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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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 November 5, 2019, there were 31,113,676 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Nine Months Ended September 30, 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) September 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 150,678	$ 155,376
Securities available for sale, at fair value (amortized cost of $616,604 as of September 30, 2019 and $583,444 as of December 31, 2018)	621,815	574,908
Loans held for sale, at the lower of cost or fair value	6,598	9,390
Loans and leases receivable, net of allowance for loan and lease losses of $50,712 as of September 30, 2019 and $31,974 as of December 31, 2018	4,519,125	4,568,566
Accrued interest receivable	11,723	13,331
Premises and equipment, net	27,271	27,752
Customers' liability on acceptances	33	173
Servicing assets	7,436	8,520
Goodwill and other intangible assets, net	11,950	12,182
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Bank-owned life insurance	52,500	51,661
Prepaid expenses and other assets	102,468	63,975
Total assets	**$ 5,527,982**	**$ 5,502,219**
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,388,121	$ 1,284,530
Interest-bearing	3,302,020	3,462,705
Total deposits	4,690,141	4,747,235
Accrued interest payable	10,076	11,379
Bank's liability on acceptances	33	173
Borrowings	75,000	55,000
Subordinated debentures	118,232	117,808
Accrued expenses and other liabilities	59,973	18,056
Total liabilities	**4,953,455**	**4,949,651**
Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 10,000,000 shares; no shares issued as of September 30, 2019 and December 31, 2018	—	—
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,471,702 shares (31,173,881 shares outstanding) as of September 30, 2019 and issued 33,202,369 shares (30,928,437 shares outstanding) as of December 31, 2018	33	33
Additional paid-in capital	574,957	569,712
Accumulated other comprehensive income (loss), net of tax benefit (expense) of ($1,500) as of September 30, 2019 and benefit of $2,457 as of December 31, 2018	3,708	(6,079)
Retained earnings	104,927	97,539
Less: treasury stock; 2,297,821 shares as of September 30, 2019 and 2,273,932 shares as of December 31, 2018	(109,098)	(108,637)
Total stockholders' equity	**574,527**	**552,568**
Total liabilities and stockholders' equity	**$ 5,527,982**	**$ 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 September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Interest and dividend income:				
Interest and fees on loans and leases	$ 57,929	$ 56,361	$ 173,135	$ 161,643
Interest on securities	3,769	3,238	10,996	9,541
Dividends on FHLB stock	286	286	858	858
Interest on deposits in other banks	193	151	1,085	398
Total interest and dividend income	62,177	60,036	186,074	172,440
Interest expense:				
Interest on deposits	15,995	11,694	48,406	28,944
Interest on borrowings	367	1,264	439	2,959
Interest on subordinated debentures	1,757	1,749	5,293	5,170
Total interest expense	18,119	14,707	54,138	37,073
Net interest income before provision for loan and lease losses	44,058	45,329	131,936	135,367
Loan and lease loss provision	1,602	200	19,418	949
Net interest income after provision for loan and lease losses	42,456	45,129	112,518	134,418
Noninterest income:				
Service charges on deposit accounts	2,518	2,513	7,362	7,352
Trade finance and other service charges and fees	1,191	1,128	3,519	3,449
Gain on sales of Small Business Administration (“SBA”) loans	1,767	1,114	3,752	3,970
Net gain (loss) on sales of securities	—	19	1,295	(341)
Other operating income	1,384	1,441	4,915	3,790
Total noninterest income	6,860	6,215	20,843	18,220
Noninterest expense:				
Salaries and employee benefits	17,530	17,436	50,149	53,590
Occupancy and equipment	4,528	3,685	12,517	11,839
Data processing	2,410	1,745	6,633	4,976
Professional fees	2,826	1,626	6,459	4,210
Supplies and communications	726	805	2,220	2,206
Advertising and promotion	927	814	2,632	2,724
Other operating expenses	3,660	2,897	11,207	8,729
Total noninterest expense	32,607	29,008	91,817	88,274
Income before income taxes	16,709	22,336	41,544	64,364
Income tax expense	4,333	6,255	11,840	17,880
Net income	**$ 12,376**	**$ 16,081**	**$ 29,704**	**$ 46,484**
Basic earnings per share	$ 0.40	$ 0.50	$ 0.96	$ 1.44
Diluted earnings per share	$ 0.40	$ 0.50	$ 0.96	$ 1.43
Weighted-average shares outstanding:				
Basic	30,830,445	32,155,132	30,736,456	32,171,558
Diluted	30,859,119	32,275,277	30,769,160	32,306,041

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income	**$ 12,376**	**$ 16,081**	**$ 29,704**	**$ 46,484**
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities:				
Unrealized holding gain (loss) arising during period	1,873	(2,750)	15,042	(13,115)
Less: reclassification adjustment for net gain included in net income	—	(19)	(1,295)	(87)
Income tax (expense) benefit related to items of other comprehensive income	(540)	798	(3,960)	3,793
Other comprehensive income (loss), net of tax	1,333	(1,971)	9,787	(9,409)
Comprehensive income	**$ 13,709**	**$ 14,110**	**$ 39,491**	**$ 37,075**

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 September 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 July 1, 2018	**33,185,196**	**(671,678)**	**32,513,518**	**$ 33**	**$ 568,011**	**$ (9,324)**	**$ 85,465**	**$ (72,478)**	**$ 571,707**
Restricted stock awards, net of forfeitures	3,637	—	3,637	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	850	—	—	—	850
Restricted stock surrendered due to employee tax liability	—	(361)	(361)	—	—	—	—	(18)	(18)
Repurchase of common stock	—	(429,558)	(429,558)	—	—	—	—	(11,123)	(11,123)
Cash dividends declared:									
Common stock, $0.24/share	—	—	—	—	—	—	(7,778)	—	(7,778)
Net income	—	—	—	—	—	—	16,081	—	16,081
Change in unrealized loss on securities available for sale, net of income taxes	—	—	—	—	—	(1,971)	—	—	(1,971)
Balance at September 30, 2018	**33,188,833**	**(1,101,597)**	**32,087,236**	**33**	**568,861**	**(11,295)**	**93,768**	**(83,619)**	**567,748**
Balance at July 1, 2019	**33,271,832**	**(2,296,669)**	**30,975,163**	**$ 33**	**$ 571,105**	**$ 2,375**	**$ 100,021**	**$ (109,077)**	**$ 564,457**
Stock options exercised	180,000	—	180,000	—	2,957	—	—	—	2,957
Restricted stock awards, net of forfeitures	19,870	—	19,870	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	895	—	—	—	895
Restricted stock surrendered due to employee tax liability	—	(1,152)	(1,152)	—	—	—	—	(21)	(21)
Cash dividends declared:									
Common stock, $0.24/share	—	—	—	—	—	—	(7,470)	—	(7,470)
Net income	—	—	—	—	—	—	12,376	—	12,376
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	1,333	—	—	1,333
Balance at September 30, 2019	**33,471,702**	**(2,297,821)**	**31,173,881**	**$ 33**	**$ 574,957**	**$ 3,708**	**$ 104,927**	**$ (109,098)**	**$ 574,527**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended September 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	79,950	—	79,950	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,664	—	—	—	2,664
Restricted stock surrendered due to employee tax liability	—	(20,533)	(20,533)	—	—	—	—	(607)	(607)
Repurchase of common stock	—	(429,558)	(429,558)	—	—	—	—	(11,123)	(11,123)
Cash dividends declared:									
Common stock, $0.24/share	—	—	—	—	—	—	(23,308)	—	(23,308)
Net income	—	—	—	—	—	—	46,484	—	46,484
Change in unrealized loss on securities available for sale, net of income taxes	—	—	—	—	—	(9,409)	—	—	(9,409)
Balance at September 30, 2018	**33,188,833**	**(1,101,597)**	**32,087,236**	**$ 33**	**$ 568,861**	**$ (11,295)**	**$ 93,768**	**$ (83,619)**	**$ 567,748**
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	181,900	—	181,900	—	2,979	—	—	—	2,979
Restricted stock awards, net of forfeitures	87,433	—	87,433	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,266	—	—	—	2,266
Restricted stock surrendered due to employee tax liability	—	(23,889)	(23,889)	—	—	—	—	(461)	(461)
Cash dividends declared:									
Common stock, $0.24/share	—	—	—	—	—	—	(22,316)	—	(22,316)
Net income	—	—	—	—	—	—	29,704	—	29,704
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	9,787	—	—	9,787
Balance at September 30, 2019	**33,471,702**	**(2,297,821)**	**31,173,881**	**$ 33**	**$ 574,957**	**$ 3,708**	**$ 104,927**	**$ (109,098)**	**$ 574,527**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	**$ 29,704**	**$ 46,484**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,848	8,510
Share-based compensation expense	2,266	2,664
Loan and lease loss provision	19,418	949
(Gain) loss on sales of securities	(1,295)	341
Gain on sales of SBA loans	(3,752)	(3,970)
Loss (gain) on disposition of fixed assets	(1,191)	—
Origination of SBA loans held for sale	(52,379)	(56,244)
Proceeds from sales of SBA loans	58,908	63,057

Change in accrued interest receivable	1,608	(876)
Change in bank-owned life insurance	(839)	(818)
Change in prepaid expenses and other assets	(7,226)	3,223
Change in accrued interest payable	(1,303)	2,844
Change in accrued expenses and other liabilities	4,921	(7,069)
Net cash provided by operating activities	**55,688**	**59,095**
Cash flows from investing activities:		
Proceeds from matured, called and repayment of securities	115,146	79,309
Proceeds from sales of securities available for sale	113,306	34,751
Proceeds from sales of other real estate owned ("OREO")	445	1,902
Proceeds from disposition of fixed assets	3,055	—
Change in loans and leases receivable, excluding purchases	28,693	(214,836)
Purchases of securities available for sale	(262,226)	(124,964)
Purchases of premises and equipment	(1,913)	(3,800)
Purchases of loans and leases receivable	—	(66,966)
Net cash used in investing activities	**(3,494)**	**(294,604)**
Cash flows from financing activities:		
Change in deposits	(57,094)	265,768
Change in borrowings	20,000	10,000
Proceeds from exercise of stock options	2,979	570
Cash paid for surrender of vested shares due to employee tax liability	(461)	(607)
Repurchase of common stock	—	(11,123)
Cash dividends paid	(22,316)	(23,308)
Net cash (used in) provided by financing activities	**(56,892)**	**241,300**
Net decrease in cash and cash equivalents	**(4,698)**	**5,791**
Cash and cash equivalents at beginning of year	155,376	153,826
Cash and cash equivalents at end of period	**$ 150,678**	**$ 159,617**
Supplemental disclosures of cash flow information:		
Interest expense paid	$ 55,441	$ 34,229
Change in income taxes	$ (4,154)	$ 13,553
Non-cash activities:		
Transfer of loans receivable to other real estate owned	$ 168	$ 938
Income tax (expense) benefit related to items in other comprehensive income	$ (3,960)	$ 3,793
Change in unrealized (gain) loss in accumulated other comprehensive income	$ (13,747)	$ 13,115
Right-of-use asset obtained in exchange for lease liability	$ (43,085)	$ —

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Note 1 — Organization and Basis of Presentation

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

In management's opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended September 30, 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 Smaller Reporting Companies who are public filers. Due to the Company's categorization as a large accelerated filer, this delay will not have any impact on its adoption of ASU 2016-13. 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 methodologies, data/input gathering and validation, and initial testing of its designed models. The Company plans to leverage three loss rate methodologies across the Bank's four major loan and lease segments.

