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

# FORM 10-K

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

**For the Fiscal Year Ended December 31, 2016**

**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)**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, $0.001 Par Value** | **Nasdaq Global Select Market** |

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

**None**

**(Title of Class)**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated Filer | ☐ |
| Non-Accelerated Filer | ☐ (Do Not Check if a Smaller Reporting Company) | Smaller Reporting Company | ☐ |

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

As of June 30, 2016, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $734,265,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of February 27, 2017 was 32,327,185 shares.

**Documents Incorporated By Reference Herein:** Sections of the Registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2016, are incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K), as noted therein.

**Hanmi Financial Corporation**

**Annual Report on Form 10-K for the Fiscal Year ended December 31, 2016**

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**Cautionary Note Regarding Forward-Looking Statements**

Some of the statements contained in this Annual Report on Form 10-K 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 Annual Report on Form 10-K (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 assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. For additional information concerning risks we face, see “Item 1A. Risk Factors” in Part I of this Report. 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.

## Part I

### Item 1. Business

**General**

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a Delaware corporation incorporated on March 14, 2000 to be the holding company for Hanmi Bank (the “Bank”) and is subject to the Bank Holding Company Act of 1956, as amended (“BHCA”). Hanmi Financial also elected financial holding company status under the BHCA in 2000. Our principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010, and our telephone number is (213) 382-2200.

Hanmi Bank, the primary subsidiary of Hanmi Financial, is a state chartered bank incorporated under the laws of the State of California on August 24, 1981, and licensed pursuant to the California Financial Code (“Financial Code”) on December 15, 1982. The Bank’s deposit accounts are insured under the Federal Deposit Insurance Act (“FDIA”) up to applicable limits thereof. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the Federal Deposit Insurance Corporation ("FDIC") is now its primary federal bank regulator. The California Department of Business Oversight remains the Bank's primary state bank regulator. The Bank’s headquarters is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Colorado, Georgia, Illinois, New Jersey, New York, Texas, Virginia and Washington. The Bank’s full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank’s client base reflects the multi-ethnic composition of these communities.

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California ("Banc"). The acquisition included purchase of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. The Bank retained most of Banc's former Commercial Specialty Finance employees and the unit will operate from its headquarters located in Irvine, California, as the Company’s Commercial Equipment Leasing Division. This transaction was considered a purchase of a business in accordance with current accounting guidance and accordingly the Bank applied the acquisition method of accounting to the transaction. Cash consideration paid was $240.8 million and the net estimated fair value of the equipment lease portfolio was $228.2 million as of the acquisition date. In addition to the leases, the Bank recorded other tangible and intangible assets of $12.6 million. The intangible assets included an identifiable intangible asset representing the estimated fair value of third-party originators ("TPO") of $483,000 and goodwill of $11.0 million.

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp Inc. (the “CBI Acquisition”), a Texas corporation (“CBI”), the parent company of United Central Bank (“UCB”). In the merger with CBI, each share of CBI common stock was exchanged for $17.64 per share or $50 million in the aggregate. In addition, Hanmi Financial paid $28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of $1.27 billion, $1.17 billion and $93.3 million, respectively. Total loans and deposits were $297.3 million and $1.10 billion, respectively, at August 31, 2014. The Company recorded a $14.6 million bargain purchase gain related to this transaction. See “Note 2 — Acquisitions” to the consolidated financial statements.

Hanmi Financial sold its insurance subsidiaries, Chun-Ha Insurance Services, Inc. (“Chun-Ha”) and All World Insurance Services, Inc. (“All World”), to Chunha Holding Corporation on June 30, 2014. Total assets and net asset of Chun-Ha and All World were $5.6 million and $3.3 million, respectively. The total sales price was $3.5 million, of which $2.0 million was paid upon signing. See “Note 3—Sale of Insurance Subsidiaries and Discontinued Operations.”

The Bank’s revenues are derived primarily from interest and fees on loans and leases, interest and dividends on securities portfolio, and service charges on deposit accounts, as well as a bargain purchase gain in 2014.

A summary of revenues for the periods indicated follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | (In thousands) | | | | | |
| Interest and fees on loans and leases | $ 164,642 | 77.9% | $ 148,797 | 70.3% | $ 122,222 | 68.3% |
| Interest and dividends on investments | 13,621 | 6.4% | 15,208 | 7.2% | 14,405 | 8.0% |
| Other interest income | 208 | 0.1% | 221 | 0.1% | 107 | 0.1% |
| Service charges, fees and other income | 22,025 | 10.4% | 22,075 | 10.4% | 20,782 | 11.6% |
| Gain on sale of SBA loans | 6,034 | 2.9% | 8,749 | 4.1% | 3,494 | 2.0% |
| Subtotal | 206,530 | 97.7% | 195,050 | 92.1% | 161,010 | 90.0% |
| Disposition gain on PCI loans | 4,970 | 2.3% | 10,167 | 4.8% | 1,432 | 0.8% |
| Net gain on sale of securities | 46 | —% | 6,611 | 3.1% | 2,011 | 1.1% |
| Bargain purchase gain, net of deferred taxes | — | —% | — | —% | 14,577 | 8.1% |
| **Total revenues** | **$ 211,546** | **100.0%** | **$ 211,828** | **100.0%** | **$ 179,030** | **100.0%** |

**Market Area**

The Bank historically has provided its banking services through its branch network to a wide variety of small- to medium-sized businesses. Throughout the Bank's service areas, competition is intense for both loans and deposits. While the market for banking services is dominated by a few nationwide banks with many offices operating over wide geographic areas, the Bank's primary competitors are relatively larger and smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank's service areas. With the acquisition of CBI during 2014, the Bank expanded its market share from a previously core Korean American customer base to a broader Asian American and mainstream communities primarily in Illinois and Texas.

**Lending Activities**

The Bank originates loans and leases for its own portfolio and for sale in the secondary market. Lending activities include real estate loans (commercial property, construction and residential property), commercial and industrial loans (commercial term, commercial lines of credit and international), equipment lease financing, consumer loans and Small Business Administration ("SBA") loans.

***Real Estate Loans***

Real estate lending involves risks associated with the potential decline in the value of the underlying real estate collateral and the cash flow from income-producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including adversity in general economic conditions, rising interest rates, changes in tax and other laws and regulations affecting the holding of real estate, environmental conditions, governmental and other use restrictions, development of competitive properties and increasing vacancy rates. When real estate values decline, the Bank's real estate dependence increases the risk of loss both in the Bank's loan portfolio and the Bank's holdings of other real estate owned ("OREO"), which are the result of foreclosures on real property due to default by borrowers who use the property as collateral for loans. OREO properties are categorized as real property that is owned by the Bank but which is not directly related to the Bank's business.

*Commercial Property*

The Bank offers commercial real estate loans, which are usually collateralized by first deeds of trust. The Bank generally obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. All appraisal reports on commercial mortgage loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser's assumptions and methods that were used to derive a value for the property, as well as compliance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). The Bank determines credit worthiness of a borrower by evaluating cash flow ability, asset and debt structure, as well as the credit history. The purpose of the loan is also an important consideration that dictates loan structure and credit decision.

The Bank's commercial real estate loans are principally secured by investor-owned or owner-occupied commercial and industrial buildings. Generally, these types of loans are made with a maturity date of up to seven years based on longer amortization periods. Typically, the Bank's commercial real estate loans have a debt-coverage-ratio at time of origination of 1.25 or more and a loan-to-value ratio of 70 percent or less. In addition, the Bank generally seeks an adjustable rate of interest indexed to the prime rate appearing in the West Coast edition of *The Wall Street Journal* ("WSJ Prime Rate") or the Bank's prime rate ("Bank Prime Rate"), as adjusted from time to time. The Bank also offers fixed-rate commercial real estate loans, including hybrid-fixed rate loans that are fixed for one to five years and then convert to adjustable rate loans for the remaining term. Amortization schedules for commercial real estate loans generally do not exceed 25 years.

Payments on loans secured by investor-owned and owner-occupied properties are often dependent upon successful operation or management of the properties. Repayment of such loans may be subject to the risk from adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of such loans in relation to the market value of the property and strictly scrutinizing the property securing the loan. At the time of loan origination a sensitivity analysis is performed for potential increases to vacancy and interest rates to stress adverse conditions. Additionally, a quarterly risk assessment is also performed for the commercial real estate secured loan portfolio, which involves evaluating recent industry trends. When possible, the Bank also obtains corporate or individual guarantees. Representatives of the Bank conduct site visits of most properties securing the Bank's real estate loans before the loans are approved.

The Bank generally requires the borrower to provide, at least annually, current cash flow information in order for the Bank to re-assess the debt-coverage-ratio. In addition, the Bank requires title insurance to insure the status of its lien on real estate secured loans when a trust deed on the real estate is taken as collateral. The Bank also requires the borrower to maintain fire insurance, extended coverage casualty insurance and, if the property is in a flood zone, flood insurance, in an amount equal to the outstanding loan balance, subject to applicable laws that may limit the amount of hazard insurance a lender can require to replace such improvements. We cannot assure that these procedures will protect against losses on loans secured by real property.

*Construction*

The Bank finances a small construction portfolio for multifamily, low-income housing, commercial and industrial properties within its market area. The future condition of the local economy could negatively affect the collateral values of such loans. The Bank's construction loans typically have the following structure:

- maturities of two years or less;
- a floating rate of interest based on the Bank Prime Rate or the WSJ Prime Rate;
- minimum cash equity of 35 percent of project cost;
- reserve of anticipated interest costs during construction or advance of fees;
- first lien position on the underlying real estate;
- loan-to-value ratios at time of origination that do not exceed 65 percent; and
- recourse against the borrower or a guarantor in the event of default.

On a case-by-case basis, the Bank does commit to making permanent loans on the property under loan conditions that require strong project stability and debt service coverage. Construction loans involve additional risks compared to loans secured by existing improved real property. Such risks include:

- the uncertain value of the project prior to completion;
- the inherent uncertainty in estimating construction costs, which are often beyond the borrower's control;
- construction delays and cost overruns;
- possible difficulties encountered in connection with municipal, state or other governmental ordinances or regulations during construction; and
- the difficulty in accurately evaluating the market value of the completed project.

Because of these uncertainties, construction lending often involves the disbursement of substantial funds where repayment of the loan is dependent, in part, on the success of the final project rather than the ability of the borrower or guarantor to repay principal and interest on the loan. If the Bank is forced to foreclose on a construction project prior to or at completion due to a default under the terms of a loan, there can be no assurance that the Bank will be able to recover all of the unpaid balance of, or accrued interest on, the loan as well as the related foreclosure and holding costs. In addition, the Bank may be required to fund additional amounts in order to complete a pending construction project and may have to hold the property for an indeterminable period of time. The Bank has underwriting procedures designed to identify factors that it believes to be acceptable levels of risk in construction lending, including, among other procedures, engaging qualified and bonded third parties to provide progress reports and recommendations for construction loan disbursements. No assurance can be given that these procedures will prevent losses arising from the risks associated with construction loans described above.

*Residential Property*

The Bank originates and purchases fixed-rate and variable-rate mortgage loans secured by one- to four-family properties with amortization schedules of 15 to 30 years and maturity schedules of up to 30 years. The loan fees, interest rates and other provisions of the Bank's residential loans are determined by an analysis of the Bank's cost of funds, cost of origination, cost of servicing, risk factors and portfolio needs.

The Bank may sell some of the mortgage loans that it originates to secondary market participants. The average turn-around time from origination of a mortgage loan to its sale to a secondary market participant ranges from 30 to 90 days. The interest rate and the price of the loan are typically agreed upon between the Bank and the secondary market purchaser prior to the origination of the loan.

***Commercial and Industrial Loans***

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the commercial loans that the Bank originates are for businesses located primarily in California, Illinois and Texas, and the maturity schedules range from 12 to 60 months. The Bank finances primarily small- and middle-market businesses in a wide spectrum of industries. Commercial and industrial loans consist of credit lines for operating needs, loans for equipment purchases and working capital, and various other business purposes. The Bank requires credit underwriting before considering any extension of credit.

Commercial lending entails significant risks. Commercial lending loans typically involve larger loan balances, are generally dependent on the cash flow of the business and may be subject to adverse conditions in the general economy or in a specific industry. Short-term business loans are customarily intended to finance current operations and typically provide for principal payment at maturity, with interest payable monthly. Term loans typically provide for floating interest rates, with monthly payments of both principal and interest.

In general, it is the intent of the Bank to take collateral whenever possible, regardless of the loan purpose(s). Collateral may include, but is not limited to, liens on inventory, accounts receivable, fixtures and equipment, leasehold improvements and real estate. Where real estate is the primary collateral, the Bank obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. Typically, the Bank requires all principals of a business to be co-obligors on all loan instruments and all significant stockholders of corporations to execute a specific debt guaranty. All borrowers must demonstrate the ability to service and repay not only their obligations to the Bank, but also any and all outstanding business debt, without liquidating the collateral, based on historical earnings or reliable projections.

*Commercial Term*

The Bank offers term loans for a variety of needs, including loans for working capital, purchases of equipment, machinery or inventory, business acquisitions, renovation of facilities, and refinancing of existing business-related debts. These loans have repayment terms of up to seven years.

*Commercial Lines of Credit*

The Bank offers lines of credit for a variety of short-term needs, including lines of credit for working capital, accounts receivable and inventory financing, and other purposes related to business operations. Commercial lines of credit usually have a term of 12 months or less.

*International*

The Bank offers a variety of international finance and trade services and products, including letters of credit, import financing (trust receipt financing and bankers' acceptances) and export financing. Although most of our trade finance activities are related to trade with Asian countries, all of our loans are made to companies domiciled in the United States, and a substantial portion of those borrowers are California-based businesses engaged in import and export activities.

*Leases Receivable*

As described in “Note 2 — Acquisitions” to the consolidated financial statements, we purchased a portfolio of leases receivable during the fourth quarter of 2016. These receivables include equipment finance agreements with terms ranging from 1 to 7 years. Commercial equipment leases are secured by the business assets being financed. The Bank also obtains a commercial guaranty of the business and generally a personal guaranty of the owner(s) of the business. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial equipment leases may be substantially dependent on the success of the business itself, which in turn, is often dependent in part upon general economic conditions.

*Consumer Loans*

Consumer loans are extended for a variety of purposes, including automobile loans, secured and unsecured personal loans, home improvement loans, home equity lines of credit, unsecured lines of credit and credit cards. Management assesses the borrower’s creditworthiness and ability to repay the debt through a review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. Although creditworthiness of the applicant is of primary importance, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Most of the Bank’s loans to individual consumers are repayable on an installment basis.

*SBA Loans*

The Bank originates loans (“SBA loans”) that are guaranteed by the U.S. Small Business Administration (“SBA”), an independent agency of the federal government. SBA loans are offered for business purposes such as owner-occupied commercial real estate, business acquisitions, start-ups, franchise financing, working capital, improvements and renovations, inventory and equipment and debt-refinancing. SBA loans offer lower down payments and longer term financing which helps small business that are starting out, or about to expand. The guarantees on SBA loans currently range from 75 percent to 85 percent of the principal amount of the loan. The Bank typically requires that SBA loans be secured by business assets and by a first or second deed of trust on any available real property. When the SBA loan is secured by a first deed of trust on real property, the Bank generally obtains appraisals in accordance with applicable regulations. SBA loans have terms ranging from 5 to 25 years depending on the use of the proceeds. To qualify for a SBA loan, a borrower must demonstrate the capacity to service and repay the loan, without liquidating the collateral, based on historical earnings or reliable projections.

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA loan, it has an option to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. Even after the sale of an SBA loan, the Bank retains the right to service the SBA loan and to receive servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2016, the Bank had $9.3 million of SBA loans held for sale, $192.8 million of SBA loans in its loan portfolio, and was servicing $484.7 million of SBA loans sold to investors.

**Off-Balance Sheet Commitments**

As part of the suite of services available to its small- to medium-sized business customers, the Bank from time to time issues formal commitments and lines of credit. These commitments can be either secured or unsecured. They may be in the form of revolving lines of credit for seasonal working capital needs or may take the form of commercial letters of credit or standby letters of credit. Commercial letters of credit facilitate import trade. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

**Lending Procedures and Lending Limits**

Individual lending authority is granted to the Chief Credit Officer and certain additional designated officers. Loans and leases for which direct and indirect borrower liability exceeds an individual’s lending authority are referred to the Bank’s Management Credit Committee and, for those in excess of the Management Credit Committee’s approval limits, to the Loan and Credit Policy Committee.

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank's stockholders' equity plus the allowance for loan and lease losses, capital notes and any debentures, or 25% on a secured and unsecured basis. At December 31, 2016, the Bank's authorized legal lending limits for loans to one borrower was $86.0 million for unsecured loans and an additional $57.3 million for secured and unsecured loans combined.

