 175,277 | | |
| **Total assets** | **$ 5,499,649** | | | **$ 5,318,703** | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Demand: interest-bearing | $ 83,932 | $ 32 | 0.15% | $ 92,552 | $ 18 | 0.08% |
| Money market and savings | 1,541,976 | 6,083 | 1.58% | 1,412,118 | 3,546 | 1.01% |
| Time | 1,863,685 | 10,613 | 2.28% | 1,553,692 | 5,901 | 1.52% |
| Total interest-bearing deposits | 3,489,593 | 16,728 | 1.92% | 3,058,362 | 9,465 | 1.24% |
| Borrowings | 59 | — | —% | 214,066 | 1,015 | 1.90% |
| Subordinated debentures | 118,007 | 1,764 | 5.96% | 117,456 | 1,728 | 5.87% |
| Total interest-bearing liabilities | 3,607,659 | 18,492 | 2.06% | 3,389,884 | 12,208 | 1.44% |
| Noninterest-bearing liabilities and equity: | | | | | | |
| Demand deposits: noninterest-bearing | 1,257,184 | | | 1,325,195 | | |
| Other liabilities | 66,053 | | | 26,651 | | |
| Stockholders' equity | 568,753 | | | 576,973 | | |
| **Total liabilities and stockholders' equity** | **$ 5,499,649** | | | **$ 5,318,703** | | |
| **Net interest income (taxable equivalent)** | | **$ 42,994** | | | **$ 45,300** | |
| **Cost of deposits [(3)]** | | | **1.41%** | | | **0.87%** |
| **Net interest spread (taxable equivalent basis) [(4)]** | | | **2.66%** | | | **3.13%** |
| **Net interest margin (taxable equivalent basis) [(5)]** | | | **3.30%** | | | **3.60%** |

(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 June 30, 2019 vs. June 30, 2018 Increases (Decreases) Due to Change In | | |
|---|---|---|---|
| | Volume | Rate | Total |
| | *(in thousands)* | | |
| Interest and dividend income: | | | |
| Loans and leases receivable | $ 950 | $ 2,214 | $ 3,164 |
| Securities | 222 | 168 | 390 |
| FHLB stock | — | — | — |
| Interest-bearing deposits in other banks | 373 | 51 | 424 |
| **Total interest and dividend income (taxable equivalent)** | **$ 1,545** | **$ 2,433** | **$ 3,978** |
| Interest expense: | | | |
| Demand: interest-bearing | $ (2) | $ 16 | $ 14 |
| Money market and savings | 354 | 2,183 | 2,537 |
| Time | 1,339 | 3,373 | 4,712 |
| Borrowings | (507) | (508) | (1,015) |
| Subordinated debentures | 8 | 28 | 36 |
| **Total interest expense** | **$ 1,192** | **$ 5,092** | **$ 6,284** |
| **Change in net interest income (taxable equivalent)** | **$ 353** | **$ (2,659)** | **$ (2,306)** |

Interest and dividend income, on a taxable equivalent basis, increased $4.0 million, or 6.9 percent, to $61.5 million for the three months ended June 30, 2019 from $57.5 million for the same period in 2018. Interest expense increased $6.3 million, or 51.5 percent, to $18.5 million for the three months ended June 30, 2019 from $12.2 million for the same period in 2018. For the three months ended June 30, 2019 and 2018, net interest income, on a taxable equivalent basis, was $43.0 million and $45.3 million, respectively. Net interest income decreased during the three months ended June 30, 2019 compared with the same period in 2018 mainly due to increases in rates paid on deposits and an increase in the average balance of time deposits partially offset by an increase in the yield on loans and leases receivable and a decrease in the average balance and rate paid on borrowings. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended June 30, 2019 were 2.66 percent and 3.30 percent, respectively, compared with 3.13 percent and 3.60 percent, respectively, for the same period in 2018.

The average balance of interest-earning assets increased $178.6 million, or 3.5 percent, to $5.23 billion for the three months ended June 30, 2019 from $5.05 billion for the same period in 2018. The increase in interest earning assets was due mainly to the increase in loans and leases receivable. The average balance of loans and leases increased $77.2 million, or 1.7 percent, to $4.49 billion for the three months ended June 30, 2019 from $4.41 billion for the same period in 2018. The average balance of interest-bearing liabilities increased $217.7 million, or 6.4 percent, to $3.61 billion for the three months ended June 30, 2019, compared with $3.39 billion for the same period in 2018. The increase in the average balance of interest-bearing liabilities resulted primarily from an increase in the average balance of time deposits of $309.9 million and money market and savings deposits of $129.9 million, mainly offset by a decrease in the average balance of borrowings of $214.0 million in the second quarter of 2019 compared with the same period in 2018.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 15 basis points to 4.72 percent for the three months ended June 30, 2019 from 4.57 percent for the same period in 2018, 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 62 basis points to 2.06 percent for the three months ended June 30, 2019 from 1.44 percent for the same period in 2018, mainly due to higher market interest rates and a larger percentage of higher-costing time deposits in the deposit portfolio.

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

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2019 | | | June 30, 2018 | | |
| | Average Balance | Interest Income / Expense | Average Yield / Rate | Average Balance | Interest Income / Expense | Average Yield / Rate |
| | (dollars in thousands) | | | | | |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans and leases receivable [(1)] | $ 4,512,134 | $ 115,206 | 5.15% | $ 4,362,876 | $ 105,283 | 4.87% |
| Securities [(2)] | 609,414 | 7,371 | 2.42% | 590,123 | 6,678 | 2.26% |
| FHLB stock | 16,385 | 572 | 7.04% | 16,385 | 572 | 7.04% |
| Interest-bearing deposits in other banks | 72,997 | 892 | 2.46% | 30,606 | 247 | 1.63% |
| Total interest-earning assets | 5,210,930 | 124,041 | 4.80% | 4,999,990 | 112,780 | 4.55% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 104,932 | | | 123,480 | | |
| Allowance for loan and lease losses | (33,356) | | | (32,177) | | |
| Other assets | 184,702 | | | 175,245 | | |
| **Total assets** | **$ 5,467,208** | | | **$ 5,266,538** | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Demand: interest-bearing | $ 84,608 | $ 61 | 0.15% | $ 91,968 | $ 36 | 0.08% |
| Money market and savings | 1,534,385 | 11,760 | 1.55% | 1,445,272 | 6,872 | 0.96% |
| Time | 1,858,155 | 20,589 | 2.23% | 1,497,349 | 10,342 | 1.39% |
| Total interest-bearing deposits | 3,477,148 | 32,410 | 1.88% | 3,034,589 | 17,250 | 1.15% |
| Borrowings | 5,306 | 72 | 2.74% | 196,630 | 1,694 | 1.74% |
| Subordinated debentures | 117,935 | 3,536 | 5.99% | 117,390 | 3,421 | 5.82% |
| Total interest-bearing liabilities | 3,600,389 | 36,018 | 2.02% | 3,348,609 | 22,365 | 1.35% |
| Noninterest-bearing liabilities and equity: | | | | | | |
| Demand deposits: noninterest-bearing | 1,254,437 | | | 1,316,184 | | |
| Other liabilities | 48,971 | | | 30,292 | | |
| Stockholders' equity | 563,411 | | | 571,453 | | |
| **Total liabilities and stockholders' equity** | **$ 5,467,208** | | | **$ 5,266,538** | | |
| **Net interest income (taxable equivalent)** | | **$ 88,023** | | | **$ 90,415** | |
| **Cost of deposits** [(3)] | | | **1.38%** | | | **0.80%** |
| **Net interest spread (taxable equivalent basis)** [(4)] | | | **2.78%** | | | **3.20%** |
| **Net interest margin (taxable equivalent basis)** [(5)] | | | **3.41%** | | | **3.65%** |

(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.

| | Six Months Ended | | |
|---|---|---|---|
| | June 30, 2019 vs. June 30, 2018 | | |
| | Increases (Decreases) Due to Change In | | |
| | Volume | Rate | Total |
| | (in thousands) | | |
| Interest and dividend income: | | | |
| Loans and leases receivable | $ 3,712 | $ 6,211 | $ 9,923 |
| Securities | 220 | 473 | 693 |
| FHLB stock | — | — | — |
| Interest-bearing deposits in other banks | 471 | 174 | 645 |
| **Total interest and dividend income (taxable equivalent)** | **$ 4,403** | **$ 6,858** | **$ 11,261** |
| Interest expense: | | | |
| Demand: interest-bearing | $ (3) | $ 28 | $ 25 |
| Money market and savings | 449 | 4,439 | 4,888 |
| Time | 2,910 | 7,337 | 10,247 |
| Borrowings | (2,244) | 622 | (1,622) |
| Subordinated debentures | 16 | 99 | 115 |
| **Total interest expense** | **$ 1,128** | **$ 12,525** | **$ 13,653** |
| **Change in net interest income (taxable equivalent)** | **$ 3,275** | **$ (5,667)** | **$ (2,392)** |

Interest and dividend income, on a taxable equivalent basis, increased $11.3 million, or 10.0 percent, to $124.0 million for thesix months ended June 30, 2019 from $112.8 million for the same period in 2018. Interest expense increased $13.7 million, or 61 percent, to $36.0 million for the six months ended June 30, 2019 from $22.4 million for the same period in 2018. For the six months ended June 30, 2019 and 2018, net interest income, on a taxable equivalent basis, was $88.0 million and $90.4 million, respectively. The decrease in net interest income was primarily attributable to the 73 basis point increase in the average rate on interest-bearing deposits, partially offset by the increase in the average balance of and yield earned on loans and leases receivable and a decrease in the average balance of borrowings. The net interest spread and net interest margin, on a taxable equivalent basis, for the six months ended June 30, 2019 were 2.78 percent and 3.41 percent, respectively, compared with 3.20 percent and 3.65 percent, respectively, for the same period in 2018.

The average balance of interest-earning assets increased $210.9 million, or 4.2 percent, to $5.21 billion for thesix months ended June 30, 2019 from $5.00 billion for the same period in 2018. The increase in interest-earning assets resulted primarily from an increase in loans and leases receivable. The average balance of loans and leases increased $149.3 million, or 3.4 percent, to $4.51 billion for the six months ended June 30, 2019 from $4.36 billion for the same period in 2018. The average balance of interest-bearing liabilities increased $251.8 million, or 7.5 percent, to $3.60 billion for the six months ended June 30, 2019, compared with $3.35 billion for the same period in 2018. The increase in the average balance of interest-bearing liabilities resulted primarily from an increase in the average balance of time deposits of $360.8 million and money market and savings deposits of $89.1 million, mainly offset by a decrease in the average balance of borrowings of $191.3 million in the first half of 2019 compared with the same period in 2018.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 25 basis points to 4.80 percent for thesix months ended June 30, 2019 from 4.55 percent for the same period in 2018, 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 67 basis points to 2.02 percent for the six months ended June 30, 2019 from 1.35 percent for the same period in 2018, mainly due to higher market interest rates and a larger percentage of higher-costing time deposits in the deposit portfolio.

**Provision for Loan and Lease Losses**

In anticipation of credit risks inherent in our lending business, we maintain 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 $16.7 million and $0.1 million for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019, the provision for loan and lease losses was $17.8 and $0.7 million, respectively. The increase in the provision for loan and lease losses results principally from a $15.7 million specific allowance relating to a $40.7 million loan relationship added to nonaccrual loans in the 2019 second quarter.

The provision for off-balance sheet items was $233,000 and $34,000 for the three months ended June 30, 2019 and 2018 respectively. For the six months ended June 30, 2019, the credit for off-balance sheet items was $106,000, while for the six months ended June 30, 2018, the provision for off-balance sheet items was $61,000. The charge or credit for off-balance sheet items principally reflects the increase or decrease in outstanding off-balance sheet items at each period end.

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 June 30, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2019 | 2018 | Amount | Percentage |
| | *(dollars in thousands)* | | | |
| Service charges on deposit accounts | $ 2,486 | $ 2,328 | $ 158 | 6.8 % |
| Trade finance and other service charges and fees | 1,204 | 1,149 | 55 | 4.8 % |
| Other operating income | 2,409 | 993 | 1,416 | 142.6 % |
| Subtotal service charges, fees and other income | 6,099 | 4,470 | 1,629 | 36.4 % |
| Gain on sale of SBA loans | 1,060 | 1,408 | (348 ) | (24.7 )% |
| Net gain on sales of securities | 570 | 67 | 503 | 750.7 % |
| **Total noninterest income** | **$ 7,729** | **$ 5,945** | **$ 1,784** | 30.0 % |

For the three months ended June 30, 2019, noninterest income was $7.7 million, an increase of $1.8 million, or 30.0 percent, compared with $5.9 million for the same period in 2018. The increase was primarily attributable to an increase of $1.4 million, or 142.6 percent, in other operating income and an increase of $503,000, or 750.7 percent, in net gain on sale of securities, mainly offset by a $348,000 decrease in gain on sale of SBA loans reflecting higher trade premiums offset by lower volume. We sold all of the remaining tax exempt municipal bonds during the three months ended June 30, 2019. The increase in other operating income was the result of a gain on sale of fixed assets in the second quarter of 2019.