The Company commenced parallel processing and review of the model outputs during the three-month period ended September 30, 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 September 30, 2019, the Company continues to evaluate 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)		
September 30, 2019				
U.S. Treasury securities	$ 39,877	$ 292	$ —	$ 40,169
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	395,486	4,224	(236)	399,474
Collateralized mortgage obligations	164,267	1,216	(484)	164,999
Debt securities	16,974	208	(9)	17,173
Total U.S. government agency and sponsored agency obligations	576,727	5,648	(729)	581,646
Total securities available for sale	**$ 616,604**	**$ 5,940**	**$ (729)**	**$ 621,815**
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 ofSeptember 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	$ 33,218	$ 33,329
Over one year through five years	155,626	156,521
Over five years through ten years	210,178	212,575
Over ten years	217,582	219,390
Total	**$ 616,604**	**$ 621,815**

Gross unrealized losses on securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of September 30, 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)								
September 30, 2019									
U.S. government agency and sponsored agency obligations									
Mortgage-backed securities	$ (65)	$ 34,927	17	$ (171)	$ 19,712	14	$ (236)	$ 54,639	31
Collateralized mortgage obligations	(60)	16,173	5	(424)	44,584	37	(484)	60,757	42
Debt securities	(1)	1,499	1	(8)	2,991	1	(9)	4,490	2
Total U.S. government agency and sponsored agency obligations	(126)	52,599	23	(603)	67,287	52	(729)	119,886	75
Total	**$ (126)**	**$ 52,599**	**23**	**$ (603)**	**$ 67,287**	**52**	**$ (729)**	**$ 119,886**	**75**
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 September 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 September 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 it 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 September 30, 2019 and December 31, 2018 were not other-than-temporarily impaired, and therefore, no impairment charges as of September 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Gross realized gains on sales of securities	$ —	$ 19	$ 1,359	$ 87
Gross realized losses on sales of securities	—	—	(64)	(957)
Net realized gains (losses) on sales of securities	**$ —**	**$ 19**	**$ 1,295**	**$ (870)**
Proceeds from sales of securities	$ —	$ 3,426	$ 113,306	$ 34,751

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 September 30, 2019, there were no securities sales transactions. During the three months ended September 30, 2018, there was $19,000 in net gain in earnings resulting from the sale of securities. A net unrealized gain of $21,000 related to these securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period in 2018. There was no sale of such securities during the nine months ended September 30, 2019.

During the nine months ended September 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 nine months ended September 30, 2018, there was a $870,000 net loss in earnings resulting from the sale of securities.

In the first and second quarters of 2019, we sold all of our tax-exempt municipal bonds with a gross realized gain of $1.4 million. In the first quarter of 2018, we sold all of our mutual fund equity securities with gross realized losses of $957,000.

Securities available for sale with market values of $30.2 million and $29.9 million as of September 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:

	September 30, 2019	December 31, 2018
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 865,050	$ 906,260
Hospitality	850,869	830,679
Other [(1)]	1,417,062	1,449,270
Total commercial property loans	3,132,981	3,186,209
Construction	76,770	71,583
Residential property	436,576	500,563
Total real estate loans	3,646,327	3,758,355
Commercial and industrial loans:		
Commercial term	188,090	206,691
Commercial lines of credit	219,400	194,032
International loans	33,719	29,180
Total commercial and industrial loans	441,209	429,903
Leases receivable	467,777	398,858
Consumer loans [(2)]	14,524	13,424
Loans and leases receivable	**4,569,837**	**4,600,540**
Allowance for loan and lease losses	(50,712)	(31,974)
Loans and leases receivable, net	**$ 4,519,125**	**$ 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 $8.6 million and $10.3 million as of September 30, 2019 and December 31, 2018, respectively.

Accrued interest on loans and leases receivable was$10.2 million and $10.9 million at September 30, 2019 and December 31, 2018, respectively. At September 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 September 30, 2019 and 2018:

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
	(in thousands)		
September 30, 2019			
Balance at beginning of period	$ 2,677	$ 3,352	$ 6,029
Originations	11,502	13,354	24,856
Sales	(11,557)	(12,729)	(24,286)
Principal paydowns and amortization	—	(1)	(1)
Balance at end of period	**$ 2,622**	**$ 3,976**	**$ 6,598**
September 30, 2018			
Balance at beginning of period	$ 2,785	$ 2,564	$ 5,349
Originations	5,408	13,469	18,877
Sales	(6,453)	(13,299)	(19,752)
Principal paydowns and amortization	(3)	(16)	(19)
Balance at end of period	**$ 1,737**	**$ 2,718**	**$ 4,455**

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

	SBA Loans Held for Sale		
	Real Estate	Commercial and Industrial	Total
	(in thousands)		
September 30, 2019			
Balance at beginning of period	$ 5,194	$ 4,196	$ 9,390
Originations	27,215	25,164	52,379
Sales	(29,786)	(25,370)	(55,156)
Principal paydowns and amortization	(1)	(14)	(15)
Balance at end of period	**$ 2,622**	**$ 3,976**	**$ 6,598**
September 30, 2018			
Balance at beginning of period	$ 3,746	$ 2,648	$ 6,394
Originations	25,996	30,248	56,244
Sales	(28,000)	(30,043)	(58,043)
Principal paydowns and amortization	(5)	(135)	(140)
Balance at end of period	**$ 1,737**	**$ 2,718**	**$ 4,455**

Allowance for Loan and Lease Losses

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

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Balance at beginning of period	$ 49,386	$ 31,818	$ 31,974	$ 31,043
Loans and leases charged off	(916)	(1,246)	(3,549)	(3,535)
Recoveries on loans and leases previously charged off	640	904	2,869	3,219
Net (charge-offs) recoveries	(276)	(342)	(680)	(316)
Loan and lease loss provision	1,602	200	19,418	949
Balance at end of period	**$ 50,712**	**$ 31,676**	**$ 50,712**	**$ 31,676**

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 September 30, 2019 and 2018:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(in thousands)			
As of and for the Three Months Ended September 30, 2019						
Allowance for loan and lease losses on loans and leases:						
Beginning balance	$ 34,004	$ 9,235	6,068	$ 79	$ —	$ 49,386
Less loans and leases charged off	(17)	(244)	(653)	(2)	—	(916)
Recoveries on loans and leases previously charged off	142	381	117	—	—	640
Loan and lease loss provision	2,272	(1,551)	886	(5)	—	1,602
Ending balance	**$ 36,401**	**$ 7,821**	**$ 6,418**	**$ 72**	**$ —**	**$ 50,712**
Individually evaluated for impairment	$ 14,781	$ 1,270	$ 1,049	$ 1	$ —	$ 17,101
Collectively evaluated for impairment	$ 21,620	$ 6,551	$ 5,369	$ 71	$ —	$ 33,611
Loans and leases receivable:	**$ 3,646,327**	**$ 441,209**	**$ 467,777**	**$ 14,524**	**$ —**	**$ 4,569,837**
Individually evaluated for impairment	$ 47,972	$ 13,692	$ 4,303	$ 1,325	$ —	$ 67,292
Collectively evaluated for impairment	$ 3,598,355	$ 427,517	$ 463,474	$ 13,199	$ —	$ 4,502,545

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

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

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(in thousands)			
As of and for the Nine Months Ended September 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	(131)	(939)	(2,479)	(1)	1	(3,549)
Recoveries on loans and leases previously charged off	1,704	853	312	—	—	2,869
Loan and lease loss provision	16,444	745	2,282	(25)	(28)	19,418
Ending balance	**$ 36,401**	**$ 7,821**	**$ 6,418**	**$ 72**	**$ —**	**$ 50,712**
Individually evaluated for impairment	$ 14,781	$ 1,270	$ 1,049	$ 1	$ —	$ 17,101
Collectively evaluated for impairment	$ 21,620	$ 6,551	$ 5,369	$ 71	$ —	$ 33,611
Loans and leases receivable:	**$ 3,646,327**	**$ 441,209**	**$ 467,777**	**$ 14,524**	**$ —**	**$ 4,569,837**
Individually evaluated for impairment	$ 47,972	$ 13,692	$ 4,303	$ 1,325	$ —	$ 67,292
Collectively evaluated for impairment	$ 3,598,355	$ 427,517	$ 463,474	$ 13,199	$ —	$ 4,502,545