The Bank seeks to mitigate the risks inherent in its loan and lease portfolio by adhering to certain underwriting practices. The review of each loan and lease application includes analysis of the applicant's experience, prior credit history, income level, cash flow, financial condition, tax returns, cash flow projections, and the value of any collateral to secure the loan, based upon reports of independent appraisers and/or audits of accounts receivable or inventory pledged as security. In the case of real estate loans over a specified threshold, the review of collateral value includes an appraisal report prepared by an independent Bank-approved appraiser. All appraisal reports on commercial real property secured loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser's assumptions and methods that were used to derive a value for the property, as well as compliance with the USPAP.

**Allowance for Loan and Lease Losses, Allowance for Off-Balance Sheet Items and Provision for Loan and Lease Losses**

The Bank maintains an allowance for loan and lease losses at an appropriate level considered by management to be adequate to cover the inherent risks of loss associated with its loan and lease portfolio under prevailing economic conditions. In addition, the Bank maintains an allowance for off-balance sheet items associated with unfunded commitments and letters of credit, which is included in other liabilities on the Consolidated Balance Sheets.

The Bank assesses its allowance for loan and lease losses for adequacy on a quarterly basis. The California Department of Business Oversight ("DBO"), formerly known as the California Department of Financial Institutions, and the Federal Deposit Insurance Corporation ("FDIC") may require the Bank to recognize additions to the allowance for loan and lease losses through a provision for loan and lease losses based upon their assessment of the information available to them at the time of their examinations.

**Deposits**

The Bank offers a traditional array of deposit products, including noninterest-bearing checking accounts, interest-bearing checking and savings accounts, negotiable order of withdrawal ("NOW") accounts, money market accounts and certificates of deposit. These accounts, except for noninterest-bearing checking accounts, earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer's needs. This approach is designed to add value for the customer, increase products per household and produce higher service fee income.

**Available Information**

We file reports with the U.S. Securities and Exchange Commission (the "SEC"), including our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto. These reports and other information on file can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at *www.sec.gov*, which contains the reports, proxy and information statements and other information we file with the SEC.

We also maintain an Internet website at*www.hanmi.com*. We make available free of charge through our website our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, as soon as reasonably practicable after we file such reports with the SEC. We make our website content available for information purposes only. It should not be relied upon for investment purposes. None of the information contained in or hyperlinked from our website is incorporated into this Annual Report on Form 10-K.

**Employees**

As of December 31, 2016, the Bank had a total of 638 full-time equivalent employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that their employee relations are satisfactory.

**Insurance**

We maintain directors and officers, financial institution bond and commercial insurance at levels deemed adequate by management to protect Hanmi Financial from certain litigation and other losses.

**Competition**

The banking and financial services industry in each state we are located generally, and in the Bank's market areas specifically, are highly competitive. The increasingly competitive environment faced by banks is primarily the result of changes in laws and regulation, changes in technology and product delivery systems, new competitors in the market, and the accelerating pace of consolidation among financial service providers. We compete for loans and leases, deposits and customers with other commercial banks, savings institutions, securities and brokerage companies, mortgage companies, real estate investment trusts, insurance companies, finance companies, money market funds, credit unions and other non-bank financial service providers. Some of these competitors are larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services.

Many of our competitors are larger financial institutions that offer some services, such as more extensive and established branch networks and trust services, which the Bank does not provide.

Other institutions, including brokerage firms, credit card companies and retail establishments, offer banking services and products to consumers that are in direct competition with the Bank, including money market funds with check access and cash advances on credit card accounts. In addition, many non-bank competitors are not subject to the same extensive federal or state regulations that govern bank holding companies and federally insured banks.

The Bank's direct competitors are community banks that focus their marketing efforts on Korean-American, Asian-American and immigrant-owned businesses, while offering the same or similar services and products as those offered by the Bank. These banks compete for loans and deposits primarily through the interest rates and fees they charge and the convenience and quality of service they provide to customers.

**Economic, Legislative and Regulatory Developments**

Future profitability, like that of most financial institutions, is primarily dependent on interest rate differentials and credit quality. In general, the difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by us on our interest-earning assets, such as loans and leases extended to our customers and securities held in our investment portfolio, will comprise the major portion of our earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, and the impact that future changes in domestic and foreign economic conditions might have on us cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the federal government, and the policies of regulatory agencies, particularly the FDIC. The Federal Reserve implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans and leases, investments and deposits, and affect interest earned on interest-earning assets and interest paid on interest-bearing liabilities. The nature and impact on us of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, federal and state legislation is enacted that may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers, such as federal legislation permitting affiliations among commercial banks, insurance companies and securities firms. We cannot predict whether or when any potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. In addition, the outcome of any investigations initiated by state authorities or litigation raising issues may result in necessary changes in our operations, additional regulation and increased compliance costs.

**Regulation and Supervision**

***(a) General***

The Company, which is a bank holding company and a financial holding company, and the Bank, which is a California-chartered state nonmember bank, are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. The applicable statutes and regulations, among other things, restrict activities and investments in which we may engage and our conduct of them, impose capital requirements with which we must comply, impose various reporting and information collecting obligations upon us, and subject us to comprehensive supervision and regulation by regulatory agencies. The federal and state banking statutes and regulations and the supervision, regulation and examination of banks and their parent companies by the regulatory agencies are intended primarily for the maintenance of the safety and soundness of banks and their depositors, the Deposit Insurance Fund ("DIF") of the FDIC, and the financial system as a whole, rather than for the protection of stockholders or creditors of banks or their parent companies. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. Banking statutes, regulations and policies are continuously under review by federal and state legislatures and regulatory agencies, and a change in them could have a material adverse effect on our business, such as materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers.

We cannot predict whether or when other legislation or new regulations may be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements.

***(b) Legislation and Regulatory Developments***

We anticipate new legislative and regulatory initiatives over the next several years. Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. Additional legislation, changes in rules promulgated by federal and state bank regulators, or changes in the interpretation, implementation, or enforcement of existing laws and regulations, may directly affect the method of operation and profitability of our business. The profitability of our business may also be affected by laws and regulations that impact the business and financial sectors in general.

Regulations and regulatory oversight have increased significantly since 2008, primarily as a result of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank" or "Dodd-Frank Act"), which was signed into law on July 21, 2010. The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products, and services, including revising the deposit insurance assessment base for FDIC insurance and increasing coverage to $250,000; revising the permissibility of paying interest on business checking accounts; removing barriers to interstate branching; requiring disclosure and shareholder advisory votes on executive compensation; imposing limitations on certain short-term proprietary trading and investments in and relationships with certain private investment funds; amending the Truth in Lending Act with respect to mortgage originations; creating the Consumer Financial Protection Bureau; and providing for new capital standards. Not all regulations required by Dodd-Frank have been proposed or finalized and some of the details and full impact of Dodd-Frank on our business may not be known for months or years.

In the exercise of their supervisory and examination authority, the regulatory agencies have emphasized corporate governance, stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

On February 3, 2017, President Trump signed an executive order calling for the Secretary of the Treasury to consult with other Financial Stability Oversight Council (FSOC) member agencies, which includes the Federal Reserve, to report on the extent which existing U.S. financial laws, regulations, guidance and other authorities are consistent with a set of “core principles” of financial policy. The core financial principles identified in the executive order include: empowering Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth; preventing taxpayer-funded bailouts; fostering economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry; enabling American companies to be competitive with foreign firms in domestic and foreign markets; advancing American interests in international financial regulatory negotiations and meetings; making regulation efficient, effective, and appropriately tailored; and restoring public accountability within Federal financial regulatory agencies and rationalizing the Federal financial regulatory framework. Although the order does not specifically identify any existing laws, regulations, guidance or other authorities that the administration considers to be inconsistent with the core principles, areas that the mandated agency report may ultimately identify for reform include the Volcker Rule; and the powers, structure and funding arrangements of the FSOC, the Office of Financial Research, the prudential bank regulators, the SEC, U.S. Commodity Futures Trading Commission, and CFPB.

***(c) Capital Adequacy Requirements***

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking regulators. In July 2013, the bank regulators approved enhanced regulatory capital rules (the "New Capital Rules"), which substantially revised the risk-based capital requirements applicable to banks and their parent companies. The New Capital Rules became effective as applied to the Company and the Bank on January 1, 2015, subject to a multi-year phase in period. Among other things, the New Capital Rules established a new capital measure "Common Equity Tier 1"; narrowed the definition of regulatory capital; revised the capital levels at which banks and their parent companies would be subject to prompt corrective action; expanded the scope of the deductions or adjustments from capital; excluded from Tier 1 capital non-exempt trust preferred securities and cumulative perpetual preferred stock; imposed additional constraints on the inclusion in Tier 1 capital (and stricter risk-weights for) mortgage servicing rights, certain deferred tax assets, and minority interests; and imposed stricter risk-weights for certain assets, including for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures. Under the New Capital Rules, the Company and the Bank made a one-time election to remove certain components of accumulated other comprehensive income from the computation of common equity regulatory capital.

The New Capital Rules require banking organizations to maintain: (i) a minimum capital ratio of Common Equity Tier 1 to risk-weighted assets of 4.5%; (ii) a minimum capital ratio of Tier 1 capital to risk-weighted assets of 6.0%; (iii) a minimum capital ratio of total capital to risk-weighted assets of 8.0%; and (iv) a minimum leverage ratio of Tier 1 capital to adjusted average consolidated assets of 4.0%. In addition, when fully-phased in on January 1, 2019, the New Capital Rules will require a capital conservation buffer of 2.5% above three minimum capital ratios. In January 2016, the capital conservation buffer started to phase in at 0.625% and will increase at annual increments of 0.625% until fully-phased in. Banking organizations with capital ratios above the minimum capital ratio but below the capital conservation buffer will face limitation on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers.

Capital adequacy requirements and, additionally for banks, prompt corrective action regulations (See “Prompt Corrective Action Provisions” below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital requirements for banking organizations require capital ratios that vary based on the perceived degree of risk associated with an organization’s operations for both transactions reported on the balance sheet as assets, such as loans and leases, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Banking organizations engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules continue to apply.

At December 31, 2016, the Company and the Bank’s total risk-based capital ratios were 13.86% and 13.64%, respectively; Tier 1 risk-based capital ratios were 13.02% and 12.80%, respectively; Common Equity Tier 1 capital ratios were 12.73% and 12.80%, respectively, and the Company’s and Bank’s Tier 1 leverage capital ratios were 11.53% and 11.33%, respectively, all of which ratios exceeded the minimum percentage requirements to be deemed “well-capitalized” for regulatory purposes. The Company and the Bank's capital conservation buffer was 5.86% and 5.64%, respectively, as of December 31, 2016. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources.” The federal banking regulators may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

While the New Capital Rules set higher regulatory capital requirements for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the New Capital Rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company’s net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Management believes that, as of December 31, 2016, the Company and the Bank would meet all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect.

***(d) Final Volcker Rule***

Under the Volcker Rule, and subject to certain exceptions, banking entities, including the Company and the Bank, are restricted in their ability to engage in activities that are considered short-term proprietary trading and their ability to invest in and have relationships with certain private investment funds, including hedge or private equity funds that are considered “covered funds.” The regulation implementing these restriction became effective on April 1, 2014, although the Federal Reserve extended the compliance period generally until July 2015. In addition, the compliance period for certain investments in and relationships with certain covered funds was extended by the Federal Reserve to July 2017. The Company and the Bank held no investment positions at December 31, 2016, which were subject to the Volcker Rule. Therefore, while the Volcker Rule, including its implementing regulations, may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

***(e) Bank Holding Company Regulation***

The Company is a bank holding company and a financial holding company that is subject to comprehensive supervision, regulation, examination and enforcement by the Federal Reserve.

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies, which may affect the cost of doing business, and may limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers. Federal and state banking laws and regulations, among other things:

- Require periodic reports and such additional reports of information as the Federal Reserve may require;
- Limit the scope of bank holding companies' activities and investments;
- Require bank holding companies to meet or exceed certain levels of capital (See “Capital Adequacy Requirements” and “New Capital Rules and Minimum Capital Ratios” above);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank.
- Limit dividends payable to shareholders and restricts the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company’s ability to pay dividends on both its common and preferred stock is subject to legal and regulatory restrictions. Substantially all of the Company’s funds to pay dividends or to pay principal and interest on our debt obligations are derived from dividends paid by the Bank;
- Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in “troubled condition”;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and
- Require prior Federal Reserve approval to acquire substantially all the assets of a bank, to acquire more than 5% of a class of voting shares of a bank, or to merge with another bank holding company and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required.

A bank holding company is subject to supervision and examination by the Federal Reserve. Examinations are designed to inform the Federal Reserve of the financial condition and nature of the operations of the bank holding company and its subsidiaries and to monitor compliance with the BHCA and other laws affecting the operations of bank holding companies. To determine whether potential weaknesses in the condition or operations of bank holding companies might pose a risk to the safety and soundness of their subsidiary banks, examinations focus on whether a bank holding company has adequate systems and internal controls in place to manage the risks inherent in its business, including credit risk, interest rate risk, market risk, liquidity risk, operational risk, legal risk and reputation risk. Bank holding companies may be subject to potential enforcement actions by the Federal Reserve for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the Federal Reserve. Enforcement actions may include the issuance of cease and desist orders, the imposition of civil money penalties, the requirement to meet and maintain specific capital levels for any capital measure, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against officers or directors and other institution-affiliated parties.

***(f) Other Restrictions on the Company's Activities***

The Gramm-Leach-Bliley Act of 1999 (the "GLBA") permits a qualifying bank holding company to elect "financial holding company" and thereby engage in a broader range of activities than would otherwise be permissible for a bank holding company. These broader activities include securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are determined to be "financial in nature" or are incidental or complementary to activities that are financial in nature. In addition, a financial holding company is permitted to conduct new permissible financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the Federal Reserve. In order to elect financial holding company status, a bank holding company and all depository institution subsidiaries of the bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must receive at least a "Satisfactory" rating under the Community Reinvestment Act (the "CRA"). Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could result in material restrictions on the activities of the financial holding company, may adversely affect the financial holding company's ability to enter into certain transactions or obtain necessary approvals in connection therewith, may lead to divestiture of subsidiary banks, may require all activities to be conformed to those otherwise permissible for a bank holding company, or may result in the loss of financial holding company status. If restrictions are imposed on the activities of a financial holding company, such information may not necessarily be available to the public. The Company elected financial holding company status in 2000. Neither the Company nor the Bank engages in any activities that are permissible only for a financial holding company. The Bank was rated "Satisfactory" in meeting community credit needs under the CRA at its most recent examination for CRA performance.

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Company and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight ("DBO"). DBO approvals may also be required for certain mergers and acquisitions.

***(g) Bank Regulation***

The Bank is a California state-chartered commercial bank whose deposits are insured by the FDIC. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the FDIC is now its primary federal bank regulator. The California Department of Business Oversight remains the Bank's primary state bank regulator. The Bank is subject to comprehensive supervision, regulation, examination and enforcement by the FDIC and the California Department of Business Oversight. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions.

Banks are also subject to restrictions on their ability to conduct transactions with affiliates and other related parties. The Federal Reserve Regulation O imposes limitations on loans or extensions of credit to "insiders", including officers, directors, and principal shareholders. The Federal Reserve Act Section 23A and Regulation W imposes quantitative limits, qualitative requirements, and collateral requirements on certain transactions with, or for the benefit of, its affiliates. Transaction covered generally include loans, extension of credit, investment in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act and Regulation W requires that most types of transactions by a bank with, or for the benefit of, an affiliate be on terms and conditions at least as favorable to the bank as those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions.

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the activities commonly conducted by national banks in operating subsidiaries. Further, the Bank may conduct certain "financial" activities permitted under GLBA in a "financial subsidiary" to the same extent as may a national bank, provided the Bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

***(h) Enforcement Authority***

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of appropriate loan and lease loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan and lease documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or FDIC, as applicable, determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FDIC have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require the sale of subsidiaries or assets;
- Limit dividend and distributions;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

***(i) Deposit Insurance***

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. As a general matter, the maximum deposit insurance amount is $250,000 per depositor, per FDIC-insured bank, per ownership category. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DBO.

Our FDIC insurance expense was $1.6 million for 2016. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

*(j) Prompt Corrective Action Provisions*

The FDI Act requires the federal bank regulatory agencies to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy requirements, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank’s capital ratios, the agencies’ regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank’s activities, operational practices or the ability to pay dividends. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed when the New Capital Rule ratios became effective. In order to be considered well-capitalized under the prompt corrective action standards, the Bank is required to meet the new Common Equity Tier 1 ratio of 6.5%, a Tier 1 capital ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a Tier 1 leverage ratio of 5% (unchanged).

*(k) Dividends*

The Company depends in part upon dividends received from the Bank to fund its activities, including the payment of dividends. The Company and the Bank are subject to various federal and state restrictions on their ability to pay dividends. It is the Federal Reserve’s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also the Federal Reserve’s policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. In addition, the federal bank regulators are authorized to prohibit a bank or bank holding company from engaging in unsafe or unsound banking practices and, depending upon the circumstances, could find that paying a dividend or making a capital distribution would constitute an unsafe or unsound banking practice.