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

| | Six Months Ended June 30, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2019 | 2018 | Amount | Percentage |
| | *(dollars in thousands)* | | | |
| Service charges on deposit accounts | $ 4,844 | $ 4,839 | $ 5 | 0.1 % |
| Trade finance and other service charges and fees | 2,328 | 2,322 | 6 | 0.3 % |
| Other operating income | 3,530 | 2,350 | 1,180 | 50.2 % |
| Subtotal service charges, fees and other income | 10,702 | 9,511 | 1,191 | 12.5 % |
| Gain on sale of SBA loans | 1,986 | 2,856 | (870 ) | (30.5 )% |
| Net gain (loss) on sales of securities | 1,295 | (361 ) | 1,656 | 458.7 % |
| **Total noninterest income** | **$ 13,983** | **$ 12,006** | **$ 1,977** | 16.5 % |

For the six months ended June 30, 2019, noninterest income was $14.0 million, an increase of $2.0 million, or 16.5 percent, compared with $12.0 million for the same period in 2018. The increase was primarily attributable to an increase of $1.2 million, or 50.2 percent, in other operating income and an increase of $1.7 million, or 458.7 percent, in net gain on sale of securities, mainly offset by a $870,000 decrease in gain on sale of SBA loans reflecting higher trade premiums offset by lower volume. During the six months ended June 30, 2019, we sold tax exempt municipal bonds. The increase in other operating income was the result of a gain on sale of fixed assets in the second quarter of 2019 relating to a vacant building owned in Southern California.

**Noninterest Expense**

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

| | Three Months Ended June 30, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2019 | 2018 | Amount | Percentage |
| | *(dollars in thousands)* | | | |
| Salaries and employee benefits | $ 16,881 | $ 17,453 | $ (572) | (3.3)% |
| Occupancy and equipment | 3,468 | 4,082 | (614) | (15.0)% |
| Data processing | 2,140 | 1,554 | 586 | 37.7 % |
| Professional fees | 1,983 | 1,214 | 769 | 63.3 % |
| Supplies and communications | 649 | 693 | (44) | (6.3)% |
| Advertising and promotion | 945 | 1,034 | (89) | (8.6)% |
| Other operating expenses | 4,078 | 3,480 | 598 | 17.2 % |
| **Total noninterest expense** | **$ 30,144** | **$ 29,510** | **$ 634** | 2.1 % |

For the three months ended June 30, 2019, noninterest expense was $30.1 million, an increase of $634,000, or 2.1 percent, compared with $29.5 million for the same period in 2018. The increase was due primarily to an increase in data processing, professional fees and other operating expenses partially offset by a decrease in salaries and employee benefits and occupancy and equipment expense.

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

| | Six Months Ended June 30, | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2019 | 2018 | Amount | Percentage |
| | *(dollars in thousands)* | | | |
| Salaries and employee benefits | $ 32,619 | $ 36,155 | $ (3,536) | (9.8)% |
| Occupancy and equipment | 7,989 | 8,154 | (165) | (2.0)% |
| Data processing | 4,223 | 3,231 | 992 | 30.7 % |
| Professional fees | 3,632 | 2,583 | 1,049 | 40.6 % |
| Supplies and communications | 1,493 | 1,401 | 92 | 6.6 % |
| Advertising and promotion | 1,705 | 1,911 | (206) | (10.8)% |
| Other operating expenses | 7,549 | 5,833 | 1,716 | 29.4 % |
| **Total noninterest expense** | **$ 59,210** | **$ 59,268** | **$ (58)** | (0.1)% |

For the six months ended June 30, 2019, noninterest expense remained relatively unchanged compared with the same period in 2018. The decrease in salaries and employee benefits, mainly due to the closing of branches and other employee cost reductions, were offset by increases in data processing, professional fees and other operating expenses as a result of an increase in disaster recovery, CECL accounting standard costs, and repossessed leased equipment valuation costs.

**Income Tax Expense**

Income tax expense was $1.2 million and $5.9 million representing an effective income tax rate of 31.5 percent and 27.5 percent for the three months ended June 30, 2019 and 2018, respectively. Income tax expense was $7.5 million and $11.6 million representing an effective income tax rate of 30.2 percent and 27.7 percent for the six months ended June 30, 2019 and 2018, respectively. The increase in the effective tax rates compared with 2018 was due principally to a charge of $400,000 related to the settlement of the California 2008 and 2009 tax year audits with the Franchise Tax Board and lower tax credits from municipal bonds which were sold during the six months ended June 30, 2019.

## Financial Condition

### Securities

As of June 30, 2019, our securities portfolio was composed primarily of U.S. Government agency and sponsored agency mortgage-backed securities, collateralized mortgage obligations and, to a lesser extent, U.S. Treasury securities. Most of the securities carry fixed interest rates. Other than holdings of U.S. government agency and sponsored agency obligations, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of June 30, 2019 and December 31, 2018.

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

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Amortized Cost** | **Estimated Fair Value** | **Unrealized Gain (Loss)** | **Amortized Cost** | **Estimated Fair Value** | **Unrealized Gain (Loss)** |
| | *(in thousands)* | | | | | |
| **Securities available for sale:** | | | | | | |
| U.S. Treasury securities | $ 49,728 | $ 50,062 | $ 334 | $ 39,768 | $ 39,830 | $ 62 |
| U.S. government agency and sponsored agency obligations: | | | | | | |
| Mortgage-backed securities | 400,656 | 402,984 | 2,328 | 300,957 | 295,034 | (5,923) |
| Collateralized mortgage obligations | 167,312 | 167,813 | 501 | 124,550 | 122,292 | (2,258) |
| Debt securities | 18,961 | 19,136 | 175 | 7,499 | 7,402 | (97) |
| Total U.S. government agency and sponsored agency obligations: | 586,929 | 589,933 | 3,004 | 433,006 | 424,728 | (8,278) |
| Municipal bonds-tax exempt | — | — | — | 110,670 | 110,350 | (320) |
| **Total securities available for sale** | **$ 636,657** | **$ 639,995** | **$ 3,338** | **$ 583,444** | **$ 574,908** | **$ (8,536)** |

As of June 30, 2019, securities available for sale increased $65.1 million or 11.3 percent to $640.0 million, compared with $574.9 million as of December 31, 2018. This increase was due mainly to purchases of mortgage-backed securities and collateralized mortgage obligations, offset by the sale of tax-exempt municipal bonds. As of June 30, 2019, securities available for sale had a net unrealized gain of $3.3 million, comprised of $4.6 million of unrealized gains and $1.3 million of unrealized losses. As of December 31, 2018, securities available for sale had a net unrealized loss of $8.5 million, comprised of $401,000 of unrealized gains and $8.9 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of June 30, 2019:

| | 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:** | | | | | | | | | | |
| U.S. Treasury securities | $ 34,744 | 2.50% | $ 14,984 | 2.70% | $ — | —% | $ — | —% | $ 49,728 | 2.56% |
| U.S. government agency and sponsored agency obligations: | | | | | | | | | | |
| Mortgage-backed securities | 9 | 2.42% | 62,254 | 2.19% | 143,545 | 2.48% | 194,848 | 2.54% | 400,656 | 2.47% |
| Collateralized mortgage obligations | — | —% | 3,730 | 1.46% | 25,571 | 2.10% | 138,011 | 2.47% | 167,312 | 2.40% |
| Debt securities | 3,000 | 1.50% | 12,958 | 2.45% | 3,003 | 2.83% | — | —% | 18,961 | 2.35% |
| U.S. government agency and sponsored agency obligations | 3,009 | 1.50% | 78,942 | 2.20% | 172,119 | 2.43% | 332,859 | 2.51% | 586,929 | 2.44% |
| **Total securities available for sale** | **$ 37,753** | **2.42%** | **$ 93,926** | **2.28%** | **$ 172,119** | **2.43%** | **$ 332,859** | **2.51%** | **$ 636,657** | **2.45%** |

**Loans and Leases Receivable**

The following table shows the loan and lease portfolio composition by type as of the dates indicated, excluding loans held for sale:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Real estate loans: | | |
| Commercial property | | |
| Retail | $ 873,682 | $ 906,260 |
| Hospitality | 855,853 | 830,679 |
| Other *(1)* | 1,418,146 | 1,449,270 |
| Total commercial property loans | 3,147,681 | 3,186,209 |
| Construction | 65,454 | 71,583 |
| Residential property | 458,328 | 500,563 |
| Total real estate loans | 3,671,463 | 3,758,355 |
| Commercial and industrial loans: | | |
| Commercial term | 195,312 | 206,691 |
| Commercial lines of credit | 186,103 | 194,032 |
| International loans | 28,087 | 29,180 |
| Total commercial and industrial loans | 409,502 | 429,903 |
| Leases receivable | 460,519 | 398,858 |
| Consumer loans *(2)* | 14,318 | 13,424 |
| **Loans and leases receivable** | **4,555,802** | **4,600,540** |
| Allowance for loan and lease losses | (49,386) | (31,974) |
| **Loans and leases receivable, net** | **$ 4,506,416** | **$ 4,568,566** |

*(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 $9.4 million and $10.3 million as of June 30, 2019 and December 31, 2018, respectively.*

As of June 30, 2019 and December 31, 2018, net loans and leases receivable were $4.51 billion and $4.57 billion, respectively, representing a decrease of $62.2 million, or 1.4 percent. The decrease in loans and leases receivable as of June 30, 2019 compared with December 31, 2018 was primarily attributable to payoffs and pay downs of $445.6 million, loan sales of $30.9 million, and an increase in the allowance for loan and lease losses of $17.4 million, offset by new loan and lease production of $432.2 million.

During the six months ended June 30, 2019, loan and lease disbursements for new production consisted of $147.5 million in leases receivable, $152.1 million in commercial real estate loans, $82.1 million in commercial and industrial loans, and $50.0 million in SBA loans.

**Industry**

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:

| | Balance as of June 30, 2019 | Percentage of Loans and Leases Outstanding |
|---|---|---|
| | *(in thousands)* | |
| Lessor of nonresidential buildings | $ 1,332,361 | 29.2 % |
| Hospitality | $ 877,056 | 19.3 % |

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

**Loan Quality Indicators**

As of June 30, 2019 and December 31, 2018, 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)* | | | |
| **June 30, 2019** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 862,505 | $ 6,255 | $ 4,922 | $ 873,682 |
| Hospitality | 850,004 | 2 | 5,847 | 855,853 |
| Other | 1,405,239 | 2,658 | 10,249 | 1,418,146 |
| Total commercial property loans | 3,117,748 | 8,915 | 21,018 | 3,147,681 |
| Construction | 29,774 | 7,744 | 27,936 | 65,454 |
| Residential property | 456,708 | 802 | 817 | 458,327 |
| Total real estate loans | 3,604,230 | 17,461 | 49,771 | 3,671,462 |
| Commercial and industrial loans: | | | | |
| Commercial term | 177,389 | 386 | 17,537 | 195,312 |
| Commercial lines of credit | 176,466 | 5,241 | 4,396 | 186,103 |
| International loans | 28,087 | — | — | 28,087 |
| Total commercial and industrial loans | 381,942 | 5,627 | 21,933 | 409,502 |
| Leases receivable | 457,286 | — | 3,233 | 460,519 |
| Consumer loans | 12,838 | 732 | 749 | 14,319 |
| **Total loans and leases receivable** | **$ 4,456,296** | **$ 23,820** | **$ 75,686** | **$ 4,555,802** |
| **December 31, 2018** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 901,354 | $ 16 | $ 4,890 | $ 906,260 |
| Hospitality | 821,542 | 168 | 8,969 | 830,679 |
| Other | 1,441,219 | 2,723 | 5,328 | 1,449,270 |
| Total commercial property loans | 3,164,115 | 2,907 | 19,187 | 3,186,209 |
| Construction | 71,583 | — | — | 71,583 |
| Residential property | 500,424 | — | 139 | 500,563 |
| Total real estate loans | 3,736,122 | 2,907 | 19,326 | 3,758,355 |
| Commercial and industrial loans: | | | | |
| Commercial term | 197,992 | 4,977 | 3,722 | 206,691 |
| Commercial lines of credit | 172,338 | 21,107 | 587 | 194,032 |
| International loans | 29,180 | — | — | 29,180 |
| Total commercial and industrial loans | 399,510 | 26,084 | 4,309 | 429,903 |
| Leases receivable | 393,729 | — | 5,129 | 398,858 |
| Consumer loans | 12,454 | 191 | 779 | 13,424 |
| **Total loans and leases receivable** | **$ 4,541,815** | **$ 29,182** | **$ 29,543** | **$ 4,600,540** |

Classified loans and leases increased to $75.7 million at June 30, 2019, or 1.66 percent of total loans and leases receivable, from $29.5 million at December 31, 2018 principally because of the $40.7 million loan relationship placed on nonaccrual status during the three months ended June 30, 2019. At June 30, 2019, the $65.5 million of construction loans included two land loans totaling $29.7 million ($27.9 million classified and $1.8 million pass), two completed construction loans totaling $26.0 million (all pass), and five active construction loans totaling $9.8 million (two totaling $7.7 million special mention and three totaling $2.1 million pass) with project completion ranging from 37% to 85%. In addition, two construction loans with outstanding commitments aggregating $1.5 million which had no advances outstanding at June 30, 2019.