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

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 September 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)		
September 30, 2019				
Real estate loans:				
Commercial property				
Retail	$ 853,986	$ 3,509	$ 7,555	$ 865,050
Hospitality	844,085	2,908	3,876	850,869
Other	1,391,226	5,015	20,821	1,417,062
Total commercial property loans	3,089,297	11,432	32,252	3,132,981
Construction	40,407	8,917	27,446	76,770
Residential property	434,980	796	800	436,576
Total real estate loans	3,564,684	21,145	60,498	3,646,327
Commercial and industrial loans:				
Commercial term	173,947	293	13,850	188,090
Commercial lines of credit	213,958	5,242	200	219,400
International loans	32,569	—	1,150	33,719
Total commercial and industrial loans	420,474	5,535	15,200	441,209
Leases receivable	463,474	—	4,303	467,777
Consumer loans	13,071	720	733	14,524
Total loans and leases receivable	**$ 4,461,703**	**$ 27,400**	**$ 80,734**	**$ 4,569,837**
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)			
September 30, 2019						
Real estate loans:						
Commercial property						
Retail	$ 117	$ 142	$ —	$ 259	$ 864,791	$ 865,050
Hospitality	—	—	138	138	850,731	850,869
Other	39	(4)	—	35	1,417,027	1,417,062
Total commercial property loans	156	138	138	432	3,132,549	3,132,981
Construction	—	—	—	—	76,770	76,770
Residential property	2,097	1,290	545	3,932	432,644	436,576
Total real estate loans	2,253	1,428	683	4,364	3,641,963	3,646,327
Commercial and industrial loans:						
Commercial term	368	124	121	613	187,477	188,090
Commercial lines of credit	—	95	—	95	219,305	219,400
International loans	—	—	—	—	33,719	33,719
Total commercial and industrial loans	368	219	121	708	440,501	441,209
Leases receivable	4,725	1,279	1,881	7,885	459,892	467,777
Consumer loans	—	—	—	—	14,524	14,524
Total loans and leases receivable	**$ 7,346**	**$ 2,926**	**$ 2,685**	**$ 12,957**	**$ 4,556,880**	**$ 4,569,837**
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**

As of September 30, 2019 and December 31, 2018, there were $544,000 and $4,000, respectively, of loans and leases that 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)		
September 30, 2019					
Real estate loans:					
Commercial property					
Retail	$ 1,136	$ 1,217	$ 705	$ 431	$ 32
Hospitality	1,404	1,833	1,167	237	27
Other	16,536	16,931	16,358	178	13
Total commercial property loans	19,076	19,981	18,230	846	72
Construction	27,446	28,000	—	27,446	14,709
Residential property	1,449	1,584	1,412	38	—
Total real estate loans	47,971	49,565	19,642	28,330	14,781
Commercial and industrial loans	13,692	14,071	—	13,692	1,270
Leases receivable	4,303	4,340	474	3,828	1,049
Consumer loans	1,325	1,601	1,245	79	1
Total	**$ 67,291**	**$ 69,577**	**$ 21,361**	**$ 45,929**	**$ 17,101**
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		Nine Months Ended	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
September 30, 2019				
Real estate loans:				
Commercial property				
Retail	$ 1,168	$ 6	$ 1,041	$ 11
Hospitality	1,499	—	2,145	—
Other	10,208	26	9,194	167
Total commercial property loans	12,875	32	12,380	178
Construction	27,674	—	15,447	249
Residential property	1,552	10	1,436	29
Total real estate loans	42,101	42	29,263	456
Commercial and industrial loans	13,892	15	21,220	506
Leases receivable	4,543	14	4,431	27
Consumer loans	1,482	9	1,502	29
Total	**$ 62,018**	**$ 80**	**$ 56,416**	**$ 1,018**
September 30, 2018				
Real estate loans:				
Commercial property				
Retail	$ 2,671	$ 93	$ 1,936	$ 141
Hospitality	7,146	104	7,639	376
Other	8,659	187	8,021	430
Total commercial property loans	18,476	384	17,596	947
Residential property	1,966	23	2,269	80
Total real estate loans	20,442	407	19,865	1,027
Commercial and industrial loans	3,819	40	3,266	119
Leases receivable	5,424	11	5,072	33
Consumer loans	1,018	17	1,031	45
Total	**$ 30,703**	**$ 475**	**$ 29,234**	**$ 1,224**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	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	$ 916	$ 819	$ 2,407	$ 2,150
Less: Interest income recognized on impaired loans and leases	(80)	(475)	(1,018)	(1,224)
Interest foregone on impaired loans and leases	**$ 836**	**$ 344**	**$ 1,389**	**$ 926**

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:

	September 30, 2019	December 31, 2018
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 986	$ 865
Hospitality	1,404	3,625
Other	15,067	1,641
Total commercial property loans	17,457	6,131
Construction	27,446	—
Residential property	838	182
Total real estate loans	45,741	6,313
Commercial and industrial loans	13,447	3,337
Leases receivable	4,303	5,129
Consumer loans	703	746
Total nonaccrual loans and leases	**$ 64,194**	**$ 15,525**

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

	September 30, 2019	December 31, 2018
	(in thousands)	
Nonaccrual loans and leases	$ 64,194	$ 15,525
Loans and leases 90 days or more past due and still accruing	544	4
Total nonperforming loans and leases	**64,738**	**15,529**
Other real estate owned (“OREO”)	330	663
Total nonperforming assets	**$ 65,068**	**$ 16,192**

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

Troubled Debt Restructurings

The following table details TDRs loans as of September 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)					
September 30, 2019										
Real estate loans	$ 1,927	$ 142	$ 28,141	$ 13,926	$ 44,136	$ 2,081	$ —	$ —	$ —	$ 2,081
Commercial and industrial loans	—	156	12,527	323	13,006	—	36	83	127	246
Consumer loans	703	—	—	—	703	542	—	79	—	621
Total	**$ 2,630**	**$ 298**	**$ 40,668**	**$ 14,249**	**$ 57,845**	**$ 2,623**	**$ 36**	**$ 162**	**$ 127**	**$ 2,948**
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 September 30, 2019 and December 31, 2018, total TDRs were $60.8 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 September 30, 2019 and $313,000 of specific allowances at December 31, 2018 relating to TDR loans.

There were $44.0 million of commercial real estate loans (eight loans), $12.6 million of commercial loans (two loans) and one consumer loan for $0.5 million that were modified during the twelve-month period ended September 30, 2019. None of these loans defaulted nor were charged off subsequent to their restructuring during the twelve-month period ended September 30, 2019. The troubled debt restructurings described above increased the allowance by $15.7 million during the twelve-month period ended September 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 ended September 30, 2019 and 2018 were as follows:

	2019	2018
	(in thousands)	
Servicing assets:		
Balance at beginning of period	$ 7,567	$ 9,255
Addition related to sale of SBA loans	517	378
Amortization	(648)	(755)
Balance at end of period	**$ 7,436**	**$ 8,878**
Servicing liabilities:		
Balance at beginning of period	$ 1,238	$ 1,837
Amortization	(93)	(172)
Balance at end of period	**$ 1,145**	**$ 1,665**

The changes in servicing assets and liabilities for the nine months ended September 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	1,177	1,219
Amortization	(2,261)	(2,559)
Balance at end of period	**$ 7,436**	**$ 8,878**
Servicing liabilities:		
Balance at beginning of period	$ 1,517	$ 2,217
Amortization	(372)	(552)
Balance at end of period	**$ 1,145**	**$ 1,665**

At September 30, 2019 and December 31, 2018, we serviced loans sold to unaffiliated parties in the amounts of $433.6 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 September 30, 2019 and 2018, respectively. The Company recorded servicing fee income of $3.3 million and $3.5 million for the nine months ended September 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 $557,000 and $583,000 for the three months ended September 30, 2019 and 2018, respectively, and $1.9 million and $2.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Note 5 — Income Taxes

The Company's income tax expense was $4.3 million and $6.3 million representing an effective income tax rate of 25.9 percent and 28.0 percent for the three months ended September 30, 2019 and 2018, respectively. The Company's income tax expense was $11.8 million and $17.9 million representing an effective income tax rate of 28.5 percent and 27.8 percent for the nine months ended September 30, 2019 and 2018, respectively.

Management concluded that as of September 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 $22.6 million and $27.4 million and a net current tax asset of $8.0 million and $8.3 million as of September 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

At September 30, 2019, the Bank had $75.0 million in term advances outstanding with the FHLB with a weighted average interest rate of 1.71%. At December 31, 2018, the Bank had $55.0 million of FHLB overnight advances with a weighted average rate of 1.94%. The interest expense for the three and nine months ended September 30, 2019 were $367,000 and $439,000, respectively, and $1.3 million and $3.0 million, respectively, for the same periods in the prior year.

	September 30, 2019		December 31, 2018	
($ in thousands)	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
Overnight advances	$ —	—%	$ 55,000	1.94%
Advances due within 12 months	25,000	1.75%	—	—%
Advances due over 12 months through 24 months	25,000	1.66%	—	—%
Advances due over 24 months through 36 months	25,000	1.72%	—	—%
Borrowings	**$ 75,000**	**1.71%**	**$ 55,000**	**1.94%**

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 $769.6 million remained available at September 30, 2019.

The Bank also has securities with market values of $30.2 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 September 30, 2019 and December 31, 2018.

Subordinated Debentures

The Company issued Fixed-to-Floating Subordinated Notes (the "Notes") of $100.0 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes have an initial fixed interest rate of 5.45% 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 September 30, 2019 and December 31, 2018, the balance of Notes included in the Company's consolidated balance sheet, net of debt issuance cost, was $98.3 million and $98.1 million, respectively. The amortization of debt issuance cost was $49,000 and $46,000 for the three months ended September 30, 2019 and 2018, respectively, and $144,000 and $136,000 for the nine months ended September 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") at 6.26 percent fixed rate for the first five years and a variable rate at the three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At September 30, 2019 and December 31, 2018, the balance of Subordinated Debentures included in the Company's consolidated balance sheets, net of discount of $6.9 million and $7.1 million, was $19.9 million and $19.7 million, respectively. The amortization of discount was $96,000 and $92,000 for the three months ended September 30, 2019, and 2018, respectively, and $280,000 and $264,000 for the nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except per share amounts)			
Basic EPS				
Net income	$ 12,376	$ 16,081	$ 29,704	$ 46,484
Less: income allocated to unvested restricted stock	101	101	193	284
Income allocated to common shares	$ 12,275	$ 15,980	$ 29,511	$ 46,200
Weighted-average shares for basic EPS	30,830,445	32,155,132	30,736,456	32,171,558
Basic EPS	**$ 0.40**	**$ 0.50**	**$ 0.96**	**$ 1.44**
Effect of dilutive securities-options and unvested restricted stock	28,674	120,145	32,704	134,482
Diluted EPS				
Income allocated to common shares	12,275	15,980	29,511	46,200
Weighted-average shares for diluted EPS	30,859,119	32,275,277	30,769,160	32,306,041
Diluted EPS	**$ 0.40**	**$ 0.50**	**$ 0.96**	**$ 1.43**

(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 andnine months ended September 30, 2019 or 2018.