The Bank is a legal entity that is separate and distinct from its holding company. The Company is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management’s assessment of future capital requirements, contractual restrictions, and other factors. The New Capital rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved.

The power of the board of directors of the Bank to declare a cash dividend to the Company is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank’s retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DBO, in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

*(l) Operations and Consumer Compliance Laws*

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans and leases, servicing, collecting and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights. The CRA is intended to encourage banks to help meet the credit needs of the communities in which they operate, including low and moderate-income neighborhoods, consistent with safe and sound operations. The bank regulators examine and assign each bank a public CRA rating. The CRA requires the bank regulators to take into account the bank's record in meeting the needs of its communities when considering an application by a bank to establish or relocate a branch or to conduct certain mergers or acquisition, or an application by the parent holding company to merge with another bank holding company or acquire a banking organization. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The Bank was rated "Satisfactory" in meeting community credit needs under the CRA at its most recent examination for CRA performance.

Dodd-Frank provided for the creation of the Consumer Finance Protection Bureau ("CFPB"), which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to banks, and banks with $10 billion or more in assets are subject to examination by the CFPB. Banks with less than $10 billion in assets, including the Bank, will continue to be examined for compliance by their primary federal banking agency.

The CFPB has adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for "qualified mortgages" meeting certain standards. In particular, it will prevent banks from making "no doc" and "low doc" home loans, as the rules require that banks determine a consumer's ability to pay based in part on verified and documented information. Because we do not originate "no doc" or "low doc" loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definitions for a "qualified mortgage" under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

***(m) Federal Home Loan Bank System***

The Bank is a member and holder of the capital stock of the Federal Home Loan Bank of San Francisco ("FHLBSF"). There are a total of eleven Federal Home Loan Banks (each, an "FHLB") across the U.S. owned by their members who are more than 7,500 community financial institutes of all sizes and types. Each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of FHLBSF is required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution's "membership asset value" which is determined by multiplying the amount of the member's membership assets by the applicable membership asset factors and is capped at $25 million, or (ii) an activity based stock requirement (4.7% of the member's outstanding advances plus 5.0% of the member's outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2016, the Bank was in compliance with the FHLBSF's stock ownership requirement, and our investment in FHLBSF capital stock was $16.4 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2016 were $736.6 million and $421.6 million, respectively.

***(n) Impact of Monetary Policies***

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings by banks from the Federal Reserve Banks. The actions of the Federal Reserve in these areas influence the growth of bank loans and leases, investments, and deposits, and also affect interest rates charged on loans and leases, and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

***(o) Regulation of Non-Bank Subsidiaries***

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. Additionally, any foreign-based subsidiaries would also be subject to foreign laws and regulations.

## Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Report and other documents we filed with the SEC. The following risks and uncertainties described below are those that we have identified as material. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face. Additional risks and uncertainties not presently known to us, or that we may currently view as not material, may also adversely impact our financial condition, business operations and results of operations.

### Risks Relating to our Business

***Difficult business and economic conditions can adversely affect our industry and business.***Our financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and leases and the value of the collateral securing those loans and leases, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. While the U.S. economy has been expanding for the past seven years, there can be no assurance that it will continue to grow. In addition, rising geopolitical risks abroad may adversely impact the economy and financial markets here in the United States. These economic pressures may adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with deterioration in economic conditions:

- We face increased regulation of our industry, including changes by Congress or federal regulatory agencies to the banking and financial institutions regulatory regime and heightened legal standards and regulatory requirements that may be adopted in the future. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans and leases. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- If economic conditions deteriorate, it may exacerbate the following consequences:
    - problem assets and foreclosures may increase;
    - demand for our products and services may decline;
    - low cost or noninterest-bearing deposits may decrease; and
    - collateral for loans and leases made by us, especially real estate, may decline in value.

Our banking operations are concentrated primarily in California, Texas and Illinois. Adverse economic conditions in these regions in particular could impair borrowers' ability to service their loans and leases, decrease the level and duration of deposits by customers, and erode the value of loan and lease collateral. These conditions can potentially cause the general decline in real estate sales and prices in many markets across the United States, the recurrence of economic recession of recent years, and higher rates of unemployment. These conditions could increase the amount of our non-performing assets and have an adverse effect on our efforts to collect our non-performing loans and leases or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us, if at all, and could also cause a decline in demand for our products and services, or a lack of growth or a decrease in deposits, any of which may cause us to incur losses, adversely affect our capital, and hurt our business.

***Our Southern California concentration means economic conditions in Southern California could adversely affect our operations.*** Though the Bank's operations have expanded outside of our original Southern California focus, the majority of our loan and deposit concentration is still primarily in Los Angeles County and Orange County in Southern California. Because of this geographic concentration, our results depend largely upon economic conditions in these areas. A deterioration in the economic conditions or a prolonged delay in economic recovery in the Bank's market areas, or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank's loan and lease portfolio, the demand for its products and services and on its overall financial condition and results of operations.

***Our concentrations of loans and leases in certain industries could have adverse effects on credit quality.*** As of December 31, 2016, the Bank's loan and lease portfolio included loans to: (i) lessors of non-residential buildings of $1.16 billion, or 30.2 percent of total loans and leases; (ii) borrowers in the hospitality industry of $676 million, or 17.6 percent of total gross loans and leases; and (iii) gas stations of $263 million, or 7 percent of total loans and leases. Most of these loans are in California. Because of these concentrations of loans in specific industries, a deterioration of the California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans and leases, which could have material and adverse consequences for the Bank.

***Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.*** Most of our commercial business and commercial real estate loans are made to small or middle market businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans and leases with us, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

***Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans.*** In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment and adherence to professional standards. If the appraisal does not reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to declines in property values after the date of the original appraisal or defective preparation, we may not realize an amount equal to the indebtedness secured by the property and may suffer losses.

***If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans and leases, we could sustain losses.*** A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans and leases. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan and lease losses, that management believe are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan and lease performance and diversifying our credit portfolio.

***Our loan and lease portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets, especially a downturn in the Southern California real estate market.*** A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. As of December 31, 2016, the Bank's loan and lease portfolio included commercial property and construction, which were collateralized by commercial real estate properties located primarily in California, of $2.94 billion, or 76.5 percent of total commercial real estate loans. If real estate values decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.

***We are exposed to risk of environmental liabilities with respect to properties to which we take title.*** In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be materially and adversely affected.

***Our allowance for loan and lease losses may not be adequate to cover actual losses.*** A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. The allowance is also increased for new loan and lease growth. While we believe that our allowance for loan and lease losses is adequate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan and lease losses further or that our regulators will not require us to increase this allowance.

***Our earnings are affected by changing interest rates.*** Changes in interest rates affect the level of loans and leases, deposits and investments, the credit profile of existing loans and leases, the rates received on loans and leases, and securities, and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of operations. While recent increases in interest rates and the prevailing view that interest rates will rise further in the near future will provide a boost to bank earnings, it will also provide an opportunity for depositors to seek higher yielding deposit products, negatively impacting the spread income generated on assets over the cost of deposits.

There are also concerns of the long-term negative effects of central banks' ultra-accommodative monetary policies and the prospect of persistent low inflation in advanced economies. Slowing economic activity in those economies may reduce consumption and business investments in the U.S., which may reduce lending activities.

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.*** Liquidity is essential to our business. An inability to raise funds through deposits, including brokered deposits, borrowings, the sale of loans and leases and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us.

Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

***We are subject to government regulations that could limit or restrict our activities, which in turn could adversely affect our operations.*** The financial services industry is subject to extensive federal and state supervision and regulation. Changes in existing laws, or repeals of existing laws, may cause our results to differ materially from historical and projected performance. Further, federal monetary policy, particularly as implemented through the Federal Reserve, significantly affects credit conditions, and a material change in these conditions could have a material adverse impact on our financial condition and results of operations.

***Additional requirements imposed by Dodd-Frank and other regulations could adversely affect us.*** Dodd-Frank and related regulations subject us and other financial institutions to more restrictions, oversight, reporting obligations and costs. In addition, this increased regulation of the financial services industry restricts the ability of institutions within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees.

***Additional requirements imposed by the Consumer Financial Protection Bureau could adversely affect us.*** Dodd-Frank created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, Dodd-Frank permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against state-chartered institutions, including the Bank. To the extent the CFPB has authority over us, if we fail to comply with the rules and regulations promulgated by the CFPB, we may be subject to adverse enforcement actions, fines or penalties against us.

***We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.*** The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

***The FDIC's restoration plan and future changes to the assessment rate could adversely affect our earnings.*** As required by Dodd-Frank, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan (i) raised the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent and removed the upper limit on the designated reserve ratio and consequently on the size of the fund, and (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020. The FDIA continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year.

The amount of premiums that we are required to pay for FDIC insurance is generally beyond our control. If there are additional bank or financial institution failures, if our risk classification changes, or the method for calculating premiums change, this may impact assessment rates which may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

***The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us.*** In June 2013, federal banking regulators jointly issued the New Capital Rules, which were based upon Basel III. The rules impose new capital requirements and implement Section 171 of Dodd-Frank. The new rules became effective for the Company and Bank on January 1, 2015, and are subject to a multi-year phase in. Among other things, the rules require that we maintain a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a Tier 1 leverage ratio of 4%. In addition, we have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. When the buffer is fully-phased in, the minimum capital plus capital conservation buffer ratio will be Common Equity Tier 1 capital ratio of 7.0%, Tier 1 capital ratio of 8.5%, and total capital ratio of 10.5%. The rules also restrict grandfathered trust preferred securities from comprising more than 25% of Tier 1 capital. If an institution grows above $15 billion as a result of an acquisition, or organically grows above $15 billion and then makes an acquisition, the combined trust preferred issuances would be eliminated from Tier 1 capital. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. In addition, more stringent capital requirements could require us to raise additional capital on terms which may not be favorable.

***Competition may adversely affect our performance.*** The banking and financial services businesses in our market areas are highly competitive. We face competition in attracting deposits, making loans and leases, and attracting and retaining employees, particularly in the Korean-American community. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, new competitors in the market, and the pace of consolidation among financial services providers. Our results in the future may be materially and adversely impacted depending upon the nature and level of competition.

***The soundness of other financial institutions could adversely affect us.*** Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any such losses could have a material adverse effect on our financial condition and results of operations.

***A failure in or breach of our operational or security systems or infrastructure, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.*** As a financial institution, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded throughout the U.S. and as customer, public, legislative and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; degradation or loss of public internet domain; climate change related impacts and natural disasters such as earthquakes, tornados, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts, building emergencies such as water leakage, fires and structural issues, and cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

The occurrence of breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks.

Our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. In addition, to access our products and services, our customers may use personal smart-phones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have strong information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt Bank's or its customers' or other third parties' business operations.

To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to enhance our internet banking and mobile banking channel strategies to serve our customers when and how they want to be served, and our expanded geographic footprint. There continues to be a rise in security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector. For example, financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Consistent with industry trends, we have also experienced an increase in attempted security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us. As a result, cybersecurity and the continued development and enhancement of our controls, processes and systems designed to protect our networks, computers, software and data from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

***We rely on third party vendors and other service providers, which could expose us to additional risk.*** We face additional risk of failure in or breach of operational or security systems or infrastructure related to our reliance on third party vendors and other service providers. Third parties with which we do business or that facilitate our business activities or vendors that provide services or security solutions for our operations, particularly those that are cloud-based, could be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. We are subject to operational risks relating to such third parties' technology and information systems. The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities. In addition, a number of our vendors are large national entities, and their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

***Fraudulent activity could damage our reputation, disrupt our businesses, increase our costs and cause losses.*** As discussed above, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in damage to our reputation, financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud (counterfeit, forgery, etc.), electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. In recent periods, there continues to be a rise in electronic fraudulent activity within the financial services industry, and, consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods. The occurrence of fraudulent activity could have a material adverse effect on our business, financial condition and results of operations.

***Negative publicity could damage our reputation.*** Reputation risk, or the risk to our earnings and capital from negative publicity or public opinion, is inherent in our business. Negative publicity or public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or perceived conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

***We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.*** Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. Competition for qualified employees and personnel in the banking industry is intense, particularly for qualified persons with knowledge of, and experience in, our banking space. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan and lease origination, finance, administrative, compliance, marketing and technical personnel and upon the continued contributions of our management and employees. The unexpected loss of services of one or more of our key personnel or failure to attract or retain such employees could have a material adverse effect on our financial condition and results of operations.

***If we fail to maintain an effective system of internal controls and disclosure controls and procedures, we may not be able to accurately report our financial results or prevent fraud.*** Effective internal controls and disclosure controls and procedures are necessary for us to provide reliable financial reports and disclosures to stockholders, to prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports and disclosures or prevent fraud, our business may be adversely affected and our reputation and operating results would be harmed. Any failure to develop or maintain effective internal controls and disclosure controls and procedures or difficulties encountered in their implementation may also result in regulatory enforcement action against us, adversely affect our operating results or cause us to fail to meet our reporting obligations.

***Changes in accounting standards may affect how we record and report our financial condition and results of operations.*** Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

***We are required to assess the recoverability of our deferred tax assets on an ongoing basis.*** Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or the entire amount.

***We may become subject to regulatory restrictions in the event that our capital levels decline.*** We cannot provide assurance that our total risk-based capital ratio or other capital ratios will not decline in the future such that the Bank may be considered to be "undercapitalized" for regulatory purposes. If a state nonmember bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC. Pursuant to the FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FDIC of a capital restoration plan for the bank. Pursuant to Section 38 of the FDICIA and its regulations, the FDIC also has the discretion to impose certain other corrective actions.

If a bank is classified as significantly undercapitalized, the FDIC would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. These actions may also be taken by the FDIC at any time on an undercapitalized bank if it determines those restrictions are necessary. If a bank is classified as critically undercapitalized, in addition to the foregoing restrictions, the FDICIA prohibits payment on any subordinated debt and requires the bank to be placed into conservatorship or receivership within 90 days, unless the FDIC determines that other action would better achieve the purposes of the FDICIA regarding prompt corrective action with respect to undercapitalized banks.

***As we continue to expand outside our California markets, we may encounter additional risks that may adversely affect us.*** The CBI Acquisition gave the Bank a national footprint, whereas prior to the acquisition, we primarily provided services through our California branches. These expansion activities, together with any additional expansion activities we may undertake, may entail significant risks, including unfamiliarity with the characteristics and business dynamics of new markets, increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to effectively manage these risks, our operations may be adversely affected.

***Changing conditions in South Korea could adversely affect our business.*** A substantial number of our customers have economic and cultural ties to South Korea and, as a result, we are likely to feel the effects of adverse economic and political conditions in South Korea. U.S. and global economic policies, political or political tension, and global economic conditions may adversely impact the South Korean economy.

Management closely monitors our exposure to the South Korean economy and, to date, we have not experienced any significant loss attributable to our exposure to South Korea. Nevertheless, our efforts to minimize exposure to downturns in the South Korean economy may not be successful in the future, and a significant downturn in the South Korean economy could possibly have a material adverse effect on our financial condition and results of operations. If economic conditions in South Korea change, we could experience an outflow of deposits by those of our customers with connections to South Korea and a significant decrease in deposits could have a material adverse effect on our financial condition and results of operations.

***We are exposed to the risks of natural disasters.*** A significant portion of our operations is concentrated in Southern California. California is in an earthquake-prone region. A major earthquake may result in material loss to us. A significant percentage of our loans and leases are and will be secured by real estate. Many of our borrowers may suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. Unlike a bank with a customer base that are more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.

**Risks Relating to Ownership of Our Common Stock**

***The Bank could be restricted from paying dividends to us, its sole shareholder, and, thus, we would be restricted from paying dividends to our stockholders in the future.*** The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the

Bank is limited by various statutes and regulations. The Bank had retained earnings of $62.3 million as ofDecember 31, 2016, and the ability to pay $22.7 million of dividends without the prior approval of the Commissioner of Business Oversight.

***The price of our common stock may be volatile or may decline.***The trading price of our common stock may fluctuate significantly due to a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity-related securities, and other factors identified above in the section captioned "Cautionary Note Regarding Forward-Looking Statements." A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation and potential delisting from Nasdaq.

Your ***share ownership may be diluted by the issuance of additional shares of our common stock in the future.***Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. We may decide to raise additional funds through public or private debt or equity financings for a number of reasons, including in response to regulatory or other requirements to meet our liquidity and capital needs, to finance our operations and business strategy or for other reasons. If we raise funds by issuing equity securities or instruments that are convertible into equity securities, the percentage ownership of our existing stockholders will further be reduced, the new equity securities may have rights, preferences and privileges superior to those of our common stock, and the market of our common stock could decline.

In addition, we adopted the 2013 Equity Compensation Plan that provides for the granting of awards to our directors, executive officers and other employees. The plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award. As of December 31, 2016, 387,901 shares of our common stock were issuable under options granted in connection with our stock option plans. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

Furthermore, as of December 31, 2016, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 62,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

***Future sales of common stock by existing stockholders may have an adverse impact on the market price of our common stock.*** Sales of a substantial number of shares of our common stock in the public market by existing stockholders, or the perception that large sales could occur, could cause the market price of our common stock to decline or limit our future ability to raise capital through an offering of equity securities.