**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. 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, we are not aware of any loans or leases as of June 30, 2019 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:

| | June 30, 2019 | December 31, 2018 | Increase (Decrease) Amount | Increase (Decrease) Percentage |
|---|---|---|---|---|
| | *(dollars in thousands)* | | | |
| **Nonperforming loans and leases:** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 800 | $ 865 | $ (65) | (7.5)% |
| Hospitality | 1,442 | 3,625 | (2,183) | (60.2)% |
| Other | 6,587 | 1,641 | 4,946 | 301.4 % |
| Total commercial property loans | 8,829 | 6,131 | 2,698 | 44.0 % |
| Construction | 27,936 | — | 27,936 | 100.0 % |
| Residential property | 858 | 182 | 676 | 371.4 % |
| Total real estate loans | 37,623 | 6,313 | 31,310 | 496.0 % |
| Commercial and industrial loans | 21,457 | 3,337 | 18,120 | 543.0 % |
| Leases receivable | 3,233 | 5,129 | (1,896) | (37.0)% |
| Consumer loans | 718 | 746 | (28) | (3.8)% |
| Total nonperforming loans | 63,031 | 15,525 | 47,506 | 306.0 % |
| Loans 90 days or more past due and still accruing | — | 4 | (4) | (100.0)% |
| **Total nonperforming loans and leases** *[(1)]* | **63,031** | **15,529** | **47,502** | 305.9 % |
| OREO | 507 | 663 | (156) | (23.5)% |
| **Total nonperforming assets** | **$ 63,538** | **$ 16,192** | **$ 47,346** | 292.4 % |
| Nonperforming loans and leases as a percentage of loans and leases, net | 1.40% | 0.34% | | |
| Nonperforming assets as a percentage of assets | 1.15% | 0.29% | | |
| Troubled debt restructured performing loans and leases | $ 2,980 | $ 6,029 | | |

*[(1)] Includes nonperforming TDRs of $44.1 million and $4.3 million as of June 30, 2019 and December 31, 2018, respectively.*

Nonperforming loans and leases were $63.0 million and $15.5 million as of June 30, 2019 and December 31, 2018, respectively. For the six months ended June 30, 2019, $71.0 million of loans and leases were placed on nonaccrual status. Offsetting these additions were $21.2 million of principal payoffs and pay-downs and $0.5 million in charge-offs and upgrades. The three months ended March 31, 2019 included the addition of a $25.0 million commercial loan relationship, primarily secured by business assets and, to a lesser extent, commercial real estate. As of June 30, 2019, this relationship declined to $10.4 million from pay-downs and the specific allowance related to this relationship declined to $1.8 million. The three months ended June 30, 2019 included the addition of a $40.7 million loan relationship comprised of a $27.9 million land loan with a specific allowance of $14.7 million and a $12.8 million business loan with a specific allowance of $1.0 million.

Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were $11.2 million as of June 30, 2019 compared with $10.7 million as of December 31, 2018.

The ratio of nonperforming loans and leases to total loans and leases increased to 1.4 percent as of June 30, 2019 compared with 0.34 percent as of December 31, 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 June 30, 2019, OREO consisted of five properties with a combined carrying value of $507,000, as compared with seven properties with a combined carrying value of $663,000 as of December 31, 2018.

**Impaired Loans and Leases**

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

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

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Recorded Investment | Percentage | Recorded Investment | Percentage |
| | *(dollars in thousands)* | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 951 | 1.4% | $ 2,166 | 8.6% |
| Hospitality | 1,454 | 2.2% | 4,282 | 17.0% |
| Other | 8,093 | 12.3% | 7,525 | 30.1% |
| Total commercial property loans | 10,498 | 15.9% | 13,973 | 55.7% |
| Construction | 27,936 | 42.2% | — | —% |
| Residential property | 1,451 | 2.2% | 788 | 3.1% |
| Total real estate loans | 39,885 | 60.3% | 14,761 | 58.8% |
| Commercial and industrial loans | 21,706 | 32.8% | 4,396 | 17.5% |
| Leases receivable | 3,233 | 4.9% | 5,129 | 20.4% |
| Consumer loans | 1,351 | 2.0% | 839 | 3.3% |
| **Total** | **$ 66,175** | **100.0%** | **$ 25,125** | **100.0%** |

Total impaired loans and leases increased $41.1 million, or 163.4 percent, to $66.2 million as of June 30, 2019, from $25.1 million at December 31, 2018, principally due to the addition of a $40.7 million loan relationship comprised of a $27.9 million land loan and a $12.8 million business loan. Specific allowances associated with impaired loans and leases were $18.5 million and $1.8 million as of June 30, 2019 and December 31, 2018, respectively.

During the three months ended June 30, 2019 and 2018, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $1.1 million and $678,000, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $696,000 and $382,000 for the three months ended June 30, 2019 and 2018, respectively.

During the six months ended June 30, 2019 and 2018, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $2.0 million and $1.3 million, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $1.4 million and $749,000 for the six months ended June 30, 2019 and 2018, respectively.

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

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Nonaccrual TDRs | Accrual TDRs | Total | Nonaccrual TDRs | Accrual TDRs | Total |
| | | | (in thousands) | | | |
| Real estate loans | $ 29,928 | $ 2,098 | $ 32,026 | $ 2,059 | $ 5,234 | $ 7,293 |
| Commercial and industrial loans | 13,487 | 249 | 13,736 | 1,471 | 702 | 2,173 |
| Consumer loans | 718 | 633 | 1,351 | 746 | 93 | 839 |
| **Total** | **$ 44,133** | **$ 2,980** | **$ 47,113** | **$ 4,276** | **$ 6,029** | **$ 10,305** |

For the three months ended June 30, 2019, no loans were restructured and subsequently classified as TDR's.

As of June 30, 2019, TDRs on accrual status were $3.0 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $28,000 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 June 30, 2019, TDRs on nonaccrual status were $44.1 million, and a $15.9 million allowance relating to these loans was included in the allowance for loan and lease losses.

As of December 31, 2018, TDRs on accrual status were $6.0 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $57,000 allowance relating to these loans was included in the allowance for loan and lease losses. As of December 31, 2018, TDRs on nonaccrual status were $4.3 million, and a $256,000 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 expense 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, 2018 and the first six months of 2019, the Bank utilized a 31-quarter and 33-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 segmented pools of similar risk characteristic loans, as well as homogeneous pools. For the twelve months ended December 31, 2018 and the first six months in 2019, loans were divided into eleven general pools of risk-rated loans, as well as two 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 the two 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:

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Allowance Amount | Percentage | Total Loans | Allowance Amount | Percentage | Total Loans |
| | | | (dollars in thousands) | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ 4,306 | 8.7% | $ 873,682 | $ 3,652 | 11.4% | $ 906,260 |
| Hospitality | 5,548 | 11.2% | 855,853 | 5,486 | 17.2% | 830,679 |
| Other | 7,345 | 14.7% | 1,418,146 | 6,723 | 21.0% | 1,449,270 |
| Total commercial property loans | 17,199 | 34.6% | 3,147,681 | 15,861 | 49.6% | 3,186,209 |
| Construction | 15,188 | 30.8% | 65,454 | 1,143 | 3.6% | 71,583 |
| Residential property | 1,617 | 3.3% | 458,328 | 1,380 | 4.3% | 500,563 |
| Total real estate loans | 34,004 | 68.7% | 3,671,463 | 18,384 | 57.5% | 3,758,355 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 6,644 | 13.5% | 195,312 | 5,416 | 16.9% | 206,691 |
| Commercial lines of credit | 2,359 | 4.8% | 186,103 | 1,532 | 4.8% | 194,032 |
| International loans | 232 | 0.5% | 28,087 | 214 | 0.7% | 29,180 |
| Total commercial and industrial loans | 9,235 | 18.8% | 409,502 | 7,162 | 22.4% | 429,903 |
| Leases receivable | 6,068 | 12.3% | 460,519 | 6,303 | 19.7% | 398,858 |
| Consumer loans | 79 | 0.2% | 14,318 | 98 | 0.3% | 13,424 |
| Unallocated | — | —% | — | 27 | 0.1% | — |
| **Total** | **$ 49,386** | **100.0%** | **$ 4,555,802** | **$ 31,974** | **100.0%** | **$ 4,600,540** |

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 Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2019** | **June 30, 2018** | **June 30, 2019** | **June 30, 2018** |
| | *(dollars in thousands)* | | | |
| **Allowance for loan and lease losses:** | | | | |
| Balance at beginning of period | $ 32,896 | $ 31,777 | $ 31,974 | $ 31,043 |
| Loans and leases charged off | (1,536) | (657) | (2,634) | (2,289) |
| Recoveries on loans and leases previously charged off | 1,327 | 598 | 2,230 | 2,315 |
| Net (charge-offs) recoveries | (209) | (59) | (404) | 26 |
| Loan and lease loss provision | 16,699 | 100 | 17,816 | 749 |
| **Balance at end of period** | **$ 49,386** | **$ 31,818** | **$ 49,386** | **$ 31,818** |
| **Allowance for off-balance sheet items:** | | | | |
| Balance at beginning of period | $ 1,100 | $ 1,323 | $ 1,439 | $ 1,296 |
| Loan and lease loss provision | 233 | 34 | (106) | 61 |
| **Balance at end of period** | **$ 1,333** | **$ 1,357** | **$ 1,333** | **$ 1,357** |
| **Ratios:** | | | | |
| Net (charge-offs) recoveries to average loans and leases[(1)] | (0.02)% | (0.01)% | (0.02)% | 0.00% |
| Net (charge-offs) recoveries to loans and leases[(1)] | (0.02)% | (0.01)% | (0.02)% | 0.00% |
| Allowance for loan and lease losses to average loans and leases | 1.10 % | 0.72 % | 1.09 % | 0.73% |
| Allowance for loan and lease losses to loans and leases | 1.08 % | 0.70 % | 1.08 % | 0.70% |
| Net (charge-offs) recoveries to allowance for loans and leases[(1)] | (1.69)% | (0.74)% | (1.64)% | 0.16% |
| Allowance for loan and lease losses to nonperforming loans and leases | 78.35 % | 201.33 % | 78.35 % | 201.33% |
| **Balance:** | | | | |
| Average loans and leases during period | $ 4,491,377 | $ 4,414,217 | $ 4,512,133 | $ 4,362,876 |
| Loans and leases at the end of period | $ 4,555,802 | $ 4,542,126 | $ 4,555,802 | $ 4,542,126 |
| Nonperforming loans and leases at end of period | $ 63,031 | $ 15,804 | $ 63,031 | $ 15,804 |

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

The allowance for loan and lease losses was $49.4 million as of June 30, 2019 and $31.9 million as of December 31, 2018. The increase primarily reflects a specific allowance of $15.7 million relating to a $40.7 million loan relationship.
The provision for loan and lease losses was $16.7 million and $100,000 for the three months ended June 30, 2019 and 2018, respectively. Charge-offs of $1.5 million were offset by recoveries of $1.3 million for the three months ended June 30, 2019 compared with charge-offs of $657,000 and recoveries of $598,000 for the same period in 2018.

The provision for loan and lease losses was $17.8 million and $749,000 for the six months ended June 30, 2019 and 2018, respectively. Charge-offs of $2.6 million were offset by recoveries of $2.2 million for the six months ended June 30, 2019 compared with charge-offs of $2.3 million and recoveries of $2.3 million for the same period in 2018.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, was $1.3 million and $1.4 million as of June 30, 2019 and 2018, respectively. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized.

Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these allowances were adequate for losses inherent in the loan and lease portfolio and for off-balance sheet exposures as of June 30, 2019.