Note 8 – Accumulated Other Comprehensive Income

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

	Unrealized Gains and Losses on Available for Sale Securities	Tax (Expense) Benefit	Total
		(in thousands)	
September 30, 2019			
Balance at beginning of period	$ 3,336	$ (961)	$ 2,375
Other comprehensive loss before reclassification	1,873	(540)	1,333
Reclassification from accumulated other comprehensive income	—	—	—
Period change	1,873	(540)	1,333
Balance at end of period	**$ 5,209**	**$ (1,501)**	**$ 3,708**
September 30, 2018			
Balance at beginning of period	$ (13,092)	$ 3,768	$ (9,324)
Other comprehensive loss before reclassification	(2,750)	798	(1,952)
Reclassification from accumulated other comprehensive income	(19)	—	(19)
Period change	(2,769)	798	(1,971)
Balance at end of period	**$ (15,861)**	**$ 4,566**	**$ (11,295)**

For the three months ended September 30, 2018, there was a $19,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $19,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gain of $21,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period. No such reclassification from accumulated other comprehensive income to gains in earnings andno unrealized gain (loss) existed for the three months ended September 30, 2019.

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

	Unrealized Gains and Losses on Available for Sale Securities	Tax Benefit (Expense)	Total
		(in thousands)	
September 30, 2019			
Balance at beginning of period	$ (8,536)	$ 2,457	$ (6,079)
Other comprehensive loss before reclassification	15,040	(3,958)	11,082
Reclassification from accumulated other comprehensive income	(1,295)	—	(1,295)
Period change	13,745	(3,958)	9,787
Balance at end of period	**$ 5,209**	**$ (1,501)**	**$ 3,708**
September 30, 2018			
Balance at beginning of period	$ (3,188)	$ 1,319	$ (1,869)
Other comprehensive loss before reclassification	(13,115)	3,793	(9,322)
Reclassification from accumulated other comprehensive income	(87)	—	(87)
Adjustment to accumulated other comprehensive income related to adoption of ASU 2016-01 and 2018-02 (see Notes 2 and 5)	529	(546)	(17)
Period change	(12,673)	3,247	(9,426)
Balance at end of period	**$ (15,861)**	**$ 4,566**	**$ (11,295)**

For the nine months ended September 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 nine months ended September 30, 2018, there was a $87,000 reclassification from accumulated other comprehensive loss to reduction in earnings resulting from the sale of available-for-sale securities. The $87,000 reclassification adjustment out of accumulated other comprehensive income was included in net loss on sales of securities under noninterest income. Net unrealized gains of $116,000 related to these sold securities had previously been recorded in accumulated other comprehensive income as of the beginning of the period.

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 September 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 6.65% and 6.19% and the Company's capital conservation buffer was 5.91% and 5.74% as of September 30, 2019 and December 31, 2018, respectively.

The capital ratios of Hanmi Financial and the Bank as ofSeptember 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)			
September 30, 2019						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 717,941	15.07%	$ 381,070	8.00%	N/A	N/A
Hanmi Bank	$ 695,826	14.65%	$ 379,905	8.00%	$ 474,882	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 567,397	11.91%	$ 285,803	6.00%	N/A	N/A
Hanmi Bank	$ 643,571	13.55%	$ 284,929	6.00%	$ 379,905	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 547,454	11.49%	$ 214,352	4.50%	N/A	N/A
Hanmi Bank	$ 643,571	13.55%	$ 213,697	4.50%	$ 308,673	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 567,397	10.43%	$ 217,528	4.00%	N/A	N/A
Hanmi Bank	$ 643,571	11.86%	$ 217,080	4.00%	$ 271,351	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 September 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 September 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)		
September 30, 2019				
Assets:				
Securities available for sale:				
U.S. Treasury securities	$ 40,169	$ —	$ —	$ 40,169
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	—	399,474	—	399,474
Collateralized mortgage obligations	—	164,999	—	164,999
Debt securities	—	17,173	—	17,173
Total U.S. government agency and sponsored agency obligations	—	581,646	—	581,646
Municipal bonds-tax exempt	—	—	—	—
Total securities available for sale	**$ 40,169**	**$ 581,646**	**$ —**	**$ 621,815**
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 September 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 Nine Months Ended September 30, 2019
		(in thousands)		
September 30, 2019				
Assets:				
Impaired loans [(1)]	$ —	$ —	$ 24,264	$ 15,948
OREO	—	—	330	—
December 31, 2018				
Assets:				
Impaired loans [(2)]	$ —	$ 3,253	$ 1,957	$ 1,184
OREO	—	663	—	—

[(1)] *Consist of real estate loans of $12.7 million and commercial and industrial loans of $11.5 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 atSeptember 30, 2019 were determined utilizing the fair value measurement methodology for assets measured on a non-recurring basis. The impaired loans measured at fair value at September 30, 2019 consisted of one commercial real estate loan with a fair value of$12.7 million and one commercial and industrial loan with a fair value of $11.5 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 September 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:

	September 30, 2019			
	Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 150,678	$ 150,678	$ —	$ —
Securities available for sale	621,815	40,169	581,646	—
Loans held for sale	6,598	—	7,078	—
Loans and leases receivable, net of allowance for loan and lease losses	4,519,125	—	—	4,539,227
Accrued interest receivable	11,723	11,723	—	—
Financial liabilities:				
Noninterest-bearing deposits	1,388,121	—	1,388,121	—
Interest-bearing deposits	3,302,020	—	—	3,314,224
Borrowings and subordinated debentures	193,232	—	195,860	
Accrued interest payable	10,076	10,076	—	—

	December 31, 2018			
	Carrying	Fair Value		
	Amount	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 September 30, 2019 and 2018, share-based compensation expenses were $895,000 and $850,000, respectively, and net tax benefits recognized from stock option and restricted stock awards were $268,000 and $238,000, respectively. For the nine months ended September 30, 2019 and 2018, share-based compensation expenses were $2.3 million and $2.7 million, respectively, and net tax benefits recognized from stock option and restricted stock awards were $680,000 and $746,000, 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 September 30, 2019, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	(in thousands)	
Restricted stock awards	$ 5,329	2.1 years

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

Stock Option Awards

The table below provides stock option information for the three months ended September 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	336,438	$ 17.55	4.4 years	$ 1,162 (1)
Options exercised	(180,000)	$ 16.43	4.2 years	754
Options outstanding at end of period	**156,438**	**$ 18.84**	**4.4 years**	**$ 407** (2)
Options exercisable at end of period	**156,438**	**$ 18.84**	**4.4 years**	**$ 407** (2)

(1) *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.*

(2) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $18.78 as of September 30, 2019, over the exercise price, multiplied by the number of options.*

There were 180,000 stock options exercised during the three months ended September 30, 2019 and no stock options exercised during the three months ended September 30, 2018.

The table below provides stock option information for the nine months ended September 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	(181,900)	$ 16.38	4.6 years	604
Options outstanding at end of period	**156,438**	**$ 18.84**	**4.4 years**	**$ 407** (2)
Options exercisable at end of period	**156,438**	**$ 18.84**	**4.4 years**	**$ 407** (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 $18.78 as of September 30, 2019, over the exercise price, multiplied by the number of options.*

There were 181,900 and 25,750 stock options exercised during the nine months ended September 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 September 30, 2019		Nine Months Ended September 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	286,199	$ 23.19	304,595	$ 21.98
Restricted stock granted	20,914	$ 22.09	172,609	22.17
Restricted stock vested	(4,105)	$ 25.60	(90,064)	27.99
Restricted stock forfeited	(1,044)	$ 23.29	(85,176)	11.74
Restricted stock at end of period	**301,964**	**$ 23.07**	**301,964**	**23.07**

Note 12 — Off-Balance Sheet Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved with on-balance sheet items recognized in the consolidated balance sheets.

The Bank's exposure to losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, was based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, premises and equipment, and income-producing or borrower-occupied properties.

The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in thousands)	
Commitments to extend credit	$ 346,182	$ 325,100
Standby letters of credit	32,585	32,500
Commercial letters of credit	6,380	13,848
Total undisbursed loan commitments	**$ 385,147**	**$ 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 September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	(in thousands)							
Balance at beginning of period	$	1,333	$	1,357	$	1,439	$	1,296
Provision (income)		209		—		103		61
Balance at end of period	**$**	**1,542**	**$**	**1,357**	**$**	**1,542**	**$**	**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 September 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$38.2 million and $38.8 million, respectively, as of September 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:

	September 30, 2019
	(in thousands)
Assets	
Total right-of-use assets - Operating leases	$ 38,211
Liabilities	
Total lease liabilities - Operating leases	$ 38,767

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 September 30, 2019	Nine Months Ended September 30, 2019
	(in thousands)	
Operating lease cost [(1)]	$ 2,089	$ 5,956
Sublease income [(2)]	(33)	(99)
Net lease cost	$ 2,056	$ 5,857

(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 ofSeptember 30, 2019:

	Operating Leases
	(in thousands)
2019	$ 1,902
2020	6,374
2021	5,129
2022	4,843
2023	4,735
Thereafter	21,727
	44,710
Interest	(5,943)
Present value of lease liability	$ 38,767