***Anti-takeover provisions and state and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.*** Various provisions of our Amended and Restated Certificate of Incorporation and By-laws could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our stockholders. These provisions provide for, among other things, supermajority voting approval for certain actions, limitation on large stockholders taking certain actions and authorization to issue "blank check" preferred stock by action of the Board of Directors acting alone without obtaining stockholder approval. In addition, the BHCA, and the Change in Bank Control Act of 1978, as amended, together with applicable federal regulations, require that, depending on the particular circumstances, either Federal Reserve approval must be obtained or notice must be furnished to Federal Reserve and not disapproved prior to any person or entity acquiring "control" of a state nonmember bank, such as the Bank. Additional prior approvals from other federal or state bank regulators may also be necessary depending upon the particular circumstances. These provisions may prevent a merger or acquisition that would be attractive to stockholders and could limit the price investors would be willing to pay in the future for our common stock.

**Risks Relating to Acquisitions**

***We may experience adverse effects from acquisitions***. We have acquired other banking companies in the past, including the acquisition of an equipment leasing business in the fourth quarter of 2016 and the CBI Acquisition in 2014, and will consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of other companies, we may incur material unexpected costs and disruption of our business. Risks involved in acquisitions of other companies, include:

- the risk of failure to adequately evaluate the asset quality of the acquired company;
- difficulty in assimilating and integrating the operations, technology and personnel of the acquired company;
- diversion of management's attention from other important business activities;
- difficulty in maintaining good relations with the loan and deposit customers of the acquired company;
- inability to maintain uniform standards, controls, procedures and policies, especially considering geographic diversification;
- potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and
- amortization of expenses related to acquired intangible assets that have finite lives.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Hanmi Financial's principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. As of December 31, 2016, we had a total of 57 properties consisting of 41 active operating branch offices and 6 active loan production offices, and 10 other properties. We own 19 locations and the remaining properties are leased.

As of December 31, 2016, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $28.7 million. Our lease expense was $6.6 million for the year ended December 31, 2016. We consider our present facilities to be sufficient for our current operations.

## Item 3. Legal Proceedings

Hanmi Financial and its subsidiaries are subject to lawsuits and claims that arise in the ordinary course of their businesses. Neither Hanmi Financial nor any of its subsidiaries is currently involved in any legal proceedings, the outcome of which we believe would have a material adverse effect on the business, financial condition or results of operations of Hanmi Financial or its subsidiaries.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Part II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

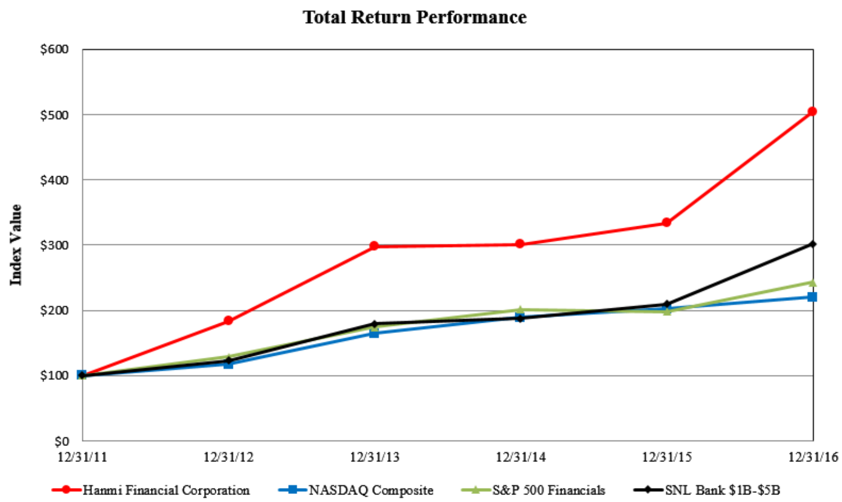
The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial's common stock for the last two years as reported on the Nasdaq Global Select Market ("Nasdaq") under the symbol "HAFC":

| | High | Low | Cash Dividend |
|---|---|---|---|
| **2016** | | | |
| Fourth quarter | $ 35.35 | $ 23.10 | $ 0.19 |
| Third quarter | $ 26.82 | $ 22.56 | $ 0.19 |
| Second quarter | $ 24.34 | $ 20.80 | $ 0.14 |
| First quarter | $ 23.29 | $ 19.06 | $ 0.14 |
| **2015** | | | |
| Fourth quarter | $ 27.80 | $ 22.72 | $ 0.14 |
| Third quarter | $ 26.20 | $ 23.21 | $ 0.11 |
| Second quarter | $ 25.50 | $ 20.74 | $ 0.11 |
| First quarter | $ 21.49 | $ 19.73 | $ 0.11 |

The closing price of our common stock on February 27, 2017 was $33.80 per share, as reported by Nasdaq. As of February 27, 2017, there were approximately 438 record holders of our common stock.

**Performance Graph**

The following graph shows a comparison of cumulative total stockholder return on Hanmi Financial's common stock with the cumulative total returns for: (i) the Nasdaq Composite Index; (ii) the Standard and Poor's 500 Financials Index ("S&P 500 Financials"); and (iii) the SNL U.S. Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance. The performance graph shall not be deemed incorporated by reference to any general statement incorporating by reference to this Annual Report on Form 10-K into any filing under the Securities Act, or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under either the Securities Act or the Exchange Act.




| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Hanmi Financial Corporation | $ 100.00 | $ 183.65 | $ 298.10 | $ 300.85 | $ 333.72 | $ 504.93 |
| Nasdaq Composite | 100.00 | 117.45 | 164.57 | 188.84 | 201.98 | 219.89 |
| S&P 500 Financials | 100.00 | 128.82 | 174.71 | 201.27 | 198.20 | 243.38 |
| SNL Bank $1B-$5B | 100.00 | 123.31 | 179.31 | 187.48 | 209.86 | 301.92 |

Source: SNL Financial LC, Charlottesville, VA

### Recent Unregistered Sales of Equity Securities

There were no unregistered sales of Hanmi Financial's equity securities during the year ended December 31, 2016.

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2016, there were no repurchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates. As of December 31, 2016, there was no current plan authorizing purchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates.

**Item 6. Selected Financial Data**

The following table presents selected historical financial information. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2016 was derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (In thousands, except share and per share data) | | | | |
| **Summary Statements of Operations:** | | | | | |
| Interest and dividend income | $ 178,471 | $ 164,226 | $ 136,734 | $ 119,140 | $ 117,282 |
| Interest expense | 18,274 | 16,109 | 14,033 | 13,507 | 18,745 |
| Net interest income | 160,197 | 148,117 | 122,701 | 105,633 | 98,537 |
| (Negative provision) provision for loan and lease losses | (4,339) | (11,614) | (6,258) | 576 | 7,156 |
| Noninterest income | 33,075 | 47,602 | 42,296 | 27,900 | 21,413 |
| Noninterest expense | 108,223 | 115,328 | 98,671 | 70,441 | 69,455 |
| Income before provision (benefit) for income taxes | 89,388 | 92,005 | 72,584 | 62,516 | 43,339 |
| Provision (benefit) for income taxes | 32,899 | 38,182 | 22,379 | 22,732 | (46,818) |
| Net income from continuing operations | 56,489 | 53,823 | 50,205 | 39,784 | 90,157 |
| (Loss) income from discontinued operations | — | — | (444) | 73 | 167 |
| Net income | $ 56,489 | $ 53,823 | $ 49,761 | $ 39,857 | $ 90,324 |
| **Summary Balance Sheets:** | | | | | |
| Cash and due from banks | $ 147,235 | $ 164,364 | $ 158,320 | $ 179,357 | $ 268,047 |
| Securities | 516,964 | 698,296 | 1,060,717 | 530,926 | 451,060 |
| Loans and leases receivable *(1)* | 3,812,340 | 3,140,381 | 2,735,832 | 2,177,498 | 1,986,051 |
| Assets | 4,701,346 | 4,234,521 | 4,232,443 | 3,054,379 | 2,881,409 |
| Deposits | 3,809,737 | 3,509,976 | 3,556,746 | 2,512,325 | 2,395,963 |
| Liabilities | 4,170,321 | 3,740,603 | 3,779,056 | 2,654,302 | 2,504,156 |
| Stockholders’ equity | 531,025 | 493,918 | 453,387 | 400,077 | 377,253 |
| Tangible equity | 518,136 | 492,217 | 451,307 | 398,906 | 375,918 |
| Average loans and leases *(2)* | 3,423,292 | 2,901,698 | 2,440,682 | 2,156,626 | 1,993,367 |
| Average securities | 614,749 | 818,205 | 676,729 | 446,563 | 443,910 |
| Average interest-earning assets | 4,103,960 | 3,805,877 | 3,163,141 | 2,687,799 | 2,686,425 |
| Average assets | 4,372,698 | 4,076,669 | 3,410,751 | 2,827,508 | 2,792,349 |
| Average deposits | 3,607,585 | 3,502,886 | 2,872,029 | 2,391,248 | 2,349,082 |
| Average borrowings | 215,525 | 56,878 | 81,110 | 27,815 | 85,760 |
| Average interest-bearing liabilities | 2,640,953 | 2,493,513 | 2,054,680 | 1,678,618 | 1,758,135 |
| Average stockholders’ equity | 518,867 | 476,401 | 425,913 | 392,601 | 328,013 |
| Average tangible equity | 516,238 | 474,498 | 425,018 | 391,342 | 326,586 |
| **Per Share Data:** | | | | | |
| Earnings per share – basic | $ 1.76 | $ 1.69 | $ 1.57 | $ 1.26 | $ 2.87 |
| Earnings per share – diluted | $ 1.75 | $ 1.68 | $ 1.56 | $ 1.26 | $ 2.87 |
| Book value per share *(3)* | $ 16.42 | $ 15.45 | $ 14.21 | $ 12.60 | $ 11.98 |
| Tangible book value per share *(4)* | $ 16.03 | $ 15.39 | $ 14.14 | $ 12.56 | $ 11.94 |
| Cash dividends declared per share | $ 0.66 | $ 0.47 | $ 0.28 | $ 0.14 | $ — |
| Common shares outstanding | 32,330,747 | 31,974,359 | 31,910,203 | 31,761,550 | 31,496,540 |

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| **Selected Performance Ratios:** | | | | | |
| Return on average assets *(5) (14)* | 1.29% | 1.32% | 1.47% | 1.41% | 3.23% |
| Return on average stockholders’ equity *(6) (14)* | 10.89% | 11.30% | 11.79% | 10.13% | 27.49% |
| Return on average tangible equity *(7) (14)* | 10.94% | 11.34% | 11.81% | 10.17% | 27.61% |
| Net interest spread *(8)* | 3.71% | 3.67% | 3.65% | 3.64% | 3.30% |
| Net interest margin *(9)* | 3.95% | 3.90% | 3.88% | 3.94% | 3.68% |
| Net interest margin (excluding purchase accounting) *(17)* | 3.79% | 3.47% | 3.65% | 3.94% | 3.68% |
| Efficiency ratio *(10)* | 56.00% | 58.93% | 59.73% | 53.18% | 58.87% |
| Efficiency ratio (excluding merger and integration costs) *(10)* | 55.83% | 57.92% | 55.70% | 52.64% | 58.87% |
| Dividend payout ratio *(11)* | 37.57% | 27.98% | 17.95% | 11.11% | —% |
| Average stockholders’ equity to average assets | 11.87% | 11.69% | 12.49% | 13.89% | 11.75% |
| **Selected Capital Ratios:** | | | | | |
| Total risk-based capital ratio: | | | | | |
| Hanmi Financial | 13.86% | 14.91% | 15.89% | 17.48% | 20.65% |
| Hanmi Bank | 13.64% | 14.86% | 15.18% | 16.79% | 19.85% |
| Tier 1 risk-based capital ratio: | | | | | |
| Hanmi Financial | 13.02% | 13.65% | 14.63% | 16.26% | 19.37% |
| Hanmi Bank | 12.80% | 13.60% | 13.93% | 15.53% | 18.58% |
| Common equity tier 1 capital ratio: | | | | | |
| Hanmi Financial | 12.73% | 13.65% | —% | —% | —% |
| Hanmi Bank | 12.80% | 13.60% | —% | —% | —% |
| Tier 1 leverage ratio: | | | | | |
| Hanmi Financial | 11.53% | 11.31% | 10.91% | 13.62% | 14.95% |
| Hanmi Bank | 11.33% | 11.27% | 10.39% | 13.05% | 14.33% |
| **Selected Asset Quality Ratios:** | | | | | |
| Non-performing loans and leases to loans and leases receivable *(12) (15)* | 0.30% | 0.60% | 0.92% | 1.16% | 1.82% |
| Non-performing assets to assets *(13)* | 0.40% | 0.65% | 0.97% | 0.87% | 1.32% |
| Net loan and lease charge-offs (recoveries) to average loans and leases receivable *(15)* | 0.18% | (0.06)% | (0.06)% | 0.29% | 1.70% |
| Allowance for loan and lease losses to loans and leases receivable *(15) (16)* | 0.84% | 1.35% | 1.88% | 2.58% | 3.09% |
| Allowance for loan and lease losses to non-performing loans and leases *(16)* | 275.80% | 196.12% | 204.26% | 222.42% | 169.81% |

*(1) Excludes loans held for sale.*

*(2) Includes loans held for sale.*

*(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 income divided by average tangible equity. Average tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.*
*(8) Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using the current statutory federal tax rate.*
*(9) Net interest income divided by average interest-earning assets. Computed on a tax-equivalent basis using the current statutory federal tax rate.*
*(10) Noninterest expense divided by the sum of net interest income and noninterest income.*
*(11) Dividends declared per share divided by basic earnings per share.*
*(12) 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.*
*(13) Nonperforming assets consist of nonperforming loans and leases and other real estate owned.*
*(14) Amounts calculated on net income from continuing operations.*
*(15) Excludes PCI loans.*
*(16) Excludes allowance for loan losses on PCI loans.*
*(17) Net interest income less net accretion of discounts related to purchase accounting divided by average interest-earning assets. Computed on a tax-equivalent basis using the current statutory federal tax rate.*

**Non-GAAP Financial Measures**

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

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

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

***Average Tangible Equity and Return on Average Tangible Equity***

The following table reconciles these non-GAAP performance measure to the GAAP performance measure for the periods indicated:

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | | | (In thousands) | | |
| Average stockholders' equity | $ 518,867 | $ 476,401 | $ 425,913 | $ 392,601 | $ 328,013 |
| Less average goodwill | (1,078) | — | — | — | — |
| Less average other intangible assets | (1,551) | (1,903) | (895) | (1,259) | (1,427) |
| **Average tangible equity** | **$ 516,238** | **$ 474,498** | **$ 425,018** | **$ 391,342** | **$ 326,586** |
| | | | | | |
| Return on average stockholders' equity | 10.89% | 11.30% | 11.79% | 10.13% | 27.49% |
| Effect of average intangible assets | 0.05% | 0.04% | 0.02% | 0.03% | 0.12% |
| **Return on average tangible equity** | **10.94%** | **11.34%** | **11.81%** | **10.17%** | **27.61%** |

***Tangible Stockholders' Equity and Tangible Book Value Per Share***

The following table reconciles these non-GAAP performance measure to the GAAP performance measure for the periods indicated:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | *(In thousands, except per share data)* | | | | |
| Stockholders' equity | $ 531,025 | $ 493,918 | $ 453,387 | $ 400,077 | $ 377,253 |
| Less goodwill | (11,031) | — | — | — | — |
| Less other intangible assets | (1,858) | (1,701) | (2,080) | (1,171) | (1,335) |
| **Tangible stockholders' equity** | **$ 518,136** | **$ 492,217** | **$ 451,307** | **$ 398,906** | **$ 375,918** |
| | | | | | |
| Book value per share | 16.42 | 15.45 | 14.21 | 12.60 | 11.98 |
| Effect of intangible assets | (0.39) | (0.06) | (0.07) | (0.04) | (0.04) |
| **Tangible book value per share** | **$ 16.03** | **$ 15.39** | **$ 14.14** | **$ 12.56** | **$ 11.94** |

***Core Loan and Lease Yield and Net Interest Margin***

The impact of the CBI Acquisition accounting adjustments on core loan and lease interest income and yield and net interest margin are summarized in the following table for the periods indicated:

| | Year ended December 31, 2016 | | Year ended December 31, 2015 | | Year ended December 31, 2014 | |
|---|---|---|---|---|---|---|
| | Amount | Impact | Amount | Impact | Amount | Impact |
| | | | *(In thousands)* | | | |
| **Core loan and lease interest income and yield** | **$ 159,987** | **4.67 %** | **$ 137,765** | **4.75 %** | **$ 116,953** | **4.82%** |
| Accretion of discount on purchased loans and leases | 4,655 | 0.14 % | 11,032 | 0.38 % | 5,269 | 0.19% |
| **As reported** | **$ 164,642** | **4.81 %** | **$ 148,797** | **5.13 %** | **$ 122,222** | **5.01%** |
| | | | | | | |
| **Net interest income and net interest margin excluding acquisition accounting *(1)*** | **$ 155,199** | **3.79 %** | **$ 131,996** | **3.47 %** | **$ 115,238** | **3.65%** |
| Accretion of discount on Non-PCI loans and leases | 4,177 | 0.10 % | 9,416 | 0.25 % | 3,821 | 0.12% |
| Accretion of discount on PCI loans | 478 | 0.01 % | 1,616 | 0.04 % | 1,448 | 0.04% |
| Accretion of time deposits premium | 2,658 | 0.06 % | 5,634 | 0.15 % | 2,338 | 0.07% |
| Amortization of subordinated debentures discount | (275) | (0.01)% | (176) | (0.01)% | (71) | —% |
| Net impact | 7,038 | 0.16 % | 16,490 | 0.43 % | 7,536 | 0.23% |
| **As reported on a fully taxable equivalent basis *(1)*** | **$ 162,237** | **3.95 %** | **$ 148,486** | **3.90 %** | **$ 122,774** | **3.88%** |

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

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion presents management's analysis of the financial condition and results of operations as of and for the years endedDecember 31, 2016, 2015 and 2014. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also "Cautionary Note Regarding Forward-Looking Statements."