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

| | For the Three Months Ended | | | For the Six Months Ended | | |
|---|---|---|---|---|---|---|
| | Charge-offs | Recoveries | Net (Charge-offs) Recoveries | Charge-offs | Recoveries | Net (Charge-offs) Recoveries |
| | (in thousands) | | | | | |
| **June 30, 2019** | | | | | | |
| Real estate loans | $ — | $ 1,133 | $ 1,133 | $ (113) | $ 1,563 | $ 1,450 |
| Commercial and industrial loans | (562) | 89 | (473) | (695) | 472 | (223) |
| Leases receivable | (974) | 105 | (869) | (1,826) | 195 | (1,631) |
| Consumer loans | — | — | — | — | — | — |
| **Total** | **$ (1,536)** | **$ 1,327** | **$ (209)** | **$ (2,634)** | **$ 2,230** | **$ (404)** |
| **June 30, 2018** | | | | | | |
| Real estate loans | $ (40) | $ 371 | $ 331 | $ (1,029) | $ 1,256 | $ 227 |
| Commercial and industrial loans | (86) | 197 | 111 | (365) | 933 | 568 |
| Leases receivable | (531) | 29 | (502) | (895) | 124 | (771) |
| Consumer loans | — | 1 | 1 | — | 2 | 2 |
| **Total** | **$ (657)** | **$ 598** | **$ (59)** | **$ (2,289)** | **$ 2,315** | **$ 26** |

For the three months ended June 30, 2019, total charge-offs were $1.5 million, an increase of $870,000, or 132.4 percent, from $657,000 for the same period in 2018. Charge-offs were offset by recoveries during the three months ended June 30, 2019 of $1.3 million, an increase of $720,000, or 120.4 percent, from $598,000 for the same period in 2018. For the six months ended June 30, 2019, total charge-offs were $2.6 million, an increase of $345,000, or 15.1 percent, from $2.3 million for the same period in 2018. Charge-offs were offset by recoveries during the six months ended June 30, 2019 of $2.2 million, a decrease of $86,000, or 3.7 percent, from $2.3 million for the same period in 2018.

**Deposits**

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

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Balance | Percent | Balance | Percent |
| | (dollars in thousands) | | | |
| Demand – noninterest-bearing | $ 1,312,577 | 27.6 % | $ 1,284,530 | 27.1 % |
| Interest-bearing: | | | | |
| Demand | 80,248 | 1.7 % | 87,582 | 1.8 % |
| Money market and savings | 1,528,000 | 32.1 % | 1,573,622 | 33.2 % |
| Time deposits of $100,000 or more [(1)] | 1,661,498 | 34.9 % | 1,601,648 | 33.7 % |
| Other time deposits | 179,745 | 3.8 % | 199,853 | 4.2 % |
| **Total deposits** | **$ 4,762,068** | **100.0 %** | **$ 4,747,235** | **100.0 %** |

(1) *Includes $299.2 million and $288.6 million of time deposits of $250,000 or more as of June 30, 2019 and December 31, 2018, respectively.*

Deposits increased $14.8 million, or 0.3 percent, to $4.76 billion as of June 30, 2019 from $4.75 billion as of December 31, 2018. The increase in deposits was mainly attributable to the $59.8 million, or 3.7 percent increase in time deposits of $100,000 or more, and the $28.0 million, or 2.2 percent, increase in noninterest-bearing deposits, offset by a decrease of $73.0 million in demand, money market and savings, and other time deposits.

**Borrowings and Subordinated Debentures**

At June 30, 2019, the Company had no FHLB advances and at December 31, 2018 there were $55.0 million in overnight advances from the FHLB. In addition, subordinated debentures were $118.1 million and $117.8 million at June 30, 2019 and December 31, 2018, 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% | $ 664 | 0.35% | $ 13,464 | 6.82% |
| 200% | $ 403 | 0.21% | $ 8,762 | 4.44% |
| 100% | $ 620 | 0.33% | $ 5,180 | 2.62% |
| (100)% | $ (5,285 ) | (2.80)% | $ (13,201 ) | (6.68)% |

| | Economic Value of Equity (EVE) | |
|---|---|---|
| Change in Interest Rate | Dollar Change | Percentage Change |
| | *(dollars in thousands)* | |
| 300% | $ 24,707 | 4.34% |
| 200% | $ 22,118 | 3.88% |
| 100% | $ 17,746 | 3.11% |
| (100)% | $ (36,505 ) | (6.41)% |

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 June 30, 2019, the Bank's total risk-based capital ratio of 14.62 percent, Tier 1 risk-based capital ratio of 13.54 percent, common equity Tier 1 capital ratio of 13.54 percent and Tier 1 leverage capital ratio of 11.67 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 June 30, 2019, the Company's total risk-based capital ratio was 14.99 percent, Tier 1 risk-based capital ratio was 11.83 percent, common equity Tier 1 capital ratio was 11.41 percent and Tier 1 leverage capital ratio was 10.20 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 2018 Annual Report on Form 10-K.

***Liquidity***

**Hanmi Financial**

At June 30, 2019, Hanmi Financial had $10.1 million in cash on deposit with its bank subsidiary. 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 June 30, 2019, the Bank had no advances from the FHLB and $327.8 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 June 30, 2019, the total borrowing capacity available based on pledged collateral and remaining available borrowing capacity were $1.0 billion and $905.0 million, respectively, compared to $924.4 million and $729.4 million, respectively, as of December 31, 2018. The Bank also had three unsecured federal funds lines totaling $115.0 million with no outstanding balances as of June 30, 2019.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $29.6 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $29.9 million, and had no borrowings under this source as of June 30, 2019.

**Off-Balance Sheet Arrangements**

For a discussion of off-balance sheet arrangements, see Note 12 - Off-Balance Sheet Commitments included in the notes to unaudited consolidated financial statements in this Report and "Item 1. Business - Off-Balance Sheet Commitments" in our 2018 Annual Report on Form 10-K.

**Contractual Obligations**

There have been no material changes to the contractual obligations described in our 2018 Annual Report on Form 10-K.

**Recently Issued Accounting Standards**

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

2019, the FASB voted to delay CECL's effective date for non-public companies and Small Reporting Companies who are public filers. Due to the Company's categorization as a large public filer, this delay will not have any impact on its adoption of ASU 2016-13. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has established a steering committee comprised of senior executives from the Accounting and Credit Risk functions and has engaged third party consultants to support CECL adoption activities.

The Company is currently engaged in CECL implementation activities and has completed development of its methodology, data/input gathering and validation, and initial testing of its designed models. The Company plans to leverage an approach consisting of four forecasting models aligned with the Bank's major pools of in-scope financial instruments. The Company plans to leverage multiple loss rate methodologies across the different models developed and will incorporate linear regression approaches to quantify the relationship between loan default behavior and a set of macroeconomic factors for use in model estimation.

The Company plans to perform parallel processing and review of the model outputs starting in the third quarter 2019. In addition, the Company has devised risk documentation and policies and procedures associated with CECL to support the ongoing estimation activities and the continuous assessment of risks related to the methodology and its models, and data governance. As of June 30, 2019, the Company is still evaluating the impacts of ASU 2016-13 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

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness and design of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation and the identification of a material weakness in internal controls over financial reporting as described below, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, that the Company’s disclosure controls and procedures were not effective. The material weakness in internal control over financial reporting resulted from the lack of operating effectiveness of a control that allowed for the inadequate review of the fair value of collateral dependent impaired loans. The material weakness was identified through evaluation of a non-real estate collateral dependent impaired loan. Specifically, our existing control for determining whether a fair value review of collateral dependent impaired loans should occur to facilitate the timely measurement of a specific allowance did not operate effectively.

Subsequent to the period covered by this Quarterly Report on Form 10-Q, management has been actively engaged in developing remediation plans to address the material weakness noted above. The Company is enhancing its current controls over the review of the fair value of collateral dependent impaired loans. These enhancements include strengthening our policy documentation describing the criteria for when collateral dependent impaired loan fair value review is required, developing and implementing additional training on our collateral dependent impaired loan fair value review process, and reinforcing the required documentation when concluding a fair value review is not warranted.

### Changes in Internal Control Over Financial Reporting

Other than described above, during the most recent fiscal quarter, there has been no change in our internal controls over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that have materially affected or are reasonably likely to materially affect Hanmi Financial's internal controls 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 2018 Annual Report on Form 10-K.

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

On January 24, 2019, the Company announced a new stock repurchase program that authorized the repurchase of up to 5% of its outstanding shares or approximately 1.5 million shares of common stock. During the three months ended June 30, 2019, there were no repurchases of its common stock under the repurchase program, except that the Company acquired 3,314 shares from employees in connection with the satisfaction of employee tax withholding obligations incurred through vesting of Company stock awards.

### 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 |
|---|---|
| 10.1 | Amended and Restated Employment Agreement by and among Hanmi Financial Corporation, Hanmi Bank, and Bonita I. Lee, dated April 2, 2019 (incorporated herein by reference to the Hanmi Financial Corporation Current Report on Form 8-K filed with the SEC on April 3, 2019). |
| 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 | Inline XBRL Instance Document * |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document * |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document * |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document * |
| 104 | The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL |

* Attached as Exhibit 101 to this report are documents formatted in Inline 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: | October 4, 2019 | By: | /s/ *Bonita I. Lee* |
| | | | Bonita I. Lee<br>*President and Chief Executive Officer*<br>*(Principal Executive Officer)* |
| | | By: | /s/ *Romolo C. Santarosa* |
| | | | Romolo C. Santarosa<br>*Senior Executive Vice President and Chief Financial Officer*<br>*(Principal Financial and Accounting Officer)* |

# Section 1: 8-K (FORM 8-K)

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

## FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event Reported): April 2, 2019

HANMI FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

| | | |
|---|---|---|
| Delaware | 000-30421 | 95-4788120 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (I.R.S. Employer Identification Number) |

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 or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). 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. [ ]

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On April 3, 2019, Hanmi Financial Corporation (the "Company"), and its wholly owned subsidiary, Hanmi Bank (the "Bank"), announced that Bonita I. Lee, age 56, will succeed C. G. Kum as the President and Chief Executive Officer of the Company and the Bank, effective May 3, 2019. The Boards of Directors of the Company and the Bank have also appointed Ms. Lee as a director of the Company and the Bank, effective immediately. Currently, Ms. Lee serves as the President and Chief Operating Officer of the Company and the Bank. Ms. Lee was named the President of the Company and the Bank in June 2018. Ms. Lee served as Chief Operating Officer of the Company and the Bank since August 2013. Ms. Lee is not a party to any transaction with the Company or the Bank that would require disclosure under Item 404(a) of Securities and Exchange Commission Regulation S-K.

In connection with Ms. Lee's appointment, the Company and the Bank entered into an amended and restated employment agreement with Ms. Lee, to be effective May 3, 2019. Under the amended and restated employment agreement, Ms. Lee will serve as the President and Chief Executive Officer of the Company and the Bank. Ms. Lee's amended and restated employment agreement has a three-year term, ending May 6, 2022, that renews automatically for one-year periods on each subsequent anniversary of May 6th, unless either Ms. Lee or the Company or Bank provides written notice of non-renewal at least 60 days prior to end of the term. Under the amended and restated employment agreement, Ms. Lee will be paid an initial salary of $525,000 and will have a bonus potential of 100% of salary. In recognition of her appointment as Chief Executive Officer, she will receive a restricted stock grant on the effective date of the amended and restated employment agreement, the approximate value of which will be $525,000 (to the nearest whole share) on the grant date. The restricted stock grant will vest in three approximately equal installments on each anniversary of the grant date, provided Ms. Lee remains employed as the Chief Executive Officer on each such date. She will also be entitled to participate in employee benefit plans of the Company and the Bank, including medical, dental, vision and life insurance coverage and will be eligible for certain perquisites, including a monthly automobile allowance of $3,000, the payment of a membership at the country club of her choice, $25,000 per year in continuing professional education and 20 days of paid leave annually. In addition, Ms. Lee will be provided term life insurance coverage of up to $1.0 million, or such lesser amount as can be purchased with an annual premium payment of $25,000.

In the event of her termination without "cause" or for "good reason" (as each is defined in the amended and restated employment agreement), Ms. Lee will be entitled to receive the following severance payments and benefits: (1) continued payment of her then-current salary for 12 months, (2) a lump sum payment equal to a pro-rated portion of her prior year's annual bonus based on the number of days worked during the year, (3) accelerated vesting of any then-unvested time-based equity awards held by Ms. Lee with respect to the portion that would have vested if Ms. Lee's employment had continued for one year following her date of termination and (4) continued health insurance benefits at the Company's expense under COBRA for up to 18 months. If her employment is terminated without cause or for good reason following a change in control, Ms. Lee is entitled to (1) two and one-half times her then-annual base salary and then-maximum annual bonus, (2) full acceleration of any then-unvested time-based equity awards and (3) continued health insurance benefits for up to 18 months. In the event of her death or disability, she or her estate, as applicable, will be entitled to receive a lump-sum payment of an amount equal to the pro-rated portion of her prior year's annual bonus based on the number of days worked during the year of termination. The payment of the above-benefits is generally conditioned on Ms. Lee's entry into and non-revocation of a general release in favor of the Company and the Bank.