Weighted average remaining leases terms for the Company's operating leases were8.63 years as of September 30, 2019. Weighted average discount rates used for the Company's operating leases was 3.24 percent as of September 30, 2019. Net lease expense recognized for the three and nine months ended September 30, 2019 was $2.1 million and $5.9 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 nine months ended September 30, 2019 was $1.9 million and $5.3 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 September 30, 2019, or would be required to be recognized in the unaudited consolidated financial statements as of September 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 nine months ended September 30, 2019. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year endedDecember 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 September 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except per share data)			
Summary balance sheets:				
Cash and due from banks	$ 150,678	$ 159,617	$ 150,678	$ 159,617
Securities	621,815	572,236	621,815	572,236
Loans and leases receivable, net (1)	4,519,125	4,551,207	4,519,125	4,551,207
Assets	5,527,982	5,487,042	5,527,982	5,487,042
Deposits	4,690,141	4,614,422	4,690,141	4,614,422
Liabilities	4,953,455	4,919,294	4,953,455	4,919,294
Stockholders' equity	574,527	567,748	574,527	567,748
Tangible equity	562,577	555,475	562,577	555,475
Average loans and leases receivable (2)	4,519,770	4,551,284	4,514,707	4,426,369
Average securities	630,450	589,939	616,503	590,062
Average assets	5,461,617	5,453,465	5,465,992	5,329,532
Average deposits	4,631,427	4,481,344	4,697,833	4,394,777
Average stockholders' equity	566,175	584,637	565,010	575,896
Per share data:				
Earnings per share – basic	$ 0.40	$ 0.50	$ 0.96	$ 1.44
Earnings per share – diluted	$ 0.40	$ 0.50	$ 0.96	$ 1.43
Book value per share (3)	$ 18.43	$ 17.69	$ 18.43	$ 17.69
Tangible book value per share (4)	$ 18.05	$ 17.31	$ 18.05	$ 17.31
Cash dividends per share	$ 0.24	$ 0.24	$ 0.72	$ 0.72
Common shares outstanding	31,173,881	32,087,236	31,173,881	32,087,236
Performance ratios:				
Return on average assets (5) (13)	0.90 %	1.17 %	0.73 %	1.17 %
Return on average stockholders' equity (6) (13)	8.67 %	10.91 %	7.03 %	10.79 %
Net interest margin (7)	3.36 %	3.48 %	3.39 %	3.59 %
Efficiency ratio (8)	64.04 %	56.28 %	60.10 %	57.47 %
Dividend payout ratio (9)	60.00 %	48.00 %	75.00 %	50.00 %
Average stockholders' equity to average assets	10.37 %	10.72 %	10.34 %	10.81 %
Tangible common equity to tangible assets (10)	10.20 %	10.15 %	10.20 %	10.15 %
Asset quality ratios:				
Nonperforming loans and leases to loans and leases, net (11)	1.43 %	0.40 %	1.43 %	0.40 %
Nonperforming assets to assets (12)	1.18 %	0.35 %	1.18 %	0.35 %
Net loan and lease (charge-offs) recoveries to average loans and leases	(0.02)%	0.03 %	(0.02)%	0.03 %
Allowance for loan lease losses to loans and leases	1.11 %	0.69 %	1.11 %	0.69 %
Allowance for loan and lease losses to nonperforming loans and leases	78.33 %	173.30 %	78.33 %	173.30 %

Capital ratios:	As of or for the Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Total risk-based capital:				
Hanmi Financial	15.07 %	15.01%	15.07 %	15.01%
Hanmi Bank	14.65 %	14.76%	14.65 %	14.76%
Tier 1 risk-based capital:				
Hanmi Financial	11.91 %	12.21%	11.91 %	12.21%
Hanmi Bank	13.55 %	14.05%	13.55 %	14.05%
Common equity Tier 1 capital:				
Hanmi Financial	11.49 %	11.79%	11.49 %	11.79%
Hanmi Bank	13.55 %	14.05%	13.55 %	14.05%
Tier 1 leverage:				
Hanmi Financial	10.43 %	10.53%	10.43 %	10.53%
Hanmi Bank	11.86 %	12.11%	11.86 %	12.11%

(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 provides certain supplemental financial information 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:

	September 30,	
	2019	2018
	(in thousands, except per share data)	
Total assets	**$ 5,527,982**	**$ 5,487,042**
Less goodwill and other intangible assets	(11,950)	(12,273)
Tangible assets	**$ 5,516,032**	**$ 5,474,769**
Total stockholders’ equity [1]	$ 574,527	$ 567,748
Less goodwill and other intangible assets	(11,950)	(12,273)
Tangible stockholders' equity [1]	**$ 562,577**	**$ 555,475**
Stockholders' equity to assets	10.39%	10.35%
Tangible common equity to tangible assets[1]	10.20%	10.15%
Common shares outstanding	31,173,881	32,087,236
Book value per share	$ 18.43	$ 17.69
Effect of goodwill and other intangible assets	(0.38)	(0.38)
Tangible common equity per common share	**$ 18.05**	**$ 17.31**

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

Executive Overview

Net income was $12.4 million, or $0.40 per diluted share, for the three months ended September 30, 2019 compared with $16.1 million, or $0.50 per share, for the same period a year ago. The decline in net income for the quarter reflects primarily an increase in noninterest expenses and an increase in the provision for loan and lease losses.

Net income for the nine months ended September 30, 2019 was $29.7 million, or $0.96 per diluted share compared with $46.5 million, or $1.43 per diluted share. The decline in net income for the nine-month period reflects primarily an increase in the provision for loan and lease losses during the second quarter of 2019 arising from a $15.7 million specific allowance relating to a $40.0 million troubled loan relationship comprised of a $27.5 million land loan and a $12.5 business loan.

Other financial highlights include the following:

Loans and leases receivable, before the allowance for loan and lease losses, were $4.57 billion at September 30, 2019 compared with $4.60 billion at December 31, 2018.

Deposits were $4.69 billion at September 30, 2019 compared with $4.75 billion at December 31, 2018.

Return on average assets for the three months ended September 30, 2019 and 2018 was 0.90% and 1.17%, respectively, while the return on average stockholders’ equity was 8.67% and 10.91% for the same respective periods.

Return on average assets for the nine months ended September 30, 2019 and 2018 was 0.73% and 1.17%, respectively, while the return on average stockholders’ equity was 7.03% and 10.79% for the same respective periods.

Tangible book value per share was $18.05 at September 30, 2019 compared with $17.47 at December 31, 2018; tangible stockholders’ equity to tangible assets was 10.20% at September 30, 2019 compared with 9.84% at December 31, 2018.

The Bank continues to be well-capitalized at September 30, 2019 with a Total risk-based capital ratio of 14.65%, a Tier-1 risk-based capital ratio of 13.55%, a Common equity Tier 1 capital ratio of 13.55% and a Tier 1 leverage ratio of 11.86%.

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

	Three Months Ended					
	September 30, 2019			September 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)]	$ 4,519,770	$ 57,929	5.08%	$ 4,551,284	$ 56,361	4.91%
Securities [(2)]	630,450	3,769	2.39%	589,939	3,408	2.31%
FHLB stock	16,385	286	6.93%	16,385	286	6.93%
Interest-bearing deposits in other banks	35,140	193	2.18%	30,368	151	1.97%
Total interest-earning assets	5,201,745	62,177	4.74%	5,187,976	60,206	4.60%
Noninterest-earning assets:						
Cash and due from banks	99,492			124,072		
Allowance for loan and lease losses	(49,762)			(32,172)		
Other assets	210,142			173,589		
Total assets	**$ 5,461,617**			**$ 5,453,465**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 82,665	$ 31	0.15%	$ 92,090	$ 36	0.16%
Money market and savings	1,555,639	6,180	1.58%	1,377,739	4,011	1.16%
Time deposits	1,692,419	9,784	2.29%	1,687,827	7,647	1.80%
Total interest-bearing deposits	3,330,723	15,995	1.91%	3,157,656	11,694	1.47%
Borrowings	74,239	367	1.96%	240,054	1,264	2.09%
Subordinated debentures	118,145	1,757	5.92%	117,584	1,749	5.92%
Total interest-bearing liabilities	3,523,107	18,119	2.04%	3,515,294	14,707	1.66%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,300,704			1,323,688		
Other liabilities	71,631			29,846		
Stockholders' equity	566,175			584,637		
Total liabilities and stockholders' equity	**$ 5,461,617**			**$ 5,453,465**		
Net interest income (taxable equivalent basis)		**$ 44,058**			**$ 45,499**	
Cost of deposits [(3)]			**1.37%**			**1.04%**
Net interest spread (taxable equivalent basis) [(4)]			**2.70%**			**2.94%**
Net interest margin (taxable equivalent basis) [(5)]			**3.36%**			**3.48%**

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

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

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

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

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

The table below shows changes in interest income (on a tax equivalent basis) and interest expense and the amounts attributable to variations in interest rates and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

	Three Months Ended September 30, 2019 vs. September 30, 2018		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans and leases receivable	$ (398)	$ 1,966	$ 1,568
Securities	239	122	361
FHLB stock	—	—	—
Interest-bearing deposits in other banks	25	17	42
Total interest and dividend income (taxable equivalent)	**$ (134)**	**$ 2,105**	**$ 1,971**
Interest expense:			
Demand: interest-bearing	$ (3)	$ (2)	$ (5)
Money market and savings	574	1,595	2,169
Time	21	2,116	2,137
Borrowings	(824)	(73)	(897)
Subordinated debentures	7	1	8
Total interest expense	**$ (225)**	**$ 3,637**	**$ 3,412**
Change in net interest income (taxable equivalent)	**$ 91**	**$ (1,532)**	**$ (1,441)**

Interest and dividend income, on a taxable equivalent basis, increased $2.0 million, or 3.3 percent, to $62.2 million for the three months ended September 30, 2019 from $60.2 million for the same period in 2018. Interest expense increased $3.4 million, or 23.2 percent, to $18.1 million for the three months ended September 30, 2019 from $14.7 million for the same period in 2018. For the three months ended September 30, 2019 and 2018, net interest income, on a taxable equivalent basis, was $44.1 million and $45.5 million, respectively. Net interest income decreased during the three months ended September 30, 2019 compared with the same period in 2018 mainly due to increases in average rates paid on interest-bearing deposits. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended September 30, 2019 were 2.70 percent and 3.36 percent, respectively, compared with 2.94 percent and 3.48 percent, respectively, for the same period in 2018.

The average balance of interest-earning assets increased $13.8 million, or 0.27 percent, to $5.20 billion for the three months ended September 30, 2019 from $5.19 billion for the same period in 2018. The average balance of loans and leases decreased $31.5 million, or 0.69 percent, to $4.52 billion for the three months ended September 30, 2019 from $4.56 billion for the same period in 2018. The average balance of interest-bearing liabilities increased $7.8 million, or 0.22 percent, to $3.52 billion for the three months ended September 30, 2019, compared with $3.52 billion for the same period in 2018.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 14 basis points to 4.74 percent for the three months ended September 30, 2019 from 4.60 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 38 basis points to 2.04 percent for the three months ended September 30, 2019 from 1.66 percent for the same period in 2018, mainly due to higher market interest rates and a larger percentage of higher-costing time deposits and money market and savings deposits in the portfolio.