**Critical Accounting Policies**

We have established various accounting policies that govern the application of GAAP in the preparation of our Consolidated Financial Statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Our financial position and results of operations can be materially affected by these estimates and assumptions. Critical accounting policies are those policies that are most important to the determination of our financial condition and results of operations or that require management to make assumptions and estimates that are subjective or complex. Our significant accounting policies are discussed in the "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies." Management believes that the following policies are critical.

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

Our allowance for loan and lease losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on segmented loan pools by type and risk rating, delinquency and charge-off trends, collateral values, changes in nonperforming loans and leases, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in nonperforming loans and leases. Concentration of credit, change of lending management and staff, quality of the loan and lease review system, and changes in interest rates are other qualitative factors that are considered in our methodologies. See "Financial Condition — Allowance for Loan and Lease Losses and Allowance for Off-Balance Sheet Items," "Results of Operations — Provision for Credit Losses" and "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" for additional information on methodologies used to determine the allowance for loan and lease losses and the allowance for off-balance sheet items.

***Loan Sales***

The guaranteed portions of certain SBA loans are normally sold to secondary market investors. When SBA loans are sold, we generally retain the right to service the loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan servicing assets. Loan servicing assets are discussed in more detail in "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" and "Note 6 — Servicing Assets and Liabilities" presented elsewhere herein.

***Purchased Credit Impaired Loans***

Purchased credit impaired ("PCI") loans are accounted for in accordance with ASC Subtopic 310-30, *"Loans and Debt Securities Acquired with Deteriorated Credit Quality."* A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that we would be unable to collect all contractually required payments. We apply PCI loan accounting when (i) we acquire loans deemed to be impaired, and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition.

For PCI loans, at the time of acquisition we (i) calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (ii) estimated the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the PCI loan portfolios; such amount is subject to change over time based on the performance of such loans. The carrying value of PCI loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the loans using the effective yield. If estimated cash flows are indeterminable, the recognition of interest income will cease to be recognized.

As part of the fair value process and the subsequent accounting, the Company aggregates PCI loans into pools having common credit risk characteristics such as product type, geographic location and risk rating. Increases in expected cash flows over those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those previously estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses. As the accretable yield increases or decreases from changes in cash flow expectations, the offset is a decrease or increase to the nonaccretable difference. The accretable yield is measured at each financial reporting date based on information then currently available and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. In addition, the Company removes loans from loan pools when the Company receives payment in settlement with the borrower, sells the loan, or foreclose upon the collateral securing the loan. The Company recognizes "Disposition gain on Purchased Credit Impaired Loans" when the cash proceeds or the amount received are in excess of the loan's carrying amount. The removal of the loan from the loan pool and the recognition of disposition gains do not affect the then applicable loan pool accretable yield.

Below is a summary of acquired purchased credit impaired loans as of the acquisition date, August 31, 2014 and December 31, 2016.

| **As of August 31, 2014** | Pooled PCI Loans | | | | Non-pooled PCI Loans | | | |
|---|---|---|---|---|---|---|---|---|
| | #Loans | #Pools | Carrying Amount *(In thousands)* | % of total | #Loans | Carrying Amount *(In thousands)* | % of total | Total PCI Loans *(In thousands)* |
| Real estate loans: | | | | | | | | |
| Commercial property | 152 | 11 | $ 57,894 | 96% | 2 | $ 2,274 | 4% | $ 60,168 |
| Construction | — | — | — | 0% | 1 | 183 | 100% | 183 |
| Residential property | 13 | 4 | 2,701 | 60% | 5 | 1,771 | 40% | 4,472 |
| Total real estate loans | 165 | 15 | 60,595 | 93% | 8 | 4,228 | 7% | 64,823 |
| Commercial and industrial loans | 34 | 4 | 506 | 100% | — | — | 0% | 506 |
| Consumer loans | 2 | 1 | 17 | 100% | — | — | 0% | 17 |
| Total acquired loans | 201 | 20 | $ 61,118 | 94% | 8 | $ 4,228 | 6% | $ 65,346 |

| **As of December 31, 2016** | Pooled PCI Loans | | | | Non-pooled PCI Loans | | | |
|---|---|---|---|---|---|---|---|---|
| | #Loans | #Pools | Carrying Amount *(In thousands)* | % of total | #Loans | Carrying Amount *(In thousands)* | % of total | Total PCI Loans *(In thousands)* |
| Real estate loans: | | | | | | | | |
| Commercial property | 45 | 6 | $ 7,780 | 89% | 1 | $ 921 | 11% | $ 8,701 |
| Construction | — | — | — | —% | — | — | —% | — |
| Residential property | — | — | — | —% | 2 | 976 | 100% | 976 |
| Total real estate loans | 45 | 6 | 7,780 | 80% | 3 | 1,897 | 20% | 9,677 |
| Commercial and industrial loans | 6 | 3 | 136 | 100% | — | — | —% | 136 |
| Consumer loans | 1 | 1 | 50 | 100% | — | — | —% | 50 |
| Total acquired loans | 52 | 10 | $ 7,966 | 81% | 3 | $ 1,897 | 19% | $ 9,863 |
| Allowance for loan losses | | | $ (617) | | | $ (354) | | $ (971) |
| Total carrying amount | | | $ 7,349 | | | $ 1,543 | | $ 8,892 |

PCI loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual with interest income recognized on either a cash basis or as a reduction of the principal amount outstanding.

***Securities***

The classification and accounting for securities are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 5 – Securities” presented elsewhere herein. Under FASB ASC 320, “*Investments*,” securities generally must be classified as held to maturity, available for sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management’s intentions with respect to either holding or selling the securities. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Securities that are classified as held to maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

The fair values of securities are generally determined by quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, we have evaluated the methodologies used to develop the resulting fair values. We perform a monthly review of alternative pricing received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes.

We review securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not that we will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other than temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

Management does not believe that there are any securities that are deemed OTTI as ofDecember 31, 2016.

***Income Taxes***

In accordance with the provisions of FASB ASC 740, the Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

As of each reporting date, management considers the realization of deferred tax assets based on management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2016, management determined that a valuation allowance of $1.0 million was appropriate against certain state net operating losses. For all other deferred tax assets, management believes it is more likely than not that such deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

Income taxes are discussed in more detail in "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" and "Note 12 — Income Taxes" presented elsewhere herein.

**Executive Overview**

For the years ended December 31, 2016, 2015 and 2014, net income was $56.5 million, $53.8 million and $49.8 million, respectively. The increase in net income for the year ended December 31, 2016 as compared to the year ended December 31, 2015 was due mainly to the increase in net interest income by 8.2 percent or $12.1 million, primarily because of an increase in loans and leases receivable, a decrease in income tax expense and lower noninterest expense, offset by the impact of lower gain on sales of securities, disposition gains on PCI loans and lower negative provision for loan and lease losses.

The increase in net income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 was due mainly to the growth in net interest income from the 20 percent increase in average interest-earning assets, higher levels of SBA loan sales and their related gains, and higher amounts of disposition gains on PCI loans and securities, reduced by increased amounts of noninterest expenses reflecting the CBI Acquisition.

For the years ended December 31, 2016, 2015 and 2014, our earnings per diluted share were $1.75, $1.68 and $1.56, respectively.

Significant financial highlights include:

- With new loan growth and the acquisition of the equipment leasing portfolio, loans and leases receivable increased by $661.5 million, or 20.8 percent, to $3.84 billion as of December 31, 2016, compared to $3.18 billion as ofDecember 31, 2015.
- Deposits were $3.81 billion at December 31, 2016 compared to $3.51 billion at December 31, 2015 as noninterest-bearing demand deposits increased $47.7 million, or 4.1 percent, interest-bearing money market and savings accounts increased $457.5 million or 52.5 percent and time deposits decreased $207.7 million, or 15.0 percent.
- Cash dividends of $0.66 per share of common stock were declared for the year endedDecember 31, 2016, compared to $0.47 and $0.28 per share of common stock for the year ended December 31, 2015 and 2014, respectively.

**Results of Operations**

**Impact of Acquisitions on Earnings Performance**

The comparability of financial information was affected by our acquisition of CBI on August 31, 2014 ($1.27 billion in assets). The transaction was accounted for using the acquisition method of accounting and accordingly, the related operating results have been included in the consolidated financial statements from the respective acquisition date. We also acquired an equipment leasing portfolio in the fourth quarter of 2016. However, due to the size and timing of the 2016 transaction, the comparability of financial information was not significantly impacted by such transaction. See “Notes to Consolidated Financial Statements, Note 2 — Acquisitions.”

**Net Interest Income**

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

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

| | For the Year Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | December 31, 2016 | | | December 31, 2015 | | | December 31, 2014 | | |
| | Average Balance | Interest Income / Expense | Average Yield / Rate | Average Balance | Interest Income / Expense | Average Yield / Rate | Average Balance | Interest Income / Expense | Average Yield / Rate |
| | (In thousands) | | | | | | | | |
| **Assets** | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans and leases *(1)* | $ 3,423,292 | $ 164,642 | 4.81% | $ 2,901,698 | $ 148,797 | 5.13% | $ 2,440,682 | $ 122,222 | 5.01% |
| Securities *(2)* | 614,749 | 13,194 | 2.15% | 788,156 | 12,791 | 1.62% | 648,937 | 12,711 | 1.96% |
| FRB and FHLB stock *(3)* | 24,189 | 2,467 | 10.20% | 30,049 | 2,786 | 9.27% | 27,792 | 1,767 | 6.36% |
| Federal funds sold | — | — | —% | — | — | —% | 3 | — | —% |
| Interest-bearing deposits in other banks | 41,730 | 208 | 0.50% | 85,974 | 221 | 0.26% | 45,727 | 107 | 0.23% |
| Total interest-earning assets | 4,103,960 | 180,511 | 4.40% | 3,805,877 | 164,595 | 4.32% | 3,163,141 | 136,807 | 4.33% |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 115,229 | | | 89,368 | | | 76,828 | | |
| Allowance for loan and lease losses | (40,856) | | | (50,862) | | | (54,817) | | |
| Other assets | 194,365 | | | 232,286 | | | 225,599 | | |
| Total noninterest-earning assets | 268,738 | | | 270,792 | | | 247,610 | | |
| **Total assets** | **$ 4,372,698** | | | **$ 4,076,669** | | | **$ 3,410,751** | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Demand: interest-bearing | $ 95,298 | $ 75 | 0.08% | $ 89,747 | $ 114 | 0.13% | $ 72,857 | $ 102 | 0.14% |
| Money market and savings | 1,074,247 | 6,470 | 0.60% | 846,254 | 4,194 | 0.50% | 697,190 | 4,757 | 0.68% |
| Time deposits | 1,255,883 | 10,025 | 0.80% | 1,500,634 | 11,102 | 0.74% | 1,203,523 | 8,701 | 0.72% |
| FHLB advances | 196,708 | 879 | 0.45% | 38,110 | 76 | 0.20% | 69,781 | 151 | 0.22% |
| Other Borrowings | | | —% | — | — | —% | 315 | — | —% |
| Rescinded stock obligation | — | — | —% | 149 | — | —% | 4,778 | 87 | 1.82% |
| Subordinated debentures | 18,817 | 825 | 4.38% | 18,619 | 623 | 3.35% | 6,236 | 235 | 3.77% |
| Total interest-bearing liabilities | 2,640,953 | 18,274 | 0.69% | 2,493,513 | 16,109 | 0.65% | 2,054,680 | 14,033 | 0.68% |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Demand deposits: noninterest-bearing | 1,182,157 | | | 1,066,251 | | | 898,459 | | |
| Other liabilities | 30,721 | | | 40,504 | | | 31,699 | | |
| Total noninterest-bearing liabilities | 1,212,878 | | | 1,106,755 | | | 930,158 | | |
| Total liabilities | 3,853,831 | | | 3,600,268 | | | 2,984,838 | | |
| Stockholders' equity | 518,867 | | | 476,401 | | | 425,913 | | |
| **Total liabilities and stockholders' equity** | **$ 4,372,698** | | | **$ 4,076,669** | | | **$ 3,410,751** | | |
| **Net interest income** | | **$ 162,237** | | | **$ 148,486** | | | **$ 122,774** | |
| **Cost of deposits *(4)*** | | | **0.46%** | | | **0.44%** | | | **0.47%** |
| **Net interest spread *(5)*** | | | **3.71%** | | | **3.67%** | | | **3.65%** |
| **Net interest margin *(6)*** | | | **3.95%** | | | **3.90%** | | | **3.88%** |

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

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

*(3) 2016 and 2015 income include special dividend of $559,000 and $605,000 from FHLB of San Francisco, respectively.*

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

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

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

The table below shows changes in interest income 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.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 vs 2015 | | | 2015 vs 2014 | | |
| | Increases (Decreases) Due to Change In | | | Increases (Decreases) Due to Change In | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| | (In thousands) | | | | | |
| Interest and dividend income: | | | | | | |
| Loans and leases *(1)* | $ 25,587 | $ (9,742) | $ 15,845 | $ 23,584 | $ 2,991 | $ 26,575 |
| Securities *(2)* | (3,207) | 3,610 | 403 | 2,484 | (2,404) | 80 |
| FRB and FHLB stock | (581) | 262 | (319) | 154 | 865 | 1,019 |
| Interest-bearing deposits in other banks | (152) | 139 | (13) | 99 | 15 | 114 |
| **Total interest and dividend income** *(2)* | **$ 21,647** | **$ (5,731)** | **$ 15,916** | **$ 26,321** | **$ 1,467** | **$ 27,788** |
| Interest expense: | | | | | | |
| Demand: interest-bearing | $ (2) | $ (37) | $ (39) | $ 12 | $ — | $ 12 |
| Money market and savings | 1,306 | 970 | 2,276 | 28 | (591) | (563) |
| Time deposits | (1,023) | (54) | (1,077) | 2,158 | 243 | 2,401 |
| FHLB advances | 618 | 185 | 803 | (62) | (13) | (75) |
| Rescinded stock obligation | — | — | — | (43) | (44) | (87) |
| Subordinated debentures | 8 | 194 | 202 | 380 | 8 | 388 |
| **Total interest expense** | **$ 907** | **$ 1,258** | **$ 2,165** | **$ 2,473** | **$ (397)** | **$ 2,076** |
| **Change in net interest income** *(2)* | **$ 20,740** | **$ (6,989)** | **$ 13,751** | **$ 23,848** | **$ 1,864** | **$ 25,712** |

*(1)* *Includes loans held for sale*

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

*2016 Compared to 2015*

Interest income, on a taxable equivalent basis, increased $15.9 million, or 9.7 percent, to $180.5 million for the year ended December 31, 2016 from $164.6 million for the year ended December 31, 2015. Interest expense increased $2.2 million or 13.4 percent, to $18.3 million in 2016 from $16.1 million in 2015. Net interest income, on a taxable equivalent basis, was $162.2 million and $148.5 million in 2016 and 2015, respectively. The increase in net interest income was primarily attributable to the growth in average loans and leases and the higher percentage of loans and leases in the mix of interest-earning assets. Average loans and leases were 83.4 percent of average interest earning assets for 2016, up from 76.2 percent for 2015. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2016 were 3.71 percent and 3.95 percent, respectively, compared with 3.67 percent and 3.90 percent, respectively, for the same period in 2015. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.79 percent and 3.47 percent for 2016 and 2015, respectively.

Average loans and leases increased $521.6 million, or 18.0 percent, to $3.42 billion in 2016 from $2.90 billion in 2015. Average securities decreased $173.4 million, or 22.0 percent, to $614.7 million in 2016 from $788.2 million in 2015. Average interest earning assets increased $298.1 million, or 7.8 percent, to $4.10 billion for the year ended December 31, 2016 from $3.81 billion for the same period in 2015. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $147.4 million, or 5.9 percent, to $2.64 billion in 2016 compared to $2.49 billion in 2015. The increase in average interest-bearing liabilities resulted primarily from an increase in FHLB advances and growth in money market and savings deposits, offset by a decrease in average time deposits.