The foregoing description of the amended and restated employment agreement is qualified in its entirety by reference to the amended and restated employment agreement that is attached hereto as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated by reference into this Item 5.02.

The press release announcing the appointment of Ms. Lee is attached as an exhibit to this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired. None

(b) Pro forma financial information. None

(c) Shell company transactions: None

(d) Exhibits.

10.1 Amended and Restated Employment Agreement by and among Hanmi Financial Corporation, Hanmi Bank and Bonita I. Lee dated April 2, 2019

99.1 Press release dated April 3, 2019

SIGNATURE

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 hereunto duly authorized.

HANMI FINANCIAL CORPORATION

Date: April 3, 2019

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

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# Section 2: EX-10.1 (EXHIBIT 10.1)

EXHIBIT 10.1

April 2, 2019

Bonita I. Lee

Re: Amended and Restated Employment Agreement

Dear Ms. Lee:

This is your AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") with Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state chartered bank incorporated under the laws of the State of California (together, the "Company"). It sets forth the terms of your employment with the Company, effective as of close of business on May 3, 2019 (the "Effective Date"). Effective as of the Effective Date, this Agreement supersedes and replaces in its entirety that certain Employment Agreement, dated February 12, 2018, by and between the Company and you (the "Prior Agreement").

1. Your Position, Performance and Other Activities.

(a) Position. You will be employed in the position of President and Chief Executive Officer ("CEO") of the Company and will report directly to the Company's Board of Directors (the "Board"). You and the Company acknowledge that you will become a member of the Board, effective as of the execution date of this Agreement. The Company will use all reasonable efforts to cause you to be nominated for re-election to the Board each time your Board term expires during the Term (as defined in Section 2). You agree to serve as a member of the Board, as well as a member of any Board committee to which you may be elected or appointed. You also agree that, unless otherwise agreed to by you and the Company, you will be deemed to have resigned from the Board and each Board committee voluntarily, without any further action by you, as of the end of the Term or upon a termination of your employment with the Company for any reason.

(b) Authority, Responsibilities and Reporting. You will have the authority, responsibilities and reporting relationships that correspond to your position, including any particular authority, responsibilities and reporting relationships consistent with your position that the Board may assign to you from time to time and you shall perform your duties hereunder in compliance with such policies of the Company as may be adopted from time to time.

(c) Performance. During your employment, you will devote substantially all of your business time and attention to the Company and will use good faith efforts to discharge your responsibilities under this Agreement to the best of your abilities. During the Term, your place of performance will be the headquarters of the Company or such other place as the Board determines. Your performance will be reviewed by the Board on an on-going basis and no less frequently than annually.

(d) Other Activities. During your employment, you will not render any business, commercial or professional services to any party other than the Company. However, you may (i) serve on corporate, civic or charitable boards, (ii) manage personal investments, and (iii) deliver lectures, fulfill speaking engagements and teach at educational institutions, so long as (A) these activities do not interfere with your performance of your responsibilities under this Agreement, (B) any service on a corporate, civic or charitable board is disclosed to the Board contemporaneously upon commencement and then at least annually to the Board and (C) no such services are provided to any competitor of the

Company.

2. Term of Your Employment.

Your employment under this Agreement shall be for a term commencing on the Effective Date and ending upon the earlier of (i) May 6, 2022 (the "End Date"), or (ii) the close of business on the effective date of termination of your employment pursuant to Section 5 (the "Term"). On the End Date and on each subsequent anniversary of the End Date thereafter (each, a "Renewal Date"), the Term shall automatically renew for an additional one (1) year period, unless either you or the Company provides the other party with written notice of non-renewal of the Term at least sixty (60) days prior to the End Date or such Renewal Date, as applicable. Notwithstanding the foregoing, your employment can be terminated by either party providing advance written notice in accordance with Section 5(e). If you remain employed by the Company following the expiration of the Term (including pursuant to a non-renewal thereof), except as otherwise expressly provided herein, your employment relationship with the Company (if any) shall cease to be governed by the terms and conditions of this Agreement and shall be on an at-will basis on such terms as may be prescribed by the Company, unless otherwise agreed to by you and the Company in writing; provided, however, that the provisions of Section 7 below shall survive the expiration or termination of the Term in accordance with their terms.

3. Your Compensation.

(a) Salary. During the Term, you will receive an annual base salary, which may be increased from time to time, but not reduced (other than a reduction that would affect all senior executives of the Bank based on the financial performance of the Bank, and in such case, your reduction shall not exceed the percentage reduction of similarly situated senior executives of the Bank) (your "Salary") payable in accordance with the Company's regular payroll practices. The amount of your Salary as of the Effective Date will be $525,000. Your Salary will be reviewed at least annually commencing in 2020 and may be increased, but not decreased (except as noted above), in the sole discretion of the independent members of the Board, based on the recommendation from the Compensation and Human Resources Committee (the "CHRC").

(b) CEO Equity Grant. On the Effective Date of this Agreement, You shall receive an award of restricted stock, the approximate value of which will be $525,000 (to the nearest whole share) on the grant date. Consistent with the terms of the restricted stock agreement to be entered into by the Company and You on the grant date, the restricted stock grant will vest at the rate of 33% each, on the first and second anniversary of the grant date, and at the rate of 34% on the third anniversary of the grant date, provided that you remain employed as the Chief Executive Officer of the Company and the Bank on each such anniversary of the grant date.

(c) Incentive Compensation. During the Term, You will be eligible to receive an annual bonus (your "Bonus") for each fiscal year of the Company commencing with the fiscal year ending December 31, 2019, pursuant to an annual bonus plan. The amount of the Bonus and the performance goals applicable to the Bonus shall be determined in accordance with the terms and conditions of said bonus plan as in effect from time to time, as determined by the independent members of the Board in sole discretion, based on a recommendation from the CHRC. Your total annual Bonus (cash plus equity awards) for any fiscal year cannot exceed 100% of your Salary.

4. Other Employee Benefits.

During the Term:

(a) Vacation. You shall be entitled to twenty (20) days paid vacation per year (prorated for partial years), and to such paid holidays as are observed by the Company from time to time, all in accordance with the Company's policies and practices that are applicable to the Company's senior executives. Unused vacation will be carried over from year to year and/or paid out as provided in the Company's vacation plans and polices in effect from time to time.

(b) Business Expenses. You will be reimbursed for all reasonable business expenses incurred by you in performing your responsibilities under this Agreement. Reimbursements will be made pursuant to the Company's normal practices and procedures for senior executives.

(c) Facilities. You will be provided with office space, facilities, secretarial support and other business services consistent with your position on a basis that is at least as favorable as that provided to similarly situated senior executives of the Company.

(d) Employee Benefit Plans. (i) You shall be eligible to participate in all incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs in effect from time to time, in each case that are applicable generally to senior executives of the Company; (ii) you and your eligible family members shall be eligible for participation, at the Company's expense, in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained for the Company's senior executives from time to time; provided, however, that if your participation in such plans and programs at the Company's expense would violate applicable law or would result in fines or penalties to the Company (including, without limitation, pursuant to the Patient Protection and Affordable Care Act or Section 2716 of the Public Health Service Act or any other health care law), then you and the Company shall in good faith negotiate replacement benefits and/or replacement compensation to be paid or provided to you in lieu of such participation at the Company's expense; (iii) the Company shall pay directly or, at its election, reimburse you for the cost of premiums of up to $25,000 annually for term life insurance coverage of up to One Million Dollars ($1,000,000) on your life during the Term (or such lesser amount of coverage as can be purchased for $25,000 annually); and (iv) you shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices, and procedures of the Company.

(e) Country Club Membership. The Company will provide you with a country club membership in Los Angeles, California at a country club selected by the Company and reasonably acceptable to you and will pay or reimburse you for any and all membership fees in connection with such membership.

(f) Automobile Allowance. The Company will provide you with a monthly automobile allowance of Three Thousand Dollars ($3,000).

(g) Professional Education. The Company shall provide up to $25,000 per annum, or such other amount as mutually agreed to by the Board and you, for each year during the initial Term, and in the sole discretion of the Board for each year during the Renewal Terms, for your continuing professional education to assist you in developing and honing the skills of your position as Chief Executive Officer.

(h) Liability Insurance. The Company shall maintain (i) a directors' and officers' liability insurance policy, or an equivalent errors and omissions liability insurance policy, and (ii) an employment practices liability insurance policy. Each such policy shall cover you with scope, exclusions, amounts and deductibles no less favorable to you than those applicable to the Company's senior executive officers and directors on the Effective Date, or any more favorable as may be available to any other director or senior executive officer of the Company, while you are employed with the Company.

5. Termination of Your Employment.

(a) No Reason Required. You or the Company may terminate your employment at any time for any reason, or for no reason, subject to compliance with Section 5(e).

(b) Termination by the Company for Cause.

(i) "Cause" means any of the following:

(A) Your continued failure, either due to willful action or as a result of gross neglect, to substantially perform your duties and responsibilities to the Company under this Agreement (other than any such failure resulting from your incapacity due to physical or mental illness) that, if capable of being cured, has not been cured within thirty (30) days after written notice is delivered to you by the Company, which notice specifies in reasonable detail the manner in which the Company believes you have not substantially performed your duties and responsibilities;

(B) Your engagement in conduct that is demonstrably and materially injurious to the Company, or that materially harms the reputation or financial position of the Company, unless the conduct in question was undertaken in good faith on an informed basis with due care and with a rational business purpose and based upon the honest belief that such conduct was in the best interest of the Company;

(C) Your indictment or conviction of, or plea of guilty or nolo contendere to, a felony or any other crime involving dishonesty, fraud or moral turpitude;

(D) Your being found liable in any SEC or other civil or criminal securities law action or entering any cease and desist order with respect to such action (regardless of whether or not you admit or deny liability) where the conduct that is the subject of such action is demonstrably and materially injurious to the Company;

(E) Your material breach of your fiduciary duties to the Company;

(F) Your (1) obstructing or impeding, (2) endeavoring to influence, obstruct or impede, or (3) failing to materially cooperate with, any investigation authorized by the Board or any governmental or self-regulatory entity (an "Investigation"). However, your failure to waive attorney-client privilege relating to communications with your own attorney in connection with an Investigation shall not constitute "Cause";

(G) Your removing, concealing, destroying, purposely withholding, altering or by any other means falsifying any material that is requested in connection with an Investigation;

(H) Your disqualification, bar, prohibition, order or similar restriction imposed against you by any governmental or self-regulatory authority from serving as an officer or director of any member of the Company or your loss of any governmental or self-regulatory license that is reasonably necessary for you to perform your responsibilities to the Company under this Agreement, if (i) the disqualification, bar or loss continues for more than thirty (30) days and (ii) during that period the Company uses its good faith efforts to cause the disqualification or bar to be lifted or the license replaced. While any disqualification, bar or loss continues during your employment, you will serve in the capacity contemplated by this Agreement to whatever extent legally permissible and, if your employment is not permissible, you will be placed on leave (which will be paid to the extent legally permissible);

(I) Your unauthorized use or disclosure of confidential or proprietary information or related materials, or your violation of any of the terms of the Confidentiality Agreements (as defined below) or the Company's standard confidentiality policies and procedures, in each case, which results or could reasonably be expected to result in reputational, economic, financial or other injury to the Company or its subsidiaries or affiliates;

(J) Your violation, as determined by the Board in good faith, of the Company 's (1) workplace violence policy or (2) policies on discrimination, unlawful harassment or substance abuse; or

(K) Your material breach of this Agreement that has not been cured within thirty (30) days after written notice is delivered to you by the Company, which notice specifies in reasonable detail the manner in which the Company believes this Agreement has been breached.

For purposes of this definition, no act or omission by you will be "willful" unless it is made by you in bad faith or without a reasonable belief that your act or omission was in the best interests of the Company.

(c) Your Termination for Good Reason.

(i) "Good Reason" means the occurrence (without your express written consent) of any of the following:

(A) a material reduction in your Salary other than a reduction that would affect all senior officers of the Bank based on the financial performance of the Bank, and in such case, your reduction shall not exceed the percentage reduction of similarly situated senior executives of the Bank;

(B) the assignment to you of duties substantially inconsistent with your position, authority, responsibilities or status as Chief Executive Officer of the Company (except in connection with a for Cause termination);

(C) a change in the geographic location at which you must perform the services under this Agreement outside of Los Angeles County, California, exclusive of required business travel; or

(D) material breach by the Company of this Agreement.

For purposes of this Agreement, Good Reason shall not be deemed to exist unless (1) your termination of employment for Good Reason occurs within 90 days following the initial existence of one of the conditions specified in clauses (A) through (D) above, (2) you provide the Company with written notice of the existence of such condition within 60 days after the initial existence of the condition, and (3) the Company fails to remedy the condition within 30 days after its receipt of such notice.