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

	Nine Months Ended					
	September 30, 2019			September 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)	$ 4,514,707	$ 173,135	5.13%	$ 4,426,369	$ 161,643	4.88%
Securities (2)	616,503	11,141	2.41%	590,062	10,087	2.28%
FHLB stock	16,385	858	7.00%	16,385	858	7.00%
Interest-bearing deposits in other banks	60,240	1,085	2.41%	30,526	398	1.74%
Total interest-earning assets	5,207,835	186,219	4.78%	5,063,342	172,986	4.57%
Noninterest-earning assets:						
Cash and due from banks	103,098			123,680		
Allowance for loan and lease losses	(38,885)			(32,175)		
Other assets	193,944			174,685		
Total assets	**$ 5,465,992**			**$ 5,329,532**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 83,953	$ 93	0.15%	$ 92,009	$ 72	0.10%
Money market and savings	1,541,548	17,940	1.56%	1,422,514	10,883	1.02%
Time deposits	1,802,303	30,373	2.25%	1,561,541	17,989	1.54%
Total interest-bearing deposits	3,427,804	48,406	1.89%	3,076,064	28,944	1.26%
Borrowings	28,536	439	2.06%	211,264	2,959	1.87%
Subordinated debentures	118,006	5,293	5.97%	117,455	5,170	5.86%
Total interest-bearing liabilities	3,574,346	54,138	2.03%	3,404,783	37,073	1.46%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,270,029			1,318,713		
Other liabilities	56,607			30,140		
Stockholders' equity	565,010			575,896		
Total liabilities and stockholders' equity	**$ 5,465,992**			**$ 5,329,532**		
Net interest income (taxable equivalent basis)		**$ 132,081**			**$ 135,913**	
Cost of deposits (3)			**1.38%**			**0.88%**
Net interest spread (taxable equivalent basis) (4)			**2.75%**			**3.11%**
Net interest margin (taxable equivalent basis) (5)			**3.39%**			**3.59%**

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

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

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

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

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

The table below shows changes in interest income (on a tax equivalent basis) and interest expense and the amounts attributable to variations in interest rates and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

	Nine Months Ended September 30, 2019 vs. September 30, 2018		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans and leases receivable	$ 3,247	$ 8,245	$ 11,492
Securities	465	589	1,054
FHLB stock	—	—	—
Interest-bearing deposits in other banks	493	194	687
Total interest and dividend income (taxable equivalent)	**$ 4,205**	**$ 9,028**	**$ 13,233**
Interest expense:			
Demand: interest-bearing	$ (7)	$ 28	$ 21
Money market and savings	969	6,088	7,057
Time	3,093	9,291	12,384
Borrowings	(2,788)	268	(2,520)
Subordinated debentures	25	98	123
Total interest expense	**$ 1,292**	**$ 15,773**	**$ 17,065**
Change in net interest income (taxable equivalent)	**$ 2,913**	**$ (6,745)**	**$ (3,832)**

Interest and dividend income, on a taxable equivalent basis, increased $13.2 million, or 7.6 percent, to $186.2 million for the nine months ended September 30, 2019 from $173.0 million for the same period in 2018. Interest expense increased $17.1 million, or 46 percent, to $54.1 million for the nine months ended September 30, 2019 from $37.1 million for the same period in 2018. For the nine months ended September 30, 2019 and 2018, net interest income, on a taxable equivalent basis, was $132.1 million and $135.9 million, respectively. The decrease in net interest income was primarily attributable to the increase in the average rate paid on interest-bearing deposits. The net interest spread and net interest margin, on a taxable equivalent basis, for the nine months ended September 30, 2019 were 2.75 percent and 3.39 percent, respectively, compared with 3.11 percent and 3.59 percent, respectively, for the same period in 2018.

The average balance of interest-earning assets increased $144.5 million, or 2.8 percent, to $5.21 billion for the nine months ended September 30, 2019 from $5.06 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 $88.3 million, or 2.0 percent, to $4.51 billion for the nine months ended September 30, 2019 from $4.43 billion for the same period in 2018. The average balance of interest-bearing liabilities increased $169.6 million, or 5.0 percent, to $3.57 billion for the nine months ended September 30, 2019, compared with $3.40 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 $240.8 million and money market and savings deposits of $119.0 million, mainly offset by a decrease in the average balance of borrowings of $182.7 million for the nine months ended September 30, 2019 compared with the same period in 2018.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 21 basis points to 4.78 percent for the nine months ended September 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 57 basis points to 2.03 percent for the nine months ended September 30, 2019 from 1.46 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

Due to the 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 a nd 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 $1.6 million and $0.2 million for the three months ended September 30, 2019 and 2018, respectively. The increase in the provision for loan and lease losses reflects the increase in the general level of estimated loss rates. For the nine months ended September 30, 2019 and 2018, the provision for loan and lease losses was $19.4 million and $0.9 million, respectively. The increase in the provision for loan and lease losses for the nine months ended September 30, 2019 resulted principally from a $15.7 million specific allowance relating to a $40.0 million troubled loan relationship added to nonaccrual loans during the three-month period ended June 30, 2019.

The provision for off-balance sheet items was $209,000 for the three months ended September 30, 2019. There was no provision for the third quarter of 2018. For the nine months ended September 30, 2019, the provision for off-balance sheet items was $103,000, while for the nine months ended September 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 September 30,		**Increase (Decrease)**	
	2019	**2018**	**Amount**	**Percentage**
	(dollars in thousands)			
Service charges on deposit accounts	$ 2,518	$ 2,513	$ 5	0.2 %
Trade finance and other service charges and fees	1,191	1,128	63	5.6 %
Servicing income	614	673	(59)	(8.8)%
Bank-owned life insurance income	279	285	(6)	(2.1)%
All other operating income	491	483	8	1.7 %
Service charges, fees and other	5,093	5,082	11	0.2 %
Gain on sale of SBA loans	1,767	1,114	653	58.6 %
Net gain on sales of securities	—	19	(19)	(100.0)%
Total noninterest income	**$ 6,860**	**$ 6,215**	**$ 645**	10.4 %

For the three months ended September 30, 2019, noninterest income was $6.9 million, an increase of $645,000, or 10.4 percent, compared with $6.2 million for the same period in 2018. The increase was primarily attributable to an increase in gain on sale of SBA loans.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$ 7,362	$ 7,352	$ 10	0.1 %
Trade finance and other service charges and fees	3,519	3,449	70	2.0 %
Servicing income	1,572	1,755	(183)	(10.4)%
Bank-owned life insurance income	840	819	21	2.6 %
Gain on sale of bank premises	1,235	—	1,235	100.0 %
All other operating income	1,268	1,216	52	4.3 %
Service charges, fees and other	15,796	14,591	1,205	8.3 %
Gain on sale of SBA loans	3,752	3,970	(218)	(5.5)%
Net gain (loss) on sales of securities	1,295	(341)	1,636	479.8 %
Total noninterest income	**$ 20,843**	**$ 18,220**	**$ 2,623**	14.4 %

For the nine months ended September 30, 2019, noninterest income was $20.8 million, an increase of $2.6 million, or 14.4 percent, compared with $18.2 million for the same period in 2018. The increase was primarily attributable to the gain on sale of bank premises in the second quarter of 2019 and the gain on sale of securities.

Noninterest Expense

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

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 17,530	$ 17,436	$ 94	0.5 %
Occupancy and equipment	4,528	3,685	843	22.9 %
Data processing	2,410	1,745	665	38.1 %
Professional fees	2,826	1,626	1,200	73.8 %
Supplies and communications	726	805	(79)	(9.8)%
Advertising and promotion	927	814	113	13.9 %
Merger and integration costs	—	466	(466)	(100.0)%
Off-balance sheet loss allowance provision (income)	209	—	209	100.0 %
All other operating expenses	3,291	2,872	419	14.6 %
Subtotal	$ 32,447	29,449	2,998	10.2 %
Other real estate owned expense (income)	**160**	**$ (441)**	**601**	(136.3)%
Total noninterest expense	**$ 32,607**	**$ 29,008**	**$ 3,599**	12.4 %

For the three months ended September 30, 2019, noninterest expense was $32.6 million, an increase of $3.6 million, or 12.4 percent, compared with $29.0 million for the same period in 2018. The increase was due primarily to an increase in professional fees related to the reporting delay for a troubled loan relationship, expenses for CECL implementation, and legal fees from the year-ago terminated merger transaction. Occupancy expense and data processing expense also increased due to higher depreciation from additional fixed asset purchases and fees attendant to data management activities.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$ 50,149	$ 53,590	$ (3,441)	(6.4)%
Occupancy and equipment	12,517	11,839	678	5.7 %
Data processing	6,633	4,976	1,657	33.3 %
Professional fees	6,459	4,210	2,249	53.4 %
Supplies and communications	2,220	2,206	14	0.6 %
Advertising and promotion	2,632	2,724	(92)	(3.4)%
Mergers and integration costs	—	641	(641)	(100.0)%
Off-balance sheet loss allowance provision (income)	103	61	42	68.9 %
All other operating expenses	10,704	8,143	2,561	31.5 %
subtotal	$ 91,417	88,390	3,027	3.4 %
Other real estate owned expense (income)	**400**	**$ (116)**	**516**	(444.8)%
Total noninterest expense	**$ 91,817**	**$ 88,274**	**$ 3,543**	4.0 %

For the nine months ended September 30, 2019, noninterest expense was $91.8 million, an increase of $3.5 million or 4.0 percent compared to $88.3 million for the same period in 2018. There was a decrease in salaries and employee benefits, primarily due to the closing of branches and other employee cost reductions. These were mainly offset by increases in data processing, professional fees, and other operating expenses as a result of increases in costs for disaster recovery, CECL accounting standard, and fees for a troubled loan relationship.

Income Tax Expense

Income tax expense was $4.3 million and $6.3 million representing an effective income tax rate of 25.9 percent and 28.0 percent for the three months ended September 30, 2019 and 2018, respectively. Income tax expense was $11.8 million and $17.9 million representing an effective income tax rate of 28.5 percent and 27.8 percent for the nine months ended September 30, 2019 and 2018, respectively. The decrease in the effective tax rate for the three-month period ended September 30, 2019 versus 2018 was due principally to a benefit received from a discrete item relating to stock compensation expense. The increase in the effective tax rates for the nine-month period ended September 30, 2019 compared to the same period for 2018 was due principally to a charge related to the settlement of the California 2008 and 2009 tax year audits with the Franchise Tax Board, and a lower tax benefit from municipal bonds which were sold during the nine months ended September 30, 2019.