The average yield on loans and leases decreased to 4.81 percent for the year ended December 31, 2016 from 5.13 percent in 2015, primarily due to lower loan and lease yields and a decrease in discount accretion on purchased loans and leases. The average yield on securities, on a taxable equivalent basis, increased to 2.15 percent in 2016 from 1.62 in 2015, attributable primarily to increases in balances and yields on mortgage-backed securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 8 basis points to 4.40 percent in 2016 from 4.32 percent in 2015, due mainly to the higher percentage of loans and leases in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 4 basis points to 0.69 percent in 2016 from 0.65 percent in 2015. The increase was due to increases in the cost of deposits and borrowings.

*2015 Compared to 2014*

For the years ended December 31, 2015 and 2014, net interest income, on a tax-equivalent basis, was $148.5 million and $122.8 million, respectively. The increase in net interest income in 2015 as compared to 2014, was due mainly to the 18.9 percent increase in average loans and leases. In addition, the net accretion of discount on loans and leases and interest-bearing liabilities acquired in the CBI Acquisition was $16.5 million and $7.5 million for the years ended December 31, 2015 and 2014, respectively. The net interest spread and net interest margin for the year ended December 31, 2015 were 3.67 percent and 3.90 percent, respectively, as compared to 3.65 percent and 3.88 percent, respectively, for the year ended December 31, 2014. Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.47 and 3.65 percent for the year ended December 31, 2015 and 2014, respectively.

Average loans and leases were $2.90 billion in 2015 as compared with $2.44 billion in 2014, representing an increase of 18.9 percent. Average securities were $788.2 million in 2015 as compared with $648.9 million in 2014, representing an increase of 21.5 percent. Average interest-earning assets increased to $3.81 billion for the year ended December 31, 2015 as compared with $3.16 billion in 2014, representing an increase of 20.3 percent. The increase in average interest-earning assets was due mainly to the growth in loans and leases. Average interest-bearing liabilities were $2.49 billion in 2015 as compared to $2.05 billion in 2014, representing an increase of 21.4 percent. The increase in average interest-bearing liabilities in 2015 was due primarily to the growth in deposits.

The average yield on loans and leases increased by 12 basis points to 5.13 percent in 2015 from 5.01 percent in 2014. The increase reflects the full-year effects of purchase accounting. Absent the effects of purchase accounting, loan and lease yields declined in 2015 and 2014 reflecting the low interest rate environment and higher level of competition. The average yield on interest-earning assets decreased by 1 basis point to 4.32 percent in 2015 from 4.33 percent in 2014. The average cost on interest-bearing liabilities decreased by 3 basis points to 0.65 percent in 2015 from 0.68 percent in 2014.

**Provision for Loan and Lease Losses**

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

*2016 Compared to 2015*

Most credit metrics continue to improve as the overall quality of the loan and lease portfolio improved in 2016. Therefore, a negative loan and lease loss provision of $4.3 million was recorded for the year ended December 31, 2016, which included a $0.7 million provision for losses on PCI loans, compared to a negative loan and lease loss provision of $11.6 million for the year ended December 31, 2014, which included a $4.4 million provision for losses on PCI loans. The charge to other noninterest expense for losses on off-balance sheet items was $0.2 million in 2016 compared to a credit of $0.4 million for the same period in 2015.

Net loan and lease charge-offs were $6.2 million, or 0.18 percent of average loans and leases, for the year ended December 31, 2016 compared to net recoveries of $1.9 million, or 0.06 percent of average loans and leases, for the year ended December 31, 2015. The charge-offs in 2016 included $5.1 million of PCI loans net charge-offs compared to no PCI loans charge-offs or recoveries in 2015.

Classified loans and leases (excluding PCI loans) decreased by $9.0 million, or 23.1 percent, to $30.3 million for the year ended December 31, 2016 from $39.3 million for the year ended December 31, 2015.

*2015 Compared to 2014*

All other credit metrics also experienced improvements as the quality of the loan and lease portfolio improved in 2015. Therefore, a negative loan and lease loss provision of $11.6 million was recorded for the year ended December 31, 2015, which included a $4.4 million provision for losses on PCI loans, compared to a negative loan and lease loss provision of $6.3 million for the year ended December 31, 2014, which included a $1.0 million provision for losses on PCI loans.

Net loan and lease recoveries were $1.9 million, or 0.06 percent of average loans and leases, for the year ended December 31, 2015 compared to $1.4 million, or 0.06 percent of average loans and leases, for the year ended December 31, 2014.

Classified loans and leases (excluding PCI loans) decreased by $8.1 million, or 17.1 percent, to $39.3 million for the year ended December 31, 2015 from $47.4 million for the year ended December 31, 2014.

See “Nonperforming Assets” and “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 non-interest income for the years indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| | *(In thousands)* | | |
| Service charges on deposit accounts | $ 11,380 | $ 12,900 | $ 11,374 |
| Trade finance and other service charges and fees | 4,232 | 4,623 | 4,946 |
| Other operating income | 6,413 | 4,552 | 4,462 |
| Subtotal service charges, fees and other income | 22,025 | 22,075 | 20,782 |
| Gain on sale of SBA loans | 6,034 | 8,749 | 3,494 |
| Disposition gains on PCI loans | 4,970 | 10,167 | 1,432 |
| Net gain on sales of securities | 46 | 6,611 | 2,011 |
| Bargain purchase gain, net of deferred taxes | — | — | 14,577 |
| **Total noninterest income** | **$ 33,075** | **$ 47,602** | **$ 42,296** |

*2016 Compared to 2015*

For the year ended December 31, 2016, noninterest income was $33.1 million, a decrease of $14.5 million, or 30.5 percent, compared with $47.6 million in 2015. The decrease was primarily attributable to lower securities transactions and lower gains from the resolution or disposition of PCI loans. Sales of securities resulted in a net gain of $46,000 for the year ended December 31, 2016 compared with gains of $6.6 million in 2015. When a PCI loan is removed from a loan pool and the cash proceeds or assets received from the settlement of the loan are in excess of its carrying amount, we recognize such gains as disposition gains. Disposition gains on PCI loans were $5.0 million in 2016 compared with $10.2 million in 2015 as PCI loans declined $10.2 million in 2016 compared with $24.5 million decline in 2015. The increase in other operating income included a $1.0 million gain on sale of a branch facility during the third quarter of 2016.

*2015 Compared to 2014*

For the year ended December 31, 2015, noninterest income was $47.6 million, an increase of $5.3 million, or 12.5 percent, from $42.3 million for the year ended December 31, 2014. The increase was primarily attributable to higher gains on dispositions of PCI loans, securities transactions and SBA loan sales, offset by the absence of the 2014 $14.6 million after-tax bargain purchase gain. Service charges, fees and other income for the year ended December 31, 2015, was up 6.2 percent to $22.1 million from $20.8 million for the year ended December 31, 2014. Gains on sales of SBA loans were $8.7 million, compared to $3.5 million for the year ended December 31, 2014. The increase in gains on SBA loans primarily relates to an increase in SBA loans sold to $89.1 million in 2015 from $42.4 million in 2014. Disposition gains on PCI loans were $10.2 million in 2015. PCI loans were $20.0 million at December 31, 2015, down $24.5 million or 55.0 percent, from $44.5 million at December 31, 2014.

## Noninterest Expense

The following table sets forth the breakdown of noninterest expense for the years indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Salaries and employee benefits | $ 63,956 | $ 62,864 | $ 50,177 |
| Occupancy and equipment | 14,992 | 17,371 | 12,295 |
| Data processing | 5,674 | 6,321 | 6,080 |
| Professional fees | 5,374 | 7,905 | 7,564 |
| Supplies and communications | 2,949 | 3,582 | 2,612 |
| Advertising and promotion | 3,910 | 4,201 | 3,435 |
| Merger and integration costs | 312 | 1,971 | 6,646 |
| OREO expense (income) | 63 | 307 | (49) |
| Other operating expenses | 10,993 | 10,806 | 9,911 |
| **Total noninterest expense** | **$ 108,223** | **$ 115,328** | **$ 98,671** |

*2016 Compared to 2015*

For the year ended December 31, 2016, noninterest expense was $108.2 million, a decrease of $7.1 million or 6.2 percent, compared with $115.3 in 2015. The decrease was due primarily to reductions in merger and integration costs, professional fees and data processing fees related to the CBI Acquisition, along with lower occupancy and equipment expense from the branch closures and consolidations completed in the third quarter 2015.

*2015 Compared to 2014*

For the year ended December 31, 2015, noninterest expense was $115.3 million, an increase of $16.7 million or 16.9 percent, compared to $98.7 million for the year ended December 31, 2014. The increase was due primarily to the full impact of the August 2014 acquisition. The largest component of noninterest expense for the year ended December 31, 2015 was salaries and employee benefits, which represented 54.5 percent of total noninterest expense for the year ended December 31, 2015. Salaries and employee benefits increased $12.7 million, or 25.3 percent, to $62.9 million, compared to $50.2 million for the year ended December 31, 2014, due mainly to the increase in personnel arising from the acquisition.

## Income Tax Expense

For the years ended December 31, 2016, 2015 and 2014, provision for income taxes were $32.9 million, $38.2 million and $22.9 million, respectively. The effective tax rate for the years ended December 31, 2016, 2015 and 2014 was 36.8 percent, 41.5 percent and 31.5 percent, respectively. The lower effective tax rate in 2016 included a $1.8 million benefit arising from the finalization of the 2014 amended income tax returns. The higher effective tax rate for 2015 reflects a higher level of state taxes and the lower effective tax rate for 2014 reflects the impact of the $14.6 million after-tax bargain purchase gain recognized in 2014.

Income taxes are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 12 — Income Taxes” presented elsewhere herein.

## Financial Condition

### Securities Portfolio

Securities are classified as held to maturity, available for sale, or trading in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as “held to maturity.” All other securities are classified either as “available for sale” or “trading.” There were no held to maturity or trading securities as of December 31, 2016 and 2015. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale and trading securities are stated at fair value. The composition of our securities portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our securities portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2016, our securities portfolio was composed primarily of U.S. government mortgage-backed securities, municipal securities and collateralized mortgage obligations. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2016, 2015 and 2014.

The following table summarizes the amortized cost, fair value and distribution of securities as of the dates indicated:

| | December 31, 2016 | | | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Unrealized Gain (Loss) | Amortized Cost | Estimated Fair Value | Unrealized Gain (Loss) | Amortized Cost | Estimated Fair Value | Unrealized Gain (Loss) |
| | | | | | *(In thousands)* | | | | |
| **Securities available for sale:** | | | | | | | | | |
| Mortgage-backed securities *(1)(2)* | $ 230,489 | $ 229,630 | $ (859) | $ 286,450 | $ 284,381 | $ (2,069) | $ 571,678 | $ 573,286 | $ 1,608 |
| Collateralized mortgage obligations *(1)* | 77,447 | 76,451 | (996) | 97,904 | 96,986 | (918) | 188,704 | 188,047 | (657) |
| U.S. government agency securities | 7,499 | 7,441 | (58) | 48,478 | 47,822 | (656) | 129,857 | 128,207 | (1,650) |
| SBA loan pool securities | 4,356 | 4,146 | (210) | 63,670 | 63,266 | (404) | 109,983 | 109,447 | (536) |
| Municipal bonds-tax exempt | 159,789 | 158,030 | (1,759) | 162,101 | 163,902 | 1,801 | 4,319 | 4,390 | 71 |
| Municipal bonds-taxable | 13,391 | 13,701 | 310 | 13,932 | 14,033 | 101 | 16,615 | 16,922 | 307 |
| Corporate bonds | 5,010 | 5,015 | 5 | 5,017 | 4,993 | (24) | 17,018 | 16,948 | (70) |
| U.S. treasury securities | 156 | 156 | — | 159 | 160 | 1 | 163 | 163 | — |
| Mutual funds | 22,916 | 22,394 | (522) | 22,916 | 22,753 | (163) | 22,916 | 22,893 | (23) |
| Equity security | — | — | — | — | — | — | 450 | 414 | (36) |
| **Total securities available for sale:** | **$ 521,053** | **$ 516,964** | **$ (4,089)** | **$ 700,627** | **$ 698,296** | **$ (2,331)** | **$ 1,061,703** | **$ 1,060,717** | **$ (986)** |

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

*(2) A portion of the mortgage-backed securities is comprised of home mortgage-backed securities backed by home equity conversion mortgages*

As of December 31, 2016, securities available for sale decreased 26.0 percent to $517.0 million, compared to $698.3 billion as of December 31, 2015, primarily to fund loan growth. As of December 31, 2016, securities available for sale had a net unrealized loss of $4.1 million, comprised of $1.2 million of unrealized gains and $5.3 million of unrealized losses. As of December 31, 2015, securities available for sale had a net unrealized loss of $2.3 million, comprised of $2.5 million of unrealized gains and $4.8 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of December 31, 2016:

| | 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 |
| | | | | | (In thousands) | | | | | |
| **Securities available for sale:** | | | | | | | | | | |
| Mortgage-backed securities | $ 337 | 0.87% | $ 41,930 | 1.67% | $ 78,289 | 2.12% | $ 109,933 | 1.81% | $ 230,489 | 1.89% |
| Collateralized mortgage obligations | — | —% | 597 | 1.45% | 18,643 | 1.37% | 58,207 | 1.38% | 77,447 | 1.38% |
| U.S. government agency securities | — | —% | 6,000 | 1.35% | 1,499 | 2.20% | — | —% | 7,499 | 1.52% |
| SBA loan pool securities | — | —% | — | —% | — | —% | 4,356 | 1.73% | 4,356 | 1.73% |
| Municipal bonds-tax exempt *(1)* | — | —% | 5,380 | 2.64% | 80,167 | 3.18% | 74,242 | 4.15% | 159,789 | 3.61% |
| Municipal bonds-taxable | — | —% | 5,400 | 3.99% | 7,991 | 3.90% | — | —% | 13,391 | 3.94% |
| Corporate bonds | — | —% | 5,010 | 1.36% | — | —% | — | —% | 5,010 | 1.36% |
| U.S. treasury securities | — | —% | 156 | 1.22% | — | —% | — | —% | 156 | 1.22% |
| Mutual funds | — | —% | — | —% | — | —% | 22,916 | 2.24% | 22,916 | 2.24% |
| **Total securities available for sale** | $ 337 | 0.87% | $ 64,473 | 1.89% | $ 186,589 | 2.58% | $ 269,654 | 2.40% | $ 521,053 | 2.40% |

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

### Loan and Lease Portfolio

Real estate loans are secured by commercial or residential properties for the purpose of financing a purchase, refinancing debt, or making building improvements. These loans are either owner-occupied or non-owner occupied. The Bank originates these loans using underwriting guidelines which include minimum debt service ability, maximum loan to values, and analyzing the borrower's future capacity to repay the loan.

Commercial and industrial loans are extended to businesses on a term or line of credit basis. The Bank provides commercial term loans for the purposes of purchasing business, equipment, leasehold improvements or working capital, with maturities ranging from three to seven years. The Bank also provides commercial lines of credit for the purposes of short term working capital, financing trading assets, or import and export financing. These lines of credit usually have maturities of one year.

Leases receivable include equipment finance agreements with terms ranging from 1 to 7 years. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business.

The following sets forth the amount of total loans and leases outstanding in each category as of the dates indicated, excluding loans held for sales:

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Real estate loans: | | | |
| Commercial property | | | |
| Retail | $ 859,953 | $ 740,350 | $ 684,400 |
| Hotel/motel | 651,158 | 543,425 | 462,718 |
| Gas station | 262,879 | 323,655 | 370,416 |
| Other *(1)* | 1,109,656 | 978,661 | 848,906 |
| Construction | 55,962 | 23,387 | 9,527 |
| Residential property | 338,767 | 236,036 | 135,462 |
| Total real estate loans | 3,278,375 | 2,845,514 | 2,511,429 |
| Commercial and industrial loans: | | | |
| Commercial term | 138,168 | 152,773 | 116,536 |
| Commercial lines of credit | 136,231 | 128,224 | 93,970 |
| International loans | 25,821 | 31,879 | 38,974 |
| Total commercial and industrial loans | 300,220 | 312,876 | 249,480 |
| Leases receivable | 243,294 | — | — |
| Consumer loans *(2)* | 22,880 | 24,926 | 27,589 |
| **Loans and leases receivable** | **3,844,769** | **3,183,316** | **2,788,498** |
| Allowance for loans and lease losses | (32,429 ) | (42,935 ) | (52,666 ) |
| **Loans and leases receivable, net** | **$ 3,812,340** | **$ 3,140,381** | **$ 2,735,832** |

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*(1)* *Includes, among other property types, mixed-use, apartment, office, industrial, faith-based facilities and warehouse; the remaining real estate categories represents less than one percent of the Bank's total loans and leases.*

*(2)* *Consumer loans include home equity lines of credit.*

.As of December 31, 2016, 2015 and 2014, loans and leases receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan and lease losses, totaled $3.81 billion, $3.14 billion and $2.74 billion, respectively, representing an increase of $672.0 million or 21.4 percent in 2016, and $404.6 million, or 14.8 percent in 2015. The $672.0 million increase in loans and leases in 2016 was attributable primarily to a $10.5 million decrease in the allowance for loan and lease losses and a $661.5 million, or 20.8 percent net increase in loans and leases which includes the $228.2 million acquisition of an equipment lease portfolio.