(d) Termination on Disability or Death.

(i) If the Company determines in good faith that your Disability has occurred, the Company may give you Termination Notice (as defined below). If within 30 days of the Termination Notice you do not return to a full-time performance of your responsibilities, your employment will terminate. If you do return to full-time performance in that 30-day period, the Termination Notice will be cancelled for all purposes of this Agreement. Except as provided in this Section 5(d), your incapacity due to mental or physical illness or injury will not affect the Company's obligations under this Agreement. For these purposes, you will be deemed to have incurred a Disability if any of the following occur: (i) you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of not less than 12 months, (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death, or last for a continuous period of not less than 12 months, you are receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Bank; or (iii) you are determined to be totally disabled by the Social Security Administration. With respect to "(i)" above, this Disability determination must be made by a physician, retained by the Bank for purposes of making this determination, or retained by you and approved by the Bank (which approval shall not be unreasonably withheld).

(ii) Your employment will terminate automatically on your death.

(e) Advance Notice Generally Required.

(i) To terminate your employment, either you or the Company must provide a Termination Notice to the other. A "Termination Notice" is a written notice that states the specific provision of this Agreement on which such termination is based, including, if applicable, the specific clause of the definition of Cause and a reasonably detailed description of the facts that permit termination under that clause. The failure to include any fact in a Termination Notice that contributes to a showing of Cause does not preclude the Company from asserting that fact in enforcing its rights under this Agreement.

(ii) You and the Company agree to provide a Termination Notice thirty (30) days in advance of any termination, unless your employment is terminated by the Company for Cause or because of your Disability or death. Accordingly, the effective date of termination of your employment will be 30 days after Termination Notice is given, except that (A) the effective date will be the date of the Company's Termination Notice if your employment is terminated by the Company for Cause, although the Company may provide a later effective date in the Termination Notice, (B) the effective date will be the 30 days after Termination Notice is given if your employment is terminated because of your Disability, and (C) the effective date will be the date of your death if your employment is terminated because of your death. The Company may elect to place you on paid leave for all or part of the advance Termination Notice period. Notwithstanding the foregoing, if you give the Company a Termination Notice, the Company in its sole discretion may waive the 30-day notice requirement and accelerate the effective date of termination of your employment to any earlier date. In the event of a termination for Good Reason, the provisions of Section 5(c) above shall control over any inconsistent provisions in this Section 5(e)(ii).

(f) Non-Renewal. Notwithstanding anything contained herein, in no event shall the expiration of the Term or the Company's election not to renew or extend the Term or your employment with the Company constitute a termination of your employment by the Company without Cause or by you for Good Reason. For the avoidance of doubt, nothing contained in this Section 5(f) shall preclude or limit the Company's ability to, in its sole discretion, pay or provide you with severance or termination pay and/or benefits in connection with a termination of your employment upon or following the expiration of the Term or the Company's election not to renew or extend the Term.

6. The Company's Obligations in Connection with Your Termination.

(a) General Effect. On termination, your employment will end and the Company will have no further obligations to you except as provided in this Section 6.

(b) By the Company Without Cause or by You for Good Reason. If the Company terminates your employment without Cause or you terminate your employment for Good Reason, in either case, other than within eighteen (18) months following a "Change in Control" (as defined below), subject to Section 6(f):

(i) The Company will pay you the following as of the end of your employment: (A) your unpaid Salary through the date of termination, (B) your Salary for any accrued but unused vacation, and (C) any accrued expense reimbursements and other cash entitlements (together, your "Accrued Compensation"), in each case, as and when such amounts would otherwise been paid had your employment not been terminated or such earlier or later time as may be required by law. In addition, the Company will timely pay you any amounts and provide to you any benefits that are required, or to which you are entitled, under any plan, contract or arrangement of the Company (together, the "Other Benefits").

(ii) The Company will pay you an amount equal to one (1) year of your then -current annual Salary, to be paid on the Company's regular pay cycle and through the Company's payroll over a 12-month period commencing on the date of the termination of employment.

(iii) The Company will pay you an amount equal to a pro -rated portion of your prior year's Bonus based on the number of days worked during the year of termination, payable in a lump-sum within thirty (30) days following the date of termination of employment.

(iv) All outstanding and then unvested stock options, restricted stock and other equity awards granted to you under any of the Company's equity incentive plans (or awards substituted therefore covering the securities of a successor company) (each, an "Equity Award") that are at such time subject to vesting solely based on your continued employment with the Company (each, a "Time-Vesting Equity Award") shall be deemed to have vested as if your employment has continued for one (1) year following the actual termination date. All other outstanding and unvested Equity Awards (each, a "Performance-Vesting Equity Award") shall be treated in accordance with the terms of the plan document and applicable award agreement governing such Performance-Vesting Equity Award.

(v) If you timely elect to continue your Company -provided health insurance coverage pursuant to federal COBRA law, the Company will pay directly or, at its election, reimburse you for the cost of such COBRA premiums, at the same level as you maintain as of the date of termination, through the end of the COBRA period (18 months), or until such time as you qualify for health insurance benefits through a new employer, whichever occurs first (the "COBRA Period"). The reimbursement shall be for 100% of your COBRA premiums, as well as for your eligible dependents' COBRA premiums, and the coverage to be provided on this basis shall be health and dental coverage. Notwithstanding the foregoing, if (x) any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover you under its group health plans without incurring penalties (including without limitation, pursuant to the Patient Protection and Affordable Care Act or Section 2716 of the Public Health Service Act or any other health care law), then, in either case, an amount equal to each remaining COBRA premium under such plans shall thereafter be paid to you in substantially equal monthly installments over the COBRA Period (or the remaining portion thereof) (the benefits under this Section 6(b)(v), the "COBRA Benefit").

(c) By the Company For Cause or by You for Any Reason other than for Good Reason. If the Company terminates your employment for Cause or you terminate your employment for any reason other than for Good Reason as set forth in Section 6(b) or 6(e), the Company will pay your Accrued Compensation and provide your Other Benefits, as and when such amounts would otherwise been paid had your employment not been terminated or such earlier time as may be required by law.

(d) Your Disability or Death. If your employment terminates because of Disability or death, the Company will pay or provide you or your estate (1) your Accrued Compensation and your Other Benefits, as and when such amounts would otherwise been paid had your employment not been terminated or such earlier time as may be required by law, and (2) subject to Section 6(f), an amount equal to a pro-rated portion of your prior year's Bonus based on the number days worked during the year of termination, payable in a lump-sum within thirty (30) days following the date of termination of employment.

(e) Change in Control; Termination in Connection with a Change in Control. If within eighteen (18) months following a Change in Control, the Company terminates your employment without Cause or you terminate your employment for Good Reason, in either case, subject to Section 6(f):

(i) The Company will pay you your Accrued Compensation and provide your Other Benefits, as and when such amounts would otherwise have been paid had your employment not been terminated or such earlier time required by law.

(ii) In lieu of the amounts set forth in Sections 6(b)(ii) and (iii) above, the Company will pay you an amount equal to two and one-half (2.5) times the sum of (a) your then-current annual Salary and (b) your then-maximum annual Bonus, payable in a lump-sum within thirty (30) days following the date of termination.

(iii) The Company shall provide you with the COBRA Benefit on the terms and conditions set forth in Section 6(b)(v) above.

(iv) In the event of any Change in Control, (a) your Time-Vesting Equity Awards shall fully and automatically vest as of the date of such Change in Control and (b) your Performance-Vesting Equity Awards shall be treated in accordance with the terms of the plan document and applicable award agreement governing such Performance-Vesting Equity Award.

(v) For purposes of this Agreement, a "Change in Control" shall mean any transaction or series of related transactions as a result of which:

(A) the Company consummates a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of its assets (each a "Business Combination"), in each case, unless immediately following the consummation of such Business Combination all of the following conditions are satisfied:

(1) Persons, who, immediately prior to such Business Combination, were the beneficial owners of the Outstanding Voting Securities of the Company, beneficially own (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), directly or indirectly, more than 50% of the combined voting power of the then Outstanding Voting Securities of the entity (the "Resulting Entity") resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries);

(2) no Person beneficially owns (within the meaning of Rule 13d-3), directly or indirectly, more than 50% of the then outstanding combined voting power of the Outstanding Voting Securities of the Resulting Entity, except to the extent that such Person's beneficial ownership of the Company immediately prior to the Business Combination exceeded such threshold; and

(3) at least one-half of the members of the board of directors of the Resulting Entity were members of the Board at the time the Board authorized the Company to enter into the definitive agreement providing for such Business Combination; or

(B) any Person acquires beneficial ownership (within the meaning of Rule 13d-3) of more than 50% of the combined voting power (calculated as provided in Rule 13d-3 in the case of rights to acquire securities) of the then Outstanding Voting Securities of the Company and has greater beneficial ownership than the existing stockholders of the Company as of the date hereof; provided, however, that for purposes of this clause, the following acquisitions shall not constitute a Change in Control: (x) any acquisition directly from the Company, (y) any acquisition by the Company, or (z) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company.

(C) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, which definition shall include a "person" within the meaning of Section 13(d)(3) of the Exchange Act.

(D) "Outstanding Voting Securities" of any Person means the outstanding securities of such Person entitling the holders thereof to vote generally in the election of directors of such Person.

(vi) The payments and vesting provisions set forth in this Agreement, including under this subsection (e), shall: (A) with respect to the treatment of Equity Awards under this Section 6, take precedence over any conflicting provision under any award agreement applicable to such Equity Awards, unless such award agreement is more favorable to you, in which case the award agreement shall govern; and (B) be subject to the provisions set forth in Annex A.

(f) Release. Notwithstanding anything to the contrary herein, the Company will not be required to make the payments or provide the benefits stated in this Section 6 (other than your Accrued Compensation and Other Benefits) unless you execute and deliver to the Company (and do not revoke within the applicable time period) a general release of claims substantially in the form attached hereto as Annex B (the "Release") within thirty (30) days following the date of termination of your employment. If the Release is executed and delivered and no longer subject to revocation as provided in the preceding sentence, then the following shall apply:

(i) To the extent any such cash payment or continuing benefit to be provided is not "deferred compensation" for purposes of Section 409A of the Code ("Section 409A"), then such payment or benefit shall commence upon the first scheduled payment date immediately after the date the Release is executed and no longer subject to revocation (the "Release Effective Date"). The first such cash payment shall include payment of all amounts that otherwise would have been due prior to the Release Effective Date under the terms of this Agreement had such payments commenced immediately upon the termination of your employment, and any payments made thereafter shall continue as provided herein. The delayed benefits shall in any event expire at the time such benefits would have expired had such benefits commenced immediately following the termination of your employment.

(ii) To the extent any such cash payment or continuing benefit to be provided is "deferred compensation" for purposes of Section 409A, then such payments or benefits shall be made or commence upon the thirty-first ($31^{st}$) day following the termination of your employment. The first such cash payment shall include payment of all amounts that otherwise would have been due prior thereto under the terms of this Agreement had such payments commenced immediately upon the termination of your employment, and any payments made thereafter shall continue as provided herein. The delayed benefits shall in any event expire at the time such benefits would have expired had such benefits commenced immediately following the termination of your employment.

7. Confidentiality; Non-Solicitation; Non-Disparagement.

(a) You acknowledge and agree that you are bound by certain confidentiality, non -solicitation and other covenants set forth in the Confidentiality Agreement between you and the Company, dated August 5, 2013, and the Non-Disclosure and Non-Solicitation Agreement and Acknowledgement between you and the Company, dated August 5, 2013 (together, the "Confidentiality Agreements"). You hereby reaffirm the covenants and provisions set forth in the Confidentiality Agreements. Nothing in this Agreement, the Confidentiality Agreements, or the Company's standard confidentiality policies and procedures in effect from time to time shall prevent your truthful testimony as a witness, participation in an Investigation, or disclosure of wrongdoing to law enforcement or regulatory agencies of competent jurisdiction, including, without limitation, the Equal Employment Opportunity Commission (EEOC), National Labor Relations Board (NLRB), Occupational Safety and Health Administration (OSHA), the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC) or California Department of Business Oversight (DBO), or prohibit you from divulging confidential or proprietary information to the extent required by order of court or agency of competent jurisdiction.

(b) You agree that you will not make any public statement that would libel, slander or disparage any member of the Company or any of their respective past or present officers, directors, employees or agents.

8. Effect on Other Agreements; Entire Agreement.

This Agreement is the entire agreement between you and the Company with respect to the relationship contemplated by this Agreement and supersedes any earlier agreement, written or oral, with respect to the subject matter of this Agreement, except for the Confidentiality Agreements, which remain in place. You agree that, effective as of the Effective Date, this Agreement replaces, terminates and supersedes the Prior Agreement, and that the Prior Agreement is hereby terminated and shall be of no further force or effect. In entering into this Agreement, no party has relied on or made any representation, warranty, inducement, promise or understanding that is not in this Agreement. You hereby acknowledge that you are not subject to any obligation which would in any way restrict the performance of your duties hereunder.