Financial Condition

Securities

As of September 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 these securities carry fixed interest rates. Other than holdings of U.S. government agency and sponsored agency obligations, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of September 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:

	September 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	$ 39,877	$ 40,169	$ 292	$ 39,768	$ 39,830	$ 62
U.S. government agency and sponsored agency obligations:						
Mortgage-backed securities	395,486	399,474	3,988	300,957	295,034	(5,923)
Collateralized mortgage obligations	164,267	164,999	732	124,550	122,292	(2,258)
Debt securities	16,974	17,173	199	7,499	7,402	(97)
Total U.S. government agency and sponsored agency obligations:	576,727	581,646	4,919	433,006	424,728	(8,278)
Municipal bonds-tax exempt	—	—	—	110,670	110,350	(320)
Total securities available for sale	**$ 616,604**	**$ 621,815**	**$ 5,211**	**$ 583,444**	**$ 574,908**	**$ (8,536)**

As of September 30, 2019, securities available for sale increased $46.9 million, or 8.2 percent, to $621.8 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 September 30, 2019, securities available for sale had a net unrealized gain of $5.2 million, comprised of $5.9 million of unrealized gains and $729,000 of unrealized losses. As of December 31, 2018, securities available for sale had net unrealized losses 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 September 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	$ 29,886	2.55%	$ 9,991	2.67%	$ —	—%	$ —	—%	$ 39,877	2.58%
U.S. government agency and sponsored agency obligations:										
Mortgage-backed securities	—	—%	59,161	2.17%	137,290	2.48%	199,035	2.52%	395,486	2.45%
Collateralized mortgage obligations	—	—%	3,355	1.53%	25,451	2.11%	135,461	2.27%	164,267	2.23%
Debt securities	3,000	1.50%	10,971	2.22%	3,003	2.83%	—	—%	16,974	2.20%
U.S. government agency and sponsored agency obligations	3,000	1.50%	73,487	2.15%	165,744	2.43%	334,496	2.42%	576,727	2.38%
Total securities available for sale	**$ 32,886**	**2.45%**	**$ 83,478**	**2.21%**	**$ 165,744**	**2.43%**	**$ 334,496**	**2.42%**	**$ 616,604**	**2.39%**

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:

	September 30, 2019	December 31, 2018
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 865,050	$ 906,260
Hospitality	850,869	830,679
Other [(1)]	1,417,062	1,449,270
Total commercial property loans	3,132,981	3,186,209
Construction	76,770	71,583
Residential property	436,576	500,563
Total real estate loans	3,646,327	3,758,355
Commercial and industrial loans:		
Commercial term	188,090	206,691
Commercial lines of credit	219,400	194,032
International loans	33,719	29,180
Total commercial and industrial loans	441,209	429,903
Leases receivable	467,777	398,858
Consumer loans [(2)]	14,524	13,424
Loans and leases receivable	**4,569,837**	**4,600,540**
Allowance for loan and lease losses	(50,712)	(31,974)
Loans and leases receivable, net	**$ 4,519,125**	**$ 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 $8.6 million and $10.3 million as of September 30, 2019 and December 31, 2018, respectively.*

As of September 30, 2019 and December 31, 2018, net loans and leases receivable were $4.52 billion and $4.57 billion, respectively, representing a decrease of $49.4 million, or 1.1 percent. The decrease in loans and leases receivable as of September 30, 2019 compared with December 31, 2018 was attributable to payoffs and pay downs of $623.1 million, loan sales of $56.4 million, and an increase in the allowance for loan and lease losses of $18.7 million. These were offset by new loan and lease production of $649.7 million and charge-offs and transfers to OREO.

During the nine months ended September 30, 2019, loan and lease disbursements for new production consisted of $199.9 million in leases receivable, $230.1 million in commercial real estate loans, $133.2 million in commercial and industrial loans, and $84.1 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 10.0 percent of loans and leases outstanding:

	Balance as of September 30, 2019	Percentage of Loans and Leases Outstanding
	(in thousands)	
Lessor of nonresidential buildings	$ 1,322,318	28.9 %
Hospitality	$ 869,402	19.0 %

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

Loan Quality Indicators

As of September 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)			
September 30, 2019				
Real estate loans:				
Commercial property				
Retail	$ 853,986	$ 3,509	$ 7,555	$ 865,050
Hospitality	844,085	2,908	3,876	850,869
Other	1,391,226	5,015	20,821	1,417,062
Total commercial property loans	3,089,297	11,432	32,252	3,132,981
Construction	40,407	8,917	27,446	76,770
Residential property	434,980	796	800	436,576
Total real estate loans	3,564,684	21,145	60,498	3,646,327
Commercial and industrial loans:				
Commercial term	173,947	293	13,850	188,090
Commercial lines of credit	213,958	5,242	200	219,400
International loans	32,569	—	1,150	33,719
Total commercial and industrial loans	420,474	5,535	15,200	441,209
Leases receivable	463,474	—	4,303	467,777
Consumer loans	13,071	720	733	14,524
Total loans and leases receivable	**$ 4,461,703**	**$ 27,400**	**$ 80,734**	**$ 4,569,837**
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 $80.7 million at September 30, 2019, or 1.73 percent of total loans and leases receivable, from $29.5 million at December 31, 2018 principally because of the $40.0 million troubled loan relationship placed on nonaccrual status during the three months ended June 30, 2019. At September 30, 2019, the $76.8 million of construction loans included four land loans totaling $37.7 million ($27.4 million classified and $10.3 million pass/watch), three completed construction loans totaling $27.5 million (all pass) and four active construction loans totaling $11.6 million (two totaling $8.9 million special mention and two totaling $2.7 million pass) with project completion ranging from 44 percent to 93 percent. In addition, two construction loans with outstanding commitments aggregating $1.6 million had no advances outstanding at September 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 September 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:

	September 30, 2019	December 31, 2018	Increase (Decrease)	
			Amount	Percentage
		(dollars in thousands)		
Nonperforming loans and leases:				
Real estate loans:				
Commercial property				
Retail	$ 986	$ 865	$ 121	14.0 %
Hospitality	1,404	3,625	(2,221)	(61.3)%
Other	15,067	1,641	13,426	818.2 %
Total commercial property loans	17,457	6,131	11,326	184.7 %
Construction	27,446	—	27,446	100.0 %
Residential property	838	182	656	360.4 %
Total real estate loans	45,741	6,313	39,428	624.6 %
Commercial and industrial loans	13,447	3,337	10,110	303.0 %
Leases receivable	4,303	5,129	(826)	(16.1)%
Consumer loans	703	746	(43)	(5.8)%
Total nonperforming loans	64,194	15,525	48,669	313.5 %
Loans 90 days or more past due and still accruing	544	4	540	13,500.0 %
Total nonperforming loans and leases *(1)*	**64,738**	**15,529**	**49,209**	316.9 %
OREO	330	663	(333)	(50.2)%
Total nonperforming assets	**$ 65,068**	**$ 16,192**	**$ 48,876**	301.9 %
Nonperforming loans and leases as a percentage of loans and leases, net	1.43 %	0.34 %		
Nonperforming assets as a percentage of assets	1.18 %	0.29 %		
Troubled debt restructured performing loans and leases	$ 2,948	$ 6,029		

(1) Includes nonperforming TDRs of $57.8 million and $4.3 million as of September 30, 2019 and December 31, 2018, respectively.

Nonperforming loans and leases were $64.7 million and $15.5 million as of September 30, 2019 and December 31, 2018, respectively. For the nine months ended September 30, 2019, $83.8 million of loans and leases were placed on nonaccrual status. Offsetting these additions were $32.2 million of principal payoffs and pay-downs and $0.5 million in charge-offs and upgrades, with the remainder representing transfers to OREO and loan sales. Nonperforming loans at September 30, 2019, reflect the second quarter 2019 addition of a $40.0 million troubled loan relationship.

Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were $8.1 million as of September 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 September 30, 2019 compared with 0.34 percent as of December 31, 2018.

As of September 30, 2019, OREO consisted of six properties with a combined carrying value of $330,000, 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:

	September 30, 2019		December 31, 2018	
	Recorded Investment	Percentage	Recorded Investment	Percentage
	(dollars in thousands)			
Real estate loans:				
Commercial property				
Retail	$ 1,136	1.7%	$ 2,166	8.6%
Hospitality	1,404	2.1%	4,282	17.0%
Other	16,536	24.5%	7,525	30.1%
Total commercial property loans	19,076	28.3%	13,973	55.7%
Construction	27,446	40.8%	—	—%
Residential property	1,449	2.2%	788	3.1%
Total real estate loans	47,971	71.3%	14,761	58.8%
Commercial and industrial loans	13,692	20.3%	4,396	17.5%
Leases receivable	4,303	6.4%	5,129	20.4%
Consumer loans	1,325	2.0%	839	3.3%
Total	**$ 67,291**	**100.0%**	**$ 25,125**	**100.0%**

Total impaired loans and leases increased $42.2 million, or 167.8 percent, to $67.3 million as of September 30, 2019, from $25.1 million at December 31, 2018, principally due to the addition of a $40.0 million troubled loan relationship comprised of a $27.5 million land loan and a $12.5 million business loan. Specific allowances associated with impaired loans and leases were $17.1 million and $1.8 million as of September 30, 2019 and December 31, 2018, respectively.

During the three months ended September 30, 2019 and 2018, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $916,000 and $819,000, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $80,000 and $475,000 for the three months ended September 30, 2019 and 2018, respectively.

During the nine months ended September 30, 2019 and 2018, interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms totaled $2.4 million and $2.2 million, respectively. Of these amounts, actual interest recognized on impaired loans and leases was $1.0 million and $1.2 million for the nine months ended September 30, 2019 and 2018, respectively.

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

	September 30, 2019			December 31, 2018		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)					
Real estate loans	$ 44,136	$ 2,081	$ 46,217	$ 2,059	$ 5,234	$ 7,293
Commercial and industrial loans	13,006	246	13,252	1,471	702	2,173
Consumer loans	703	621	1,324	746	93	839
Total	**$ 57,845**	**$ 2,948**	**$ 60,793**	**$ 4,276**	**$ 6,029**	**$ 10,305**

For the three months ended September 30, 2019, we restructured monthly payments for five loans, with a net carrying value of $15.5 million at the time of modification, which we subsequently classified as TDRs. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly and/or allowing for interest only monthly payments for six months or less.