During the year ended December 31, 2016, total loan and lease disbursements consisted of $619.4 million in commercial real estate loans, $131.6 million in SBA loans, $81.8 million in commercial and industrial loans, and $398.3 million for loan and lease purchases. The increase was offset by $92.6 million of transfers to loans held for sale and $504.3 million of pay-offs and other net reductions.

The following table sets forth the percentage distribution of loans and leases in each category as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Real estate loans: | | | |
| Commercial property | | | |
| Retail | 22.4% | 23.3% | 24.5% |
| Hotel/motel | 16.9% | 17.1% | 16.6% |
| Gas station | 6.8% | 10.2% | 13.3% |
| Other | 28.9% | 30.7% | 30.4% |
| Construction | 1.5% | 0.7% | 0.3% |
| Residential property | 8.8% | 7.4% | 4.9% |
| Total real estate loans | 85.3% | 89.4% | 90.0% |
| Commercial and industrial loans: | | | |
| Commercial term | 3.6% | 4.8% | 4.2% |
| Commercial lines of credit | 3.5% | 4.0% | 3.4% |
| International loans | 0.7% | 1.0% | 1.4% |
| Total commercial and industrial loans | 7.8% | 9.8% | 9.0% |
| Leases receivable | 6.3% | —% | —% |
| Consumer loans | 0.6% | 0.8% | 1.0% |
| **Loans and leases receivable** | **100.0%** | **100.0%** | **100.0%** |

The table below shows the maturity distribution of outstanding loans and leases as of December 31, 2016. In addition, the table shows the distribution of such loans and leases between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes nonaccrual, non-PCI loans and leases of $11.4 million.

| | Within One Year | After One Year but Within Five Years | After Five Years | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 32,527 | $ 540,209 | $ 287,217 | $ 859,953 |
| Hotel/motel | 7,850 | 373,608 | 269,700 | 651,158 |
| Gas station | 7,298 | 170,970 | 84,611 | 262,879 |
| Other | 49,238 | 670,893 | 389,525 | 1,109,656 |
| Construction | 55,753 | 209 | — | 55,962 |
| Residential property | 1,416 | 1,546 | 335,805 | 338,767 |
| Total real estate loans | 154,082 | 1,757,435 | 1,366,858 | 3,278,375 |
| Commercial and industrial loans: | | | | |
| Commercial term | 7,361 | 69,450 | 61,357 | 138,168 |
| Commercial lines of credit | 133,397 | 2,834 | — | 136,231 |
| International loans | 25,821 | — | — | 25,821 |
| Total commercial and industrial loans | 166,579 | 72,284 | 61,357 | 300,220 |
| Leases receivable | 4,385 | 218,550 | 20,359 | 243,294 |
| Consumer loans | 4,681 | 428 | 17,771 | 22,880 |
| **Loans and leases receivable** | **$ 329,727** | **$ 2,048,697** | **$ 1,466,345** | **$ 3,844,769** |
| Loans and leases with predetermined interest rates | $ 85,628 | $ 1,396,708 | $ 1,098,384 | $ 2,580,720 |
| Loans and leases with variable interest rates | $ 244,099 | $ 651,989 | $ 367,961 | $ 1,264,049 |

As of December 31, 2016, the loan and leases portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of loans and leases receivable:

| **Industry** | **Balance as of December 31, 2016** | **Percentage of Gross Loans Outstanding** |
|---|---|---|
| | *(In thousands)* | |
| Lessor of nonresidential buildings | $ 1,159,229 | 30.2 % |
| Hospitality | $ 676,054 | 17.6 % |

There was no other concentration of loans and leases to any one type of industry exceeding 10 percent of loans and leases receivable.

**Nonperforming Assets**

Nonperforming loans and leases (excluding PCI loans) consist of loans and leases on nonaccrual status and loans and leases 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and leases and other real estate owned ("OREO"). Non-purchased credit impaired ("Non-PCI") loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual loans may be restored to accrual status when principal and interest become current and full repayment is expected, which generally occurs after sustained payment of 6 months. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

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

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | *(In thousands)* | |
| **Nonperforming non-PCI loans and leases:** | | | |
| Real estate loans: | | | |
| Commercial property | | | |
| Retail | $ 404 | $ 946 | $ 2,160 |
| Hotel/motel | 5,266 | 5,790 | 3,835 |
| Gas station | 1,025 | 2,774 | 3,478 |
| Other | 2,033 | 4,068 | 4,961 |
| Residential property | 564 | 1,386 | 1,588 |
| Commercial and industrial loans: | | | |
| Commercial term | 824 | 2,193 | 7,052 |
| Commercial lines of credit | — | 450 | 466 |
| Leases receivable | 901 | — | — |
| Consumer loans | 389 | 1,511 | 1,742 |
| Total nonperforming Non-PCI loans | 11,406 | 19,118 | 25,282 |
| Loans and leases 90 days or more past due and still accruing | — | — | — |
| **Total nonperforming Non-PCI loans and leases** *(1)* | **11,406** | **19,118** | **25,282** |
| Other real estate owned | 7,484 | 8,511 | 15,790 |
| **Total nonperforming assets** | **$ 18,890** | **$ 27,629** | **$ 41,072** |
| Nonperforming Non-PCI loans and leases as a percentage of loans and leases receivable | 0.30 % | 0.60 % | 0.91 % |
| Nonperforming assets as a percentage of assets | 0.40 % | 0.65 % | 0.97 % |
| Troubled debt restructured performing loans | $ 11,146 | $ 3,061 | $ 13,817 |

*(1) Include troubled debt restructured nonperforming loans of $6.9 million, $6.9 million and $12.5 million as of December 31, 2016, 2015 and 2014, respectively.*

Nonaccrual Non-PCI loans and leases totaled $11.4 million, $19.1 million and $25.3 million as of December 31, 2016, 2015 and 2014, respectively, representing a decrease of $7.7 million or 40.3 percent, in 2016 and a decrease of $6.2 million or

24.5 percent, in 2015. There were no PCI loans on nonaccrual as of December 31, 2016. Delinquent Non-PCI loans and leases (defined as 30 to 89 days past due and still accruing) were $7.3 million, $6.7 million and $16.4 million as of December 31, 2016, 2015 and 2014, respectively, representing an increase of $0.6 million or 9.0 percent, in 2016 and a decrease of $9.7 million, or 59.1 percent, in 2015.

The ratio of nonperforming Non-PCI loans and leases to loans and leases receivable decreased to 0.30 percent at December 31, 2016 from 0.60 percent and 0.92 percent at December 31, 2015 and 2014, respectively. Of the $11.4 million nonperforming Non-PCI loans and leases as of December 31, 2016, $9.9 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserves of $3.6 million. The allowance for collateral-dependent loans is calculated as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of December 31, 2016, OREO consisted of 12 properties with a combined carrying value of $7.5 million. As of December 31, 2015, there were 14 properties with a combined carrying value of $8.5 million, respectively.

**Impaired Loans**

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 losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

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

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Recorded Investment | Percentage | Recorded Investment | Percentage | Recorded Investment | Percentage |
| | *(In thousands)* | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ 1,678 | 6.4% | $ 2,597 | 7.2% | $ 4,436 | 11.8% |
| Hotel/motel | 6,227 | 23.6% | 7,168 | 20.0% | 5,835 | 11.7% |
| Gas station | 4,984 | 18.9% | 5,393 | 15.0% | 8,974 | 17.7% |
| Other | 6,070 | 23.0% | 9,288 | 25.9% | 10,125 | 21.6% |
| Residential property | 2,798 | 10.6% | 2,895 | 8.1% | 3,127 | 4.9% |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 4,106 | 15.6% | 5,257 | 14.7% | 7,614 | 26.1% |
| Commercial lines of credit | 68 | 0.3% | 381 | 1.1% | 466 | 1.2% |
| International loans | — | —% | 1,215 | 3.4% | 3,546 | 2.0% |
| Consumer loans | 419 | 1.6% | 1,665 | 4.6% | 1,742 | 3.0% |
| **Total Non-PCI loans** | **$ 26,350** | **100.0%** | **$ 35,859** | **100.0%** | **$ 45,865** | **100.0%** |

Impaired loans were $26.4 million, $35.9 million and $45.9 million as of December 31, 2016, 2015 and 2014, respectively, representing a decrease of $9.5 million, or 26.5 percent, in 2016, and $10.0 million, or 21.8 percent, in 2015. Specific reserve allocations associated with impaired loans decreased by $0.1 million to $4.3 million as of December 31, 2016, as compared to $4.4 million as of December 31, 2016.

During the year ended December 31, 2016, 2015 and 2014, interest income that would have been recognized had impaired loans performed in accordance with their original terms would have been $3.1 million, $4.2 million and $4.5 million, respectively. Of these amounts, actual interest recognized on impaired loans was $2.4 million, $2.7 million and $3.2 million for the year ended December 31, 2016, 2015 and 2014, respectively.

The following table provides information on troubled debt restructuring ("TDR") loans (excluding PCI loans) as of dates indicated:

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | | 2014 | | |
| | Nonaccrual TDRs | Accrual TDRs | Total | Nonaccrual TDRs | Accrual TDRs | Total | Nonaccrual TDRs | Accrual TDRs | Total |
| | (In thousands) | | | | | | | | |
| Real estate loans: | | | | | | | | | |
| Commercial property | | | | | | | | | |
| Retail | $ — | $ 1,228 | $ 1,228 | $ 344 | $ 1,227 | $ 1,571 | $ 2,032 | $ 306 | $ 2,338 |
| Hotel/motel | 5,014 | — | 5,014 | 1,244 | 414 | 1,658 | 1,062 | 1,807 | 2,869 |
| Gas station | — | 1,324 | 1,324 | 959 | — | 959 | 1,075 | 2,335 | 3,410 |
| Other | 1,181 | 4,318 | 5,499 | 1,525 | 5,237 | 6,762 | 2,898 | 4,497 | 7,395 |
| Residential property | — | 1,072 | 1,072 | 689 | 299 | 988 | 742 | 308 | 1,050 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial term | 708 | 3,017 | 3,725 | 1,721 | 2,872 | 4,593 | 4,050 | 2,208 | 6,258 |
| Commercial lines of credit | — | 68 | 68 | 280 | — | 280 | 466 | 2,156 | 2,622 |
| International loans | — | — | — | — | — | — | — | 200 | 200 |
| Consumer loans | — | 119 | 119 | 116 | 250 | 366 | 131 | — | 131 |
| **Total Non-PCI loans** | **$ 6,903** | **$ 11,146** | **$ 18,049** | **$ 6,878** | **$ 10,299** | **$ 17,177** | **$ 12,456** | **$ 13,817** | **$ 26,273** |

For the year ended December 31, 2016, we restructured monthly payments for 7 loans, with a net carrying value of $4.2 million at the time of modification, which we subsequently classified as TDRs. For the year ended December 31, 2015, we restructured monthly payments for 14 loans, with a net carrying value of $3.2 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 December 31, 2016 and 2015, TDRs on accrual status totaled $11.1 million and $10.3 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $740,000 and $899,000 reserve relating to these loans, respectively, was included in the allowance for loan losses. As of December 31, 2016 and 2015, restructured loans on nonaccrual status totaled $6.9 million and $6.9 million, respectively, and a $2.6 million and $128,000 reserve relating to these loans, respectively, was included in the allowance for loan losses.

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

The Bank charges or credits the income statement 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 fourth quarter of, the Bank utilized a 24-quarter look-back period with equal weighting to all quarters. For the fourth quarter of 2015, the Bank utilized a 20-quarter look-back period. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 from estimated 1.0 year in 2015. Moreover, in the fourth quarter of 2015, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. In the first quarter of 2014, based upon a similar evaluation, the Bank utilized a 16-quarter look-back period, weighting the loss factors 46 percent for the most recent four-quarter period and 31 percent, 15 percent, and 8 percent for each of the following four-quarter periods, respectively. The change in methodology did not materially affect the amount of the allowance at December 31, 2016, 2015 or 2014.

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To determine general reserve requirements, in 2016 existing loans were divided into eleven general loan pools of risk-rated loans as well as three homogenous loan pools and in 2015, existing loans were divided into fourteen general loan pools of risk-rated loans as well as three homogenous loan pools. In 2016, the pooling was revised to eliminate loan types that can be combined under a broader category in order to maintain an accurate analysis of the defined segmentation. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. Since the homogeneous loans 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 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 and lease 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 table reflects our allocation of allowance for loan and lease losses by loan category as well as the loans receivable for each loan type:

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | | 2014 | | |
| | Allowance Amount | Percentage | Non-PCI Loans and Leases | Allowance Amount | Percentage | Non-PCI Loans and Leases | Allowance Amount | Percentage | Non-PCI Loans and Leases |
| | (In thousands) | | | | | | | | |
| Real estate loans: | | | | | | | | | |
| Commercial property | | | | | | | | | |
| Retail | $ 4,172 | 13.3% | $ 735,501 | $ 5,164 | 13.8% | $ 735,501 | $ 9,798 | 19.0% | $ 675,072 |
| Hotel/motel | 9,171 | 29.2% | 539,345 | 8,175 | 21.8% | 539,345 | 9,524 | 18.4% | 454,499 |
| Gas station | 1,438 | 4.6% | 319,363 | 2,631 | 7.0% | 319,363 | 5,433 | 10.5% | 362,240 |
| Other | 7,448 | 23.7% | 973,243 | 9,977 | 26.6% | 973,243 | 14,668 | 28.4% | 842,126 |
| Construction | 1,916 | 6.1% | 23,387 | 1,732 | 4.6% | 23,387 | 1,143 | 2.2% | 9,517 |
| Residential property | 1,067 | 3.4% | 234,879 | 2,121 | 5.7% | 234,879 | 628 | 1.3% | 120,932 |
| Total real estate loans | 25,212 | 80.3% | 2,825,718 | 29,800 | 79.5% | 2,825,718 | 41,194 | 79.8% | 2,464,386 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial term | 3,961 | 12.6% | 152,602 | 4,734 | 12.6% | 152,602 | 6,232 | 12.1% | 116,073 |
| Commercial lines of credit | 1,297 | 4.1% | 128,224 | 1,954 | 5.2% | 128,224 | 2,228 | 4.3% | 93,860 |
| International loans | 324 | 1.0% | 31,879 | 393 | 1.0% | 31,879 | 683 | 1.3% | 38,929 |
| Total commercial and industrial loans | 5,582 | 17.7% | 312,705 | 7,081 | 18.8% | 312,705 | 9,143 | 17.7% | 248,862 |
| Leases receivable | 307 | 1.0% | — | — | —% | — | — | —% | — |
| Consumer loans | 191 | 0.6% | 24,879 | 242 | 0.6% | 24,879 | 220 | 0.4% | 27,512 |
| Unallocated | 166 | 0.4% | — | 371 | 1.1% | — | 1,083 | 2.1% | — |
| **Total** | **$ 31,458** | 100.0% | **$ 3,163,302** | **$ 37,494** | 100.0% | **$ 3,163,302** | **$ 51,640** | 100.0% | **$ 2,740,760** |

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | | 2014 | | |
| | Allowance Amount | Percentage | PCI Loans | Allowance Amount | Percentage | PCI Loans | Allowance Amount | Percentage | PCI Loans |
| | (In thousands) | | | | | | | | |
| Real estate loans: | | | | | | | | | |
| Commercial property | | | | | | | | | |
| Retail | $ 122 | 12.6% | $ 2,324 | $ 269 | 4.9% | $ 4,849 | $ 401 | 39.1% | $ 8,535 |
| Hotel/motel | 138 | 14.2% | 1,618 | 88 | 1.6% | 4,080 | 99 | 9.7% | 7,682 |
| Gas station | 589 | 60.7% | 2,692 | 477 | 8.8% | 4,292 | 302 | 29.4% | 7,745 |
| Other | 1 | 0.1% | 2,067 | 4,412 | 81.1% | 5,419 | 65 | 6.3% | 5,796 |
| Residential property | 72 | 7.4% | 976 | 151 | 2.8% | 1,156 | 28 | 2.7% | 14,371 |
| Total real estate loans | 922 | 95.0% | 9,677 | 5,397 | 99.2% | 19,796 | 895 | 87.2% | 44,129 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial term | 41 | 4.2% | 136 | 42 | 0.8% | 171 | 131 | 12.8% | 327 |
| Consumer loans | 8 | 0.8% | 50 | 2 | —% | 47 | — | —% | 45 |
| **Total** | **$ 971** | 100.0% | **$ 9,863** | **$ 5,441** | 100.0% | **$ 20,014** | **$ 1,026** | 100.0% | **$ 44,501** |