9. Successors.

(a) Payments on Your Death. If you die and any amounts are or become payable under this Agreement, the Company will pay those amounts to your estate.

(b) Assignment by You. You may not assign this Agreement without the Company's consent. Also, except as required by law, your right to receive payments or benefits under this Agreement may not be subject to execution, attachment, levy or similar process. Any attempt to effect any of the preceding in violation of this Section 9(b), whether voluntary or involuntary, will be void.

(c) Assumption by any Surviving Company. Before the effectiveness of any merger, consolidation, statutory share exchange or similar transaction (including an exchange offer combined with a merger or consolidation) involving the Company (a "Reorganization") or any sale, lease or other disposition (including by way of a series of transactions or by way of merger, consolidation, stock sale or similar transaction involving one or more subsidiaries) of all or substantially all of the Company's consolidated assets (a "Sale"), other than a Reorganization or Sale pursuant to which this Agreement will be assumed by the Surviving Company by operation of law, the Company will cause (1) the Surviving Company to unconditionally assume this Agreement in writing and (2) a copy of the assumption to be provided to you. After the Reorganization or Sale, the Surviving Company will be treated for all purposes as the Company under this Agreement. The "Surviving Company" means (i) in a Reorganization, the entity resulting from the Reorganization or (ii) in a Sale, the entity that has acquired all or substantially all of the assets of the Company.

10. Disputes.

(a) Employment Matters. This Section 10 applies to any controversy or claim between you and the Company arising out of or relating to or concerning this Agreement or any aspect of your employment with the Company or the termination of that employment (together, an "Employment Matter"). This includes, but is not limited to, any and all employment-related claims or controversies, such as breach of employment agreement, breach of the covenant of good faith and fair dealing, negligent supervision or hiring, wrongful discharge in violation of public policy, unpaid wages under the state and federal wage payment laws, breach of privacy claims, intentional or negligent infliction of emotional distress claims, fraud, misrepresentations, defamation, and any claims that could be asserted under all state and federal anti-discrimination laws, including, but not limited to, the California Fair Employment and Housing Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the California Labor Code, and the Family and Medical Leave Act. You specifically agree to arbitrate all claims for discrimination and marital status, sexual orientation, disability, political activity, or any other statutorily-protected basis under the procedure set forth in this Section 10 and not through a court of law. This Agreement is further intended to apply to any claim you may have against any of the Company's officers, directors, employees, agents, or any of its affiliated or related entities, and to any and all past and future employment relationships you may have with the Company regardless of job position or title.

(b) Mandatory Arbitration. Any controversy arising out of or relating to this Agreement, its enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of its provisions, or any other controversy arising out of your employment, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in the County of Los Angeles, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Los Angeles, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure § 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that in the event that provisional injunctive relief is not available, or is not available in a timely manner, through such arbitration, then provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Either you or the Company may initiate the arbitration process by delivering a written request for arbitration to the other party within the time limits that would apply to the filing of civil complaint in state or federal district court, as applicable to the claim at issue. A late request will be void. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties hereto acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in connection with any matter whatsoever arising out of or in any way connected with this Agreement or your employment. The parties hereto agree that the Company shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. You and the Company further agree that in any proceeding to enforce the terms of this Agreement, the prevailing party shall be entitled to its or her reasonable attorneys' fees and costs (other than forum costs associated with the arbitration) incurred by it or him in connection with resolution of the dispute in addition to any other relief granted. Notwithstanding this provision, the parties hereto may mutually agree to mediate any dispute prior to or following submission to arbitration.

(c) Enforcement of Arbitration Awards. You or the Company may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the County of Los Angeles, California to enforce any arbitration award under Section 10(b).

(d) Jurisdiction and Choice of Forum. You and the Company irrevocably submit to the exclusive jurisdiction of any state or federal court located in the County of Los Angeles, California over any Employment Matter that is not otherwise arbitrated or resolved according to Section 10(b). This includes any action or proceeding to compel arbitration or to enforce an arbitration award. Both you and the Company (i) acknowledge that the forum stated in this Section 10(d) has a reasonable relation to this Agreement and to the relationship between you and the Company and that the submission to the forum will apply even if the forum chooses to apply non-forum law, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or to the laying of venue of any action or proceeding covered by this Section 10(d) in the forum stated in this Section, including any objection on the grounds of forum non conveniens or the like, (iii) agree not to commence any such action or proceeding in any forum other than the forum stated in this Section 10(d), and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on you and the Company.

(e) Waiver of Jury Trial. To the extent permitted by law, you and the Company waive any and all rights to a jury trial with respect to any Employment Matter. Notwithstanding the provisions of this Agreement, you shall have the right to file a claim for workers' compensation and unemployment insurance benefits with the appropriate state agencies, unfair labor practice charges with the National Labor Relations Board, or an administrative charge with the Equal Employment Opportunity Commission, California Department of Fair Employment and Housing, or any similar state agency.

(f) Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

11. General Provisions.

(a) Construction. References (A) to Sections are to sections of this Agreement unless otherwise stated; (B) to any contract (including this Agreement) are to the contract as amended, modified, supplemented or replaced from time to time; (C) to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section; (D) to any governmental authority include any successor to the governmental authority; (E) to any plan include any programs, practices and policies; (F) to any entity include any corporation, limited liability company, partnership, association, business trust and similar organization and include any governmental authority; and (G) to any affiliate of any entity are to any person or other entity directly or indirectly controlling, controlled by or under common control with the first entity.

(i) The various headings in this Agreement are for convenience of reference only and in no way define, limit or describe the scope or intent of any provisions or Sections of this Agreement.

(ii) Unless the context requires otherwise, (A) words describing the singular number include the plural and vice versa, (B) words denoting any gender include all genders and (C) the words "include", "includes" and "including" will be deemed to be followed by the words "without limitation."

(iii) It is your and the Company 's intention that this Agreement not be construed more strictly with regard to you or the Company.

(b) Withholding. You and the Company will treat all payments to you under this Agreement as compensation for your employment. Accordingly, the Company may withhold from any payment any taxes that are required to be withheld under any law, rule or regulation.

(c) Severability. If any provision of this Agreement is found by any court of competent jurisdiction (or legally empowered agency) to be illegal, invalid or unenforceable for any reason, then (1) the provision will be amended automatically to the minimum extent necessary to cure the illegality or invalidity and permit enforcement and (2) the remainder of this Agreement will not be affected.

(d) No Set-off or Mitigation. Except if your employment is terminated by the Company for Cause, your and the Company's respective obligations under this Agreement will not be affected by any set-off, counterclaim, recoupment or other right you or any member of the Company may have against each other or anyone else. You do not need to seek other employment or take any other action to mitigate any amounts owed to you under this Agreement.

(e) Notices. All notices, requests, demands and other communications under this Agreement must be in writing and will be deemed given (1) on the business day sent, when delivered by hand or facsimile transmission (with confirmation) during normal business hours, (2) on the business day after the business day sent, if delivered by a nationally recognized overnight courier or (3) on the third business day after the business day sent if delivered by registered or certified mail, return receipt requested, in each case to the following address or number (or to such other addresses or numbers as may be specified by notice that conforms to this Section 11(e)):

If to you, to your address then on file with the Company's payroll department.

If to the Company or any other member of the Company, to:

Hanmi Financial Corporation
3660 Wilshire Boulevard, Penthouse Suite A
Los Angeles, California 90010
Attention: Chairman of the Board
Facsimile: (213) 384-0990

(f) Consideration. This Agreement is in consideration of the mutual covenants contained in it. You and the Company acknowledge the receipt and sufficiency of the consideration to this Agreement and intend this Agreement to be legally binding.

(g) Amendments and Waivers. Any provision of this Agreement may be amended or waived but only if the amendment or waiver is in writing and signed, in the case of an amendment, by you and the Company or, in the case of a waiver, by the party that would have benefited from the provision waived. Except as this Agreement otherwise provides, no failure or delay by you or the Company to exercise any right or remedy under this Agreement will operate as a waiver, and no partial exercise of any right or remedy will preclude any further exercise.

(h) Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language. You agree and acknowledge that you have read and understand this Agreement, are entering into it freely and voluntarily, and have been advised to seek counsel prior to entering into this Agreement and have had ample opportunity to do so.

(i) Golden Parachute/Bank Regulatory Limitation. The parties understand and agree that at the time any payment would otherwise be made or benefit provided under Section 6 of this Agreement, depending on the facts and circumstances existing at such time, the satisfaction of such obligations by the Company may be deemed by a regulatory authority to be illegal, an unsafe and unsound practice, or for some other reason not properly due or payable by the Company. Among other things, applicable banking laws, regulations and published guidance and policies of the appropriate regulatory authorities, including, but not limited to Section 39(a) of the Federal Deposit Insurance Act, 12 C.F.R. Part 364 Appendix A, § III, 12 C.F.R. part 359, Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36,395 (June 25, 2010) or similar regulations or regulatory action following similar principles may apply at such time. You understand, acknowledge and agree that, notwithstanding any other provision of this Agreement, the Company shall not be obligated to make any payment or provide any benefit under Section 6 of this Agreement where (i) an appropriate regulatory authority does not approve or acquiesce as required or objects to the making of such payment or benefit or (ii) the Company has been informed in writing by a representative of the appropriate regulatory authority that it is the position of such regulatory authority that making such payment or providing such benefit would constitute an unsafe and unsound practice, violate a written agreement with the regulatory authority, violate an applicable rule or regulation, or would cause the representative of the regulatory authority to recommend enforcement action against the Company.

(j) Key Employee Delay on Payments. Notwithstanding the timing of payments set forth in Agreement, if the Company determines that you are a "specified employee" within the meaning of Section 409A, as may be amended and that, as a result of such status, any portion of the payment under this Agreement would be subject to additional taxation, the Company will delay paying any portion of such payment until the earliest permissible date on which payments may commence without triggering such additional taxation (with such delay not to exceed six (6) months), with the first such payment to include the amounts that would have been paid earlier but for the above delay.

(k) Third-Party Beneficiaries. Subject to Section 9, this Agreement will be binding on, inure to the benefit of and be enforceable by the parties and their respective heirs, personal representatives, successors and assigns. This Agreement does not confer any rights, remedies, obligations or liabilities to any entity or person other than you and the Company and your and the Company's permitted successors and assigns, although (i) this Agreement will inure to the benefit of the Company and (ii) Section 9(a) will inure to the benefit of the most recent persons named in a notice under that Section.

12. Compliance with Section 409A.

(a) General. It is the intention of both the Company and you that the benefits and rights to which you could be entitled pursuant to this Agreement comply with Section 409A to the extent that the requirements of Section 409A are applicable thereto, and the provisions of this Agreement shall be construed in a manner consistent with that intention. If you or the Company believes, at any time, that any such benefit or right that is subject to Section 409A does not so comply, it shall promptly advise the other and shall negotiate reasonably and in good faith to amend the terms of such benefits and rights such that they comply with Section 409A (with the most limited possible economic effect on you and on the Company). Notwithstanding the foregoing, the Company does not make any representation to you that the payments or benefits provided under this Agreement are exempt from, or satisfy, the requirements of Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless you or any beneficiary for any tax, additional tax, interest or penalties that you or any beneficiary may incur in the event that any provision of this Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A.

(b) Distributions on Account of Separation from Service. If and to the extent required to comply with Section 409A, no payment or benefit required to be paid under this Agreement on account of termination of your employment shall be made unless and until you incur a "separation from service" within the meaning of Section 409A.

(c) No Acceleration of Payments. Neither the Company nor you, individually or in combination, may accelerate any payment or benefit that is subject to Section 409A, except in compliance with Section 409A and the provisions of this Agreement, and no amount that is subject to Section 409A shall be paid prior to the earliest date on which it may be paid without violating Section 409A.

(d) Treatment of Each Installment as a Separate Payment and Timing of Payments. For purposes of applying the provisions of Section 409A to this Agreement, each separately identified amount to which you are entitled under this Agreement shall be treated as a separate payment. In addition, to the extent permissible under Section 409A, any series of installment payments under this Agreement shall be treated as a right to a series of separate payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

(e) Taxable Reimbursements and In-Kind Benefits.

(i) Any reimbursements by the Company to you of any eligible expenses under this Agreement that are not excludable from your income for Federal income tax purposes (the "Taxable Reimbursements") shall be made by no later than the earlier of the date on which they would be paid under the Company's normal policies and the last day of the calendar year following the year in which the expense was incurred.

(ii) The amount of any Taxable Reimbursements, and the value of any in -kind benefits to be provided to you during any calendar year, shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year (except for any life-term or other aggregate limitation applicable to medical expenses).