As of September 30, 2019, TDRs on accrual status were $2.9 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $30,000 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 September 30, 2019, TDRs on nonaccrual status were $57.8 million, and a $15.8 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 nine months of 2019, the Bank utilized a 31-quarter and 34-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 nine 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:

	September 30, 2019			December 31, 2018		
	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans
			(dollars in thousands)			
Real estate loans:						
Commercial property						
Retail	$ 5,006	9.9%	$ 865,050	$ 3,652	11.4%	$ 906,260
Hospitality	6,021	11.9%	850,869	5,486	17.2%	830,679
Other	8,261	16.3%	1,417,062	6,723	21.0%	1,449,270
Total commercial property loans	19,288	38.1%	3,132,981	15,861	49.6%	3,186,209
Construction	15,375	30.3%	76,770	1,143	3.6%	71,583
Residential property	1,738	3.4%	436,576	1,380	4.3%	500,563
Total real estate loans	36,401	71.8%	3,646,327	18,384	57.5%	3,758,355
Commercial and industrial loans:						
Commercial term	5,698	11.2%	188,090	5,416	16.9%	206,691
Commercial lines of credit	1,717	3.4%	219,400	1,532	4.8%	194,032
International loans	406	0.8%	33,719	214	0.7%	29,180
Total commercial and industrial loans	7,821	15.4%	441,209	7,162	22.4%	429,903
Leases receivable	6,418	12.7%	467,777	6,303	19.7%	398,858
Consumer loans	72	0.1%	14,524	98	0.3%	13,424
Unallocated	—	—%	—	27	0.1%	—
Total	**$ 50,712**	**100.0%**	**$ 4,569,837**	**$ 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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 49,386	$ 31,818	$ 31,974	$ 31,043
Loans and leases charged off	(916)	(1,246)	(3,549)	(3,535)
Recoveries on loans and leases previously charged off	640	904	2,869	3,219
Net (charge-offs) recoveries	(276)	(342)	(680)	(316)
Loan and lease loss provision	1,602	200	19,418	949
Balance at end of period	**$ 50,712**	**$ 31,676**	**$ 50,712**	**$ 31,676**
Allowance for off-balance sheet items:				
Balance at beginning of period	$ 1,333	$ 1,357	$ 1,439	$ 1,296
Loan and lease loss provision	209	—	103	61
Balance at end of period	**$ 1,542**	**$ 1,357**	**$ 1,542**	**$ 1,357**
Ratios:				
Net (charge-offs) recoveries to average loans and leases[(1)]	(0.02)%	(0.03)%	(0.02)%	(0.01)%
Net (charge-offs) recoveries to loans and leases[(1)]	(0.02)%	(0.03)%	(0.02)%	(0.01)%
Allowance for loan and lease losses to average loans and leases	1.12 %	0.70 %	1.12 %	0.72 %
Allowance for loan and lease losses to loans and leases	1.11 %	0.69 %	1.11 %	0.69 %
Net (charge-offs) recoveries to allowance for loans and leases[(1)]	(2.18)%	(4.32)%	(1.79)%	(2.00)%
Allowance for loan and lease losses to nonperforming loans and leases	78.33 %	173.25 %	78.33 %	173.25 %
Balance:				
Average loans and leases during period	$ 4,519,770	$ 4,551,284	$ 4,514,707	$ 4,426,369
Loans and leases at the end of period	$ 4,569,837	$ 4,582,883	$ 4,569,837	$ 4,582,883
Nonperforming loans and leases at end of period	$ 64,738	$ 18,283	$ 64,738	$ 18,283

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

The allowance for loan and lease losses was $50.7 million as of September 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 $40.0 million troubled loan relationship.

The provision for loan and lease losses was $1.6 million and $200,000 for the three months endedSeptember 30, 2019 and 2018, respectively. Charge-offs of $916,000 were offset by recoveries of $640,000 for the three months ended September 30, 2019 compared with charge-offs of $1.2 million and recoveries of $904,000 for the same period in 2018.

The provision for loan and lease losses was $19.4 million and $949,000 for thenine months ended September 30, 2019 and 2018, respectively. Charge-offs of $3.6 million were offset by recoveries of $2.9 million for the nine months ended September 30, 2019 compared with charge-offs of $3.5 million and recoveries of $3.2 million for the same period in 2018.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, was $1.5 million and $1.4 million as ofSeptember 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 September 30, 2019.

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

	For the Three Months Ended			For the Nine Months Ended		
	Charge-offs	Recoveries	Net (Charge-offs) Recoveries	Charge-offs	Recoveries	Net (Charge-offs) Recoveries
	(in thousands)					
September 30, 2019						
Real estate loans	$ (17)	$ 142	$ 125	$ (131)	$ 1,704	$ 1,573
Commercial and industrial loans	(244)	381	137	(939)	853	(86)
Leases receivable	(653)	117	(536)	(2,479)	312	(2,167)
Consumer loans	(2)	—	(2)	—	—	—
Total	**$ (916)**	**$ 640**	**$ (276)**	**$ (3,549)**	**$ 2,869**	**$ (680)**
September 30, 2018						
Real estate loans	$ (220)	$ 577	$ 357	$ (1,249)	$ 1,833	$ 584
Commercial and industrial loans	(232)	237	5	(597)	1,170	573
Leases receivable	(794)	90	(704)	(1,689)	214	(1,475)
Consumer loans	—	—	—	(1)	2	1
Total	**$ (1,246)**	**$ 904**	**$ (342)**	**$ (3,536)**	**$ 3,219**	**$ (317)**

For the three months ended September 30, 2019, total charge-offs were $916,000, a decrease of $330,000, or 26.5 percent, from $1.2 million for the same period in 2018. Charge-offs were offset by recoveries during the three months ended September 30, 2019 of $640,000, a decrease of $264,000, or 29.2 percent, from $904,000 for the same period in 2018. For the nine months ended September 30, 2019, total charge-offs were $3.6 million, an increase of $14,000, or 0.4 percent, from $3.5 million for the same period in 2018. Charge-offs were offset by recoveries during the nine months ended September 30, 2019 of $2.9 million, a decrease of $360,000, or 10.9 percent, from $3.2 million for the same period in 2018.

Deposits

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

	September 30, 2019		December 31, 2018	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Demand – noninterest-bearing	$ 1,388,121	29.6%	$ 1,284,530	27.1%
Interest-bearing:				
Demand	84,155	1.8%	87,582	1.8%
Money market and savings	1,590,037	33.9%	1,573,622	33.2%
Time deposits of $100,000 or more (1)	1,463,398	31.2%	1,601,648	33.7%
Other time deposits	164,430	3.5%	199,853	4.2%
Total deposits	**$ 4,690,141**	**100.0%**	**$ 4,747,235**	**100.0%**

(1) *Includes $297.4 million and $288.6 million of time deposits of $250,000 or more as of September 30, 2019 and December 31, 2018, respectively.*

Deposits decreased $57.1 million, or 1.2 percent, to $4.69 billion as of September 30, 2019 from $4.75 billion as of December 31, 2018. The decrease in deposits was mainly attributable to the $138.3 million decrease in time deposits of $100,000 or more, offset by a $103.6 million, or 8.1 percent increase in noninterest-bearing deposits.

Borrowings and Subordinated Debentures

At September 30, 2019, the Bank had $75.0 million in term advances from the FHLB and atDecember 31, 2018, there were $55.0 million in overnight advances from the FHLB. In addition, subordinated debentures were $118.2 million and $117.8 million at September 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%	$ 5,414	2.98%	$ 18,503	9.85%
200%	$ 3,693	2.04%	$ 12,376	6.59%
100%	$ 2,299	1.27%	$ 6,947	3.70%
(100)%	$ (6,154)	(3.39)%	$ (14,376)	(7.65)%

	Economic Value of Equity (EVE)	
Change in Interest Rate	**Dollar Change**	**Percentage Change**
	(dollars in thousands)	
300%	$ 57,893	11.34%
200%	$ 45,228	8.86%
100%	$ 29,553	5.79%
(100)%	$ (46,731)	(9.15)%

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

Capital Resources and Liquidity

Capital Resources

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

At September 30, 2019, the Bank's total risk-based capital ratio of 14.65 percent, Tier 1 risk-based capital ratio of 13.55 percent, common equity Tier 1 capital ratio of 13.55 percent and Tier 1 leverage capital ratio of 11.86 percent, placed the Bank in the "well capitalized" category pursuant to capital rules, which is defined as institutions with total risk-based capital ratio equal to or greater than 10.00 percent, Tier 1 risk-based capital ratio equal to or greater than 8.00 percent, common equity Tier 1 capital ratios equal to or greater than 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

At September 30, 2019, the Company's total risk-based capital ratio was 15.07 percent, Tier 1 risk-based capital ratio was 11.91 percent, common equity Tier 1 capital ratio was 11.49 percent and Tier 1 leverage capital ratio was 10.43 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 September 30, 2019, Hanmi Financial had $6.9 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 September 30, 2019, the Bank had $75.0 million in advances from the FHLB and $306.7 million of brokered deposits.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30% of its assets. As of September 30, 2019, the total borrowing capacity available based on pledged collateral and remaining available borrowing capacity were $984.6 million and $769.6 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 aggregating $115.0 million with no outstanding balances as of September 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 $30.2 million, and had no borrowings under this source as of September 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. On July 2, 2019, the FASB voted to delay CECL's effective date for non-public companies and Smaller Reporting Companies who are public filers. Due to the Company's categorization as a large accelerated filer, this delay will not have any impact on its adoption of ASU 2016-13. 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 methodologies, data/input gathering and validation, and initial testing of its designed models. The Company plans to leverage three loss rate methodologies across the Bank's four major loan and lease segments.

The Company commenced parallel processing and review of the model outputs during the three-month period ended September 30, 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 September 30, 2019, the Company continues to evaluate 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

During the second quarter 2019, 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 which was originally identified during the 2019 second quarter, 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.

During 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 September 30, 2019, there were no repurchases of its common stock under the repurchase program, except that the Company acquired 1,152 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 Romolo C. Santarosa (incorporated by herein by reference to the Hanmi Financial Corporation Current Report on Form 8-K filed with the SEC on July 10, 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 September 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:	November 8, 2019	By:	/s/ *Bonita I. Lee*
			Bonita I. Lee *President and Chief Executive Officer* *(Principal Executive Officer)*
		By:	/s/ *Romolo C. Santarosa*
			Romolo C. Santarosa *Senior Executive Vice President and Chief Financial Officer* *(Principal Financial and Accounting Officer)*

Exhibit 31.1

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

I, 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: November 8, 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: November 8, 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 September 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:	November 8, 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 September 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:	November 8, 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.