(iii) The right to Taxable Reimbursement, or in -kind benefits, shall not be subject to liquidation or exchange for another benefit.

[Signature Page Follows]

13. Counterparts.

This Agreement may be executed in counterparts, each of which will constitute an original and all of which, when taken together, will constitute one agreement. However, this Agreement will not be effective until the date both parties have executed this Agreement.

Very truly yours,

HANMI FINANCIAL CORPORATION

________________________________
Name: Joseph Rho
Title: Chairman

HANMI BANK

________________________________
Name: Joseph Rho
Title: Chairman

ACCEPTED AND AGREED TO:

________________________________
Bonita I. Lee

Dated: ____________, 2019

Annex A

Limitation on Payments Following a Change in Control

In the event that any payment or benefit received or to be received by Bonita I. Lee ("Executive") pursuant to that certain Employment Agreement (the "Agreement"), dated April 2, 2019 and effective as of May 3, 2019, by and between Executive, Hanmi Financial Corporation and Hanmi Bank (together, the "Company") or otherwise ("Payments") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) but for this Annex A, be subject to the excise tax imposed by Section 4999 of the Code, any successor provisions, or any comparable federal, state, local or foreign excise tax ("Excise Tax"), then such Payments shall be either (A) provided in full pursuant to the terms of the Agreement and any other applicable agreements and plans, or (B) provided as to such lesser extent which would result in no portion of such Payments being subject to the Excise Tax ("Reduced Amount"), whichever of the foregoing amounts, taking into account the applicable federal, state, local and foreign income, employment and other taxes and the Excise Tax (including, without limitation, any interest or penalties on such taxes), results in the receipt by Executive, on an after-tax basis, of the greatest amount of payments and benefits provided for hereunder or otherwise, notwithstanding that all or some portion of such Payments may be subject to the Excise Tax. Unless the Company and Executive otherwise agree in writing, any determination required under this Annex A shall be made by independent tax counsel designated by the Company and reasonably acceptable to Executive ("Independent Tax Counsel"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required under this Annex A, Independent Tax Counsel may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code; provided that Independent Tax Counsel shall assume that Executive pays all taxes at the highest marginal rate unless Executive's actual effective marginal tax rate at the relevant time is less than the highest marginal rate, in which case such lower rate shall be used by Independent Tax Counsel. The Company and Executive shall furnish to Independent Tax Counsel such information and documents as Independent Tax Counsel may reasonably request in order to make a determination under this Annex A. The Company shall bear all costs that Independent Tax Counsel may reasonably incur in connection with any calculations contemplated by this Annex A. In the event that (ii)(B) above applies, then based on the information provided to Executive and the Company by Independent Tax Counsel, and notwithstanding any other provision of the Agreement or any other plan, arrangement or agreement to the contrary, the reduction of such Payments shall be made as follows: (A) if none of the Payments constitute non-qualified deferred compensation (within the meaning of Section 409A of the Code), then such reduction and/or repayment shall occur in the manner the Executive elects in writing prior to the date of Payment; or (B) if any Payment constitutes non-qualified deferred compensation or if the Executive fails to elect an order in the event that none of the Payments constitutes non-qualified deferred compensation (within the meaning of Section 409A of the Code), then the Payments to be reduced will be determined in a manner which maximizes the Executive's economic position and, to the extent the economic cost is equivalent between one or more Payments, such Payments will be reduced in the inverse order of when payment would have been made to the Executive, until the aggregate Payments payable to the Executive equal the Reduced Amount.

Annex B

General Release

For valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the "Releasees" hereunder, consisting of Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state chartered bank incorporated under the laws of the State of California (together, the "Company"), and their partners, associates, parents, subsidiaries, affiliates, successors, heirs, assigns, agents, directors, officers, employees, equityholders, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys' fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called "Claims"), which the undersigned now has or may hereafter have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination from employment of the undersigned by the Releasees, or any of them; any claim for benefits under any stock option or other equity-based incentive plan of the Releasees (or any related agreement to which any Releasee is a party); any alleged breach of any express or implied contract of employment; any alleged torts or other alleged legal restrictions on Releasee's right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Americans With Disabilities Act. Notwithstanding the foregoing, this General Release ("Release") shall not operate to release any Claims which the undersigned may have with respect to (i) payments and other express obligations of the Company under that certain Employment Agreement, dated as of April 2, 2019 and effective as of May 3, 2019 between the Company and the undersigned ("Employment Agreement"); (ii) accrued and vested benefits the undersigned may have, if any, as of the date hereof under any employee benefit plan of the Company or, with respect to any outstanding equity awards held by the undersigned, under any equity incentive plan, stock award or option agreement, as any such stock award or option agreement may be amended by the Employment Agreement, if such amendment is more favorable to the undersigned; (iii) payments and other obligations of the Company with respect to indemnification of the undersigned under the Company's Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, and under any indemnification agreement between the Company and the undersigned. Additionally, notwithstanding the foregoing, the undersigned understands that nothing in this Release limits the undersigned's ability to file a charge or complaint with the Equal Employment Opportunity Commission (the "EEOC"), the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). The undersigned further understand that this Release does not limit the undersigned's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Release does not limit the undersigned's right to receive an award for information provided to any Government Agencies, and except, to the extent permissible by applicable law, the undersigned hereby agrees to waive the right to any monetary relief or recovery, including attorneys' fees and costs, granted by the EEOC in connection with any complaint and/or charge brought against the Releasees arising out of the employment relationship or the termination of the employment relationship with the Company, regardless as to who brought or brings any such complaint or charge, whether in the nature of an individual action, class, or otherwise.

THE UNDERSIGNED ACKNOWLEDGES THAT SHE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS SHE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(1) SHE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(2) SHE HAS THE RIGHT TO SEEK A JUDICIAL DETERMINATION OF THE VALIDITY OF THE RELEASE OF CLAIMS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT;

(3) SHE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT; AND

(4) SHE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE IT, AND THIS RELEASE SHALL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which she may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer of any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned represents and warrants that she is not aware of or has already fully disclosed in writing to the Board any information that could give rise to a claim or cause of action against the Company or any other Releasee by the undersigned or others claiming through him, including without limitation any knowledge of fraud or suspected fraud, overpayments or suspected overpayments, false or misleading statements or suspected false or misleading statements, improper or erroneous financial reporting, violations or suspected violations of any law or regulation, or other irregularities, or any violations of Company policies, procedures, or the Company Code of Conduct. This includes any matters for which the undersigned is responsible or that came to her attention, whether in her capacity as an employee, member of the Board, or any other capacity. The undersigned further represents and warrants that she has not initiated, nor is she a party to, any proceeding in any court or government agency involving claims against the Company or any other Releasee. The undersigned further agrees that she has not been requested, directly or indirectly by the Company, to provide misleading information to an external person or to conduct himself in a manner inconsistent with the Company's Code of Conduct, nor has she been discouraged or prevented from reporting possible violations of law to the Board. Notwithstanding the foregoing, no provision of this General Release or any other agreement with the Company prohibits the undersigned from reporting or disclosing any actual, possible or potential violation of any federal, state or local law or regulation to any governmental agency or entity, or making other reports or disclosures that are protected under the whistleblower provisions of any federal, state or local law or regulation, in each such case without any prior authorization of, or prior, contemporaneous or subsequent notice to, the Company.

The undersigned agrees that if she hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, other than those related to the validity of the release under the Age Discrimination in Employment Act, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorney's fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of __________, ____.

________________________________

Bonita I. Lee

Annex B

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# Section 3: EX-99.1 (PRESS RELEASE)

EXHIBIT 99.1

## Hanmi Appoints Bonita I. Lee as its Chief Executive Officer

LOS ANGELES, April 03, 2019 (GLOBE NEWSWIRE) -- Hanmi Financial Corporation (Nasdaq: HAFC) ("Hanmi"), the holding company for Hanmi Bank (the "Bank"), today announced that Bonita I. Lee has been appointed President and Chief Executive Officer effective May 3, 2019, and as a director of the Company and the Bank effective immediately. Ms. Lee succeeds C. G. Kum who is retiring from Hanmi, as previously announced.

With more than 30 years of experience in the banking industry, Ms. Lee joined Hanmi as Chief Operating Officer in 2013 and was promoted to President in 2018. During her tenure with Hanmi, the Bank's total assets have nearly doubled. Her deep understanding of the Bank's business and strong record of success positions her for a smooth transition to the CEO role, and allows Hanmi to execute its strategic initiatives.

"I congratulate Bonnie on her appointment as Hanmi's next President and Chief Executive Officer," said Hanmi's Chairman, Joseph K. Rho. "The Board recognizes Bonnie's integral role in Hanmi's success over the last six years and has the utmost confidence in her abilities. We anticipate a seamless transition as Bonnie takes on her new leadership role at Hanmi, building on her deep connections with Hanmi's customers and employees. She is a seasoned executive and a highly respected leader in the

Korean American banking industry. I believe that as CEO, Bonnie will expand upon Hanmi's distinguished 37-year history of serving our community, while strengthening the Bank's position in the markets it serves."

Mr. Rho concluded, "On behalf of my fellow board members, I would also like to extend our deepest gratitude to C. G. Kum for his service to Hanmi. C. G. led the Bank during one of our most transformational periods. We wish him all the best in his retirement from the Bank."

Prior to joining Hanmi and Hanmi Bank in August 2013, Ms. Lee was Senior Executive Vice President and Chief Operating Officer of BBCN Bank and BBCN Bancorp, Inc., where she was named Acting President and Chief Operating Officer from February 2013 to April 2013 and led an Executive Council carrying out the duties of the Chief Executive Officer during a management transition period at BBCN Bank. Prior to this, Ms. Lee served as director and Regional President of the Western Region for Shinhan Bank America from September 2008 to March 2009. Prior to joining Shinhan Bank America, she served as Executive Vice President and Chief Credit Officer at Nara Bank from April 2005 to September 2008, and as a Member of the Office of the President from March 2006 to September 2008. Ms. Lee also served Nara Bank as Senior Vice President and Chief Credit Officer from November 2003 to April 2005. Ms. Lee is a graduate of the University of Illinois, Chicago.

About Hanmi Financial Corporation

Headquartered in Los Angeles, California, Hanmi Financial Corporation owns Hanmi Bank, which serves multi-ethnic communities through its network of 35 full-service branches and 9 loan production offices in California, Texas, Illinois, Virginia, New Jersey, New York, Colorado, Washington and Georgia. Hanmi Bank specializes in real estate, commercial, SBA and trade finance lending to small and middle market businesses. Additional information is available at www.hanmi.com.

Forward-Looking Statements

This press release contains forward-looking statements, which are included in accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. 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. All statements 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, plans and objectives of management for future operations, developments regarding our capital plans, strategic alternatives for a possible business combination, merger or sale transaction, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; general economic and business conditions internationally, nationally and in those areas in which we operate; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters related to our real estate portfolio; risks associated with Small Business Administration loans; failure to attract or retain key employees; changes in governmental regulation, including, but not limited to, any increase in FDIC insurance premiums; ability of Hanmi Bank to make distributions to Hanmi Financial Corporation, which is restricted by certain factors, including Hanmi Bank's retained earnings, net income, prior distributions made, and certain other financial tests; ability to identify a suitable strategic partner or to consummate a strategic transaction; adequacy of our allowance for loan and lease losses; credit quality and the effect of credit quality on our provision for loan and lease losses and allowance for loan and lease losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to control expenses; and changes in securities markets. In addition, we set forth certain risks in our reports filed with the U.S. Securities and Exchange Commission, including, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, our Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K that we will file hereafter, which could cause actual results to differ from those projected. We undertake no obligation to update such forward-looking statements except as required by law.

Contact:

Richard Pimentel
Corporate Finance Officer
213-427-3191

Lasse Glassen
Investor Relations
Addo Investor Relations
310-829-5400

A photo accompanying this announcement is available at http://www.globenewswire.com/NewsRoom/AttachmentNg/58b9b984-2e87-4a7b-9fdc-46e41617a183

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**Exhibit 31.1**

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

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

1. I have reviewed this Quarterly Report on Form 10-Q of Hanmi Financial Corporation;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

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

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

| | | |
|---|---|---|
| Date: | October 4, 2019 | /s/ *Bonita I. Lee* |
| | | Bonita I. Lee |
| | | *President and Chief Executive Officer* |
| | | *(Principal Executive Officer)* |

**Exhibit 31.2**

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

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

1. I have reviewed this Quarterly Report on Form 10-Q of Hanmi Financial Corporation;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

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

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

Date: October 4, 2019

/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 June 30, 2019, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, Bonita I. Lee, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

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

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

| | | |
|---|---|---|
| Date: | October 4, 2019 | /s/ *Bonita I. Lee* |
| | | Bonita I. Lee |
| | | *President and Chief Executive Officer* |

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

**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 June 30, 2019, 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: October 4, 2019

/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.