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

| | As of and for the Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | | 2014 | | |
| | Non-PCI Loans | PCI Loans | Total | Non-PCI Loans | PCI Loans | Total | Non-PCI Loans | PCI Loans | Total |
| | | | | | (In thousands) | | | | |
| **Allowance for loan losses:** | | | | | | | | | |
| Balance at beginning of period | $ 37,494 | $ 5,441 | $ 42,935 | $ 51,640 | $ 1,026 | $ 52,666 | $ 57,555 | $ — | $ 57,555 |
| Actual charge-offs | (3,736) | (5,133) | $ (8,869) | (3,531) | — | (3,531) | (6,992) | — | (6,992) |
| Recoveries on loans previously charged off | 2,702 | — | $ 2,702 | 5,423 | — | 5,423 | 8,361 | — | 8,361 |
| Net loan recoveries (charge-offs) | (1,034) | (5,133) | (6,167) | 1,892 | — | 1,892 | 1,369 | — | 1,369 |
| (Negative provision) provision charged to operating expense | (5,002) | 663 | (4,339) | (16,038) | 4,415 | (11,623) | (7,284) | 1,026 | (6,258) |
| **Balance at end of period** | **$ 31,458** | **$ 971** | **$ 32,429** | **$ 37,494** | **$ 5,441** | **$ 42,935** | **$ 51,640** | **$ 1,026** | **$ 52,666** |
| **Allowance for off-balance sheet items:** | | | | | | | | | |
| Balance at beginning of period | $ 986 | $ — | $ 986 | $ 1,366 | $ — | $ 1,366 | $ 1,248 | $ — | $ 1,248 |
| Provision (negative provision) charged to operating expense | 198 | — | $ 198 | (380) | — | (380) | 118 | — | 118 |
| **Balance at end of period** | **$ 1,184** | **$ —** | **$ 1,184** | **$ 986** | **$ —** | **$ 986** | **$ 1,366** | **$ —** | **$ 1,366** |
| **Ratios:** | | | | | | | | | |
| Net loan (recoveries) charge-offs to average loans and leases | 0.03% | 34.36% | 0.18% | (0.06)% | —% | (0.07)% | (0.06)% | —% | (0.06)% |
| Net loan (recoveries) charge-offs to loans and leases | 0.03% | 52.04% | 0.16% | (0.06)% | —% | (0.06)% | 0.05 % | —% | 0.05 % |
| Allowance for loan losses to average loans and leases | 0.90% | 6.50% | 0.95% | 1.27 % | 18.14% | 1.48 % | 2.13 % | 5.25% | 2.16 % |
| Allowance for loan losses to loans and leases | 0.82% | 9.84% | 0.84% | 1.19 % | 27.19% | 1.35 % | 1.88 % | 2.31% | 1.89 % |
| Net loan (recoveries) charge-offs to allowance for loan losses | 3.29% | 528.63% | 19.02% | (5.05)% | —% | (4.41)% | (2.65)% | —% | (2.65)% |
| Allowance for loan losses to nonperforming loans | 275.80% | —% | 284.32% | 196.12 % | —% | 224.58 % | 204.26 % | —% | 208.31 % |
| **Balance:** | | | | | | | | | |
| Average loans and leases during period | $ 3,499,104 | $ 14,939 | $ 3,423,292 | $ 2,951,329 | $ 30,002 | $ 2,901,698 | $ 2,421,156 | $ 19,526 | $ 2,440,682 |
| Loans and leases at end of period | $ 3,834,906 | $ 9,863 | $ 3,844,769 | $ 3,163,302 | $ 20,014 | $ 3,183,316 | $ 2,740,760 | $ 44,501 | $ 2,785,261 |
| Nonperforming loans and leases at end of period | $ 11,406 | $ — | $ 11,406 | $ 19,118 | $ — | $ 19,118 | $ 25,282 | $ — | $ 25,282 |

The allowance for loan and lease losses was $32.4 million, $42.9 million and $52.7 million, respectively, as of December 31, 2016, 2015 and 2014, representing a decrease of $10.5 million, or 24.5 percent, in 2016 and a decrease of $9.7 million, or 18.5 percent, in 2015. Allowance for loan and lease losses as a percentage of gross loans and lease decreased to 0.84 percent as of December 31, 2016 from 1.35 percent as of December 31, 2015. The decrease in allowance for loan and lease losses as of December 31, 2016 was due primarily to improvements in classified loans and lease and other asset quality indicators. Non-PCI loan and lease reserves decreased by $6.0 million to $31.5 million as of December 31, 2016 and PCI loan reserves decreased by $4.4 million to $1.0 million mainly due to $5.1 million of charge-offs recorded against the reserve for the year ended December 31, 2016.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2016, 2015 and 2014 was $1.2 million, $1.0 million and $1.4 million, respectively, representing an increase of $0.2 million, or 20.1 percent, in 2016, a decrease of $0.4 million, or 27.8 percent, in 2015 and an increase of $0.1 million, or 9.5 percent, in 2014. 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 reserves are adequate for losses inherent in the loan and lease portfolio and off-balance sheet exposure as of December 31, 2015.

The following table presents a summary of net recoveries (charge-offs) by the Non-PCI loan and lease portfolio:

| | 2016 | | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Charge-offs | Recoveries | Net Recoveries (Charge-offs) | Charge-offs | Recoveries | Net Recoveries (Charge-offs) | Charge-offs | Recoveries | Net Recoveries (Charge-offs) |
| | | | | | *(In thousands)* | | | | |
| Real estate loans: | | | | | | | | | |
| Commercial property | | | | | | | | | |
| Retail | $ (17) | $ 28 | $ 11 | $ (31) | $ 747 | $ 716 | $ — | $ 33 | $ 33 |
| Hotel/motel | (2,953) | 35 | (2,918) | (413) | 1,073 | 660 | (2,345) | 990 | $ (1,355) |
| Gas station | — | 137 | 137 | (121) | — | (121) | (209) | 90 | $ (119) |
| Other | (52) | 467 | 415 | — | 261 | 261 | (455) | 3,235 | $ 2,780 |
| Construction | | | | — | — | — | — | — | $ — |
| Residential property | | | | — | — | — | — | — | $ — |
| Commercial and industrial loans | | | | | | | | | |
| Commercial term | (606) | 1,492 | 886 | (2,767) | 2,581 | (186) | (3,384) | 2,333 | $ (1,051) |
| Commercial lines of credit | (100) | 336 | 236 | — | 727 | 727 | (497) | 565 | $ 68 |
| International loans | | 150 | 150 | (199) | 31 | (168) | | 903 | $ 903 |
| Leases receivable | (6) | 1 | (5) | — | — | — | — | — | $ — |
| Consumer loans | (2) | 56 | 54 | — | 3 | 3 | (102) | 212 | $ 110 |
| **Total Non-PCI loans** | **$ (3,736)** | **$ 2,702** | **$ (1,034)** | **$ (3,531)** | **$ 5,423** | **$ 1,892** | **$ (6,992)** | **$ 8,361** | **$ 1,369** |

For the year ended December 31, 2016, charge-offs were $3.7 million, an increase of $0.2 million, or 5.8 percent, from $3.5 million for the same period in 2015, and recoveries were $2.7 million, a decrease of $2.7 million, or 50.2 percent, from $5.4 million for the same period in 2015. For the year ended December 31, 2016, net charge-offs were $1.0 million, compared to net recoveries of $1.9 million for the same period in 2015.

**Deposits**

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

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Balance | Percent | Balance | Percent | Balance | Percent |
| | | | *(In thousands)* | | | |
| Demand – noninterest-bearing | $ 1,203,240 | 31.6% | $ 1,155,518 | 32.9% | $ 1,022,972 | 28.7% |
| Interest-bearing: | | | | | | |
| Demand | 96,856 | 2.5% | 126,059 | 2.7% | 120,659 | 2.7% |
| Money market and savings | 1,329,324 | 34.9% | 840,386 | 24.8% | 796,490 | 23.1% |
| Time deposits of $100,000 or more | 844,386 | 22.2% | 881,082 | 25.1% | 910,340 | 25.6% |
| Other time deposits | 335,931 | 8.8% | 506,931 | 14.5% | 706,285 | 19.9% |
| **Total deposits** | **$ 3,809,737** | **100.0%** | **$ 3,509,976** | **100.0%** | **$ 3,556,746** | **100.0%** |

Total deposits were $3.81 billion, $3.51 billion and $3.56 billion as of December 31, 2016, 2015 and 2014, respectively, representing an increase of $299.7 million, or 8.5 percent, in 2016, and a decrease of $46.8 million, or 1.3 percent, in 2015. The increase in total deposits for 2015 was mainly attributable to a $457.5 million increase in money market and savings accounts, an increase of $47.7 million in noninterest-bearing demand deposits, offset by a $207.7 million decrease in time deposits.

Core deposits (defined as demand, money market and savings accounts and other time deposits) totaled $2.97 billion, $2.63 billion and $2.65 billion as of December 31, 2016, 2015 and 2014, representing an increase of $336.5 million, or 12.8%, in 2016, and a decrease of $17.5 million, or 0.7 percent, in 2015. Time deposits of $100,000 or more totaled $844.4 million, $881.1 million and $910.3 million, respectively, representing a decrease of $36.7 million, or 4.2 percent, in 2016 and a decrease of $29.2 million, or 3.2 percent, in 2015. Noninterest-bearing demand deposits represented 31.6 percent of total deposits at December 31, 2016, compared to 32.9 percent and 28.8 percent of total deposits at December 31, 2015 and 2014, respectively.

The following table shows the distribution of average deposits and the average rates paid for dates indicated:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| | (In thousands) | | | | | |
| Demand – noninterest-bearing | $ 1,182,157 | —% | $ 1,066,251 | —% | $ 898,459 | —% |
| Interest-bearing: | | | | | | |
| Demand | 95,298 | 0.08% | 89,747 | 0.13% | 72,857 | 0.14% |
| Money market and savings | 1,074,247 | 0.60% | 846,254 | 0.50% | 697,190 | 0.68% |
| Time deposits of $100,000 or more | 836,323 | 0.79% | 889,235 | 0.75% | 643,017 | 0.67% |
| Other time deposits | 419,560 | 0.82% | 611,399 | 0.73% | 560,506 | 0.78% |
| **Total deposits** | **$ 3,607,585** | **0.46%** | **$ 3,502,886** | **0.47%** | **$ 2,872,029** | **0.53%** |

Average deposits for the years ended December 31, 2016, 2015 and 2014 were $3.61 billion, $3.50 billion and $2.87 billion, respectively. Average deposits increased by 3.0 percent in 2016 and increased by 22.0 percent in 2015.

The following table summarizes the maturity of time deposits of $100,000 or more at December 31, 2016, 2015 and 2014, respectively.

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2014 | 2013 |
| | (In thousands) | | |
| Three months or less | $ 181,038 | $ 202,740 | $ 151,892 |
| Over three months through six months | 217,567 | 163,894 | 165,250 |
| Over six months through twelve months | 331,338 | 381,275 | 272,864 |
| Over twelve months | 114,443 | 133,173 | 320,334 |
| | **$ 844,386** | **$ 881,082** | **$ 910,340** |

**Federal Home Loan Bank Advances**

FHLB advances and other borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2016, advances from the FHLB were $315.0 million, an increase of $145.0 million from $170.0 million at December 31, 2015. At December 31, 2016, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2016 was 0.45 percent. See “Note 10 – FHLB Advances and Other Borrowings” for more details.

**Interest Rate Risk Management**

Interest rate risk indicates our exposure to market interest rate fluctuations. The movement of interest rates directly and inversely affects the economic value of fixed-rate assets, which is the present value of future cash flows discounted by the current interest rate; under the same conditions, the higher the current interest rate, the higher the denominator of discounting. Interest rate risk management is intended to decrease or increase the level of our exposure to market interest rates. The level of interest rate risk can be managed through such means as the changing of gap positions and the volume of fixed-rate assets. For successful management of interest rate risk, we use various methods to measure existing and future interest rate risk exposures, giving effect to historical attrition rates of core deposits. In addition to regular reports used in business operations, repricing gap analysis, stress testing and simulation modeling are the main measurement techniques used to quantify interest rate risk exposure.

The following table shows the status of our gap position as of December 31, 2016:

| | Less Than Three Months | More Than Three Months But Less Than One Year | More Than One Year But Less Than Five Years | More Than Five Years | Non- Interest-Sensitive | Total |
|---|---|---|---|---|---|---|
| | | | *(In thousands)* | | | |
| **Assets** | | | | | | |
| Cash and due from banks | $ — | $ — | $ — | $ — | $ 127,073 | $ 127,073 |
| Interest-bearing deposits in other banks | 20,162 | — | — | — | — | 20,162 |
| Securities: | | | | | | |
| Fixed rate | 13,144 | 35,707 | 176,332 | 244,543 | — | 469,726 |
| Floating rate | 49,993 | 1,334 | — | — | — | 51,327 |
| Fair value adjustments | — | — | — | — | (4,089) | (4,089) |
| Loans and leases: | | | | | | |
| Fixed rate | 108,989 | 179,745 | 972,598 | 39,967 | — | 1,301,299 |
| Floating rate | 757,276 | 494,075 | 1,283,211 | 24,049 | — | 2,558,611 |
| Nonaccrual | — | — | — | — | 16,069 | 16,069 |
| Deferred loan costs, discount, and allowance for loan and lease losses | — | — | — | — | (54,323) | (54,323) |
| Federal Home Loan Bank stock | — | — | — | 16,385 | — | 16,385 |
| Other assets | 49,440 | — | — | 16,924 | 132,742 | 199,106 |
| **Total assets** | **$ 999,004** | **$ 710,861** | **$ 2,432,141** | **$ 341,868** | **$ 217,472** | **$ 4,701,346** |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Liabilities: | | | | | | |
| Deposits: | | | | | | |
| Demand – noninterest-bearing | $ — | $ — | $ — | $ — | $ 1,203,240 | $ 1,203,240 |
| Savings | 14,071 | 30,988 | 49,528 | 25,771 | — | 120,358 |
| Money market checking and NOW accounts | 90,498 | 189,137 | 567,714 | 458,473 | — | 1,305,822 |
| Time deposits | 258,218 | 711,175 | 209,821 | 1,103 | — | 1,180,317 |
| Federal Home Loan Bank advances | 315,000 | — | — | — | — | 315,000 |
| Other liabilities | 18,978 | — | — | — | 26,606 | 45,584 |
| Stockholders' equity | — | — | — | — | 531,025 | 531,025 |
| **Total liabilities and stockholders' equity** | **$ 696,765** | **$ 931,300** | **$ 827,063** | **$ 485,347** | **$ 1,760,871** | **$ 4,701,346** |
| Repricing gap | $ 302,239 | $ (220,439) | $ 1,605,078 | $ (143,479) | $ (1,543,399) | |
| Cumulative repricing gap | $ 302,239 | $ 81,800 | $ 1,686,878 | $ 1,543,399 | $ — | |
| Cumulative repricing gap as a percentage of assets | 6.43% | 1.74% | 35.88% | 32.83% | —% | |
| Cumulative repricing gap as a percentage of interest-earning assets | 6.85% | 1.85% | 38.24% | 34.99% | —% | |
| Interest-earning assets | | | | | | **$ 4,411,383** |

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities (i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same period). Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates, and liabilities are assigned based on their repricing or maturity dates. Core deposits that have no maturity dates (demand deposits, savings, and money market checking and NOW accounts) are assigned to categories based on expected decay rates. Gap analysis alone, however, is not necessarily an accurate measurement of interest rate risk because it does not capture the timing and amount of cash flows due to exercise of an early redemption option. For this reason, interest rate risk is also measured using simulation modeling analysis, which takes into consideration option risk.

As of December 31, 2016, the cumulative repricing gap for the three-month period was at an asset-sensitive position of 6.92 percent of interest-earning assets, which decreased from 13.56 percent as of December 31, 2015. This decrease was due mainly to a $55.8 million decrease in interest-bearing deposits in other banks, $54.6 million decrease in floating rate loans and leases and a $145.0 million increase in FHLB advances, partially offset by a $53.3 million decrease in time deposits.

As of December 31, 2016, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position of 1.85 percent of interest-earning assets, which increased from 1.79 percent as of December 31, 2016. There were shifts in composition of balance sheet including decreases of $55.8 million and $71.5 million in interest-bearing deposits in other banks and floating rate investments, respectively, and increases of $86.6 million and $145 million in money market and savings deposits and FHLB advances, respectively, offset by increases of $117.7 million, $82.1 million and in fixed and floating rate loans and lease, respectively, and a decrease of $188.7 million in time deposits.

The following table summarizes the status of the cumulative gap position as of the dates indicated.

| | Less Than Three Months | | Less Than Twelve Months | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | *(In thousands)* | | | |
| Cumulative repricing gap | $ 302,239 | $ 533,628 | $ 81,800 | $ 70,573 |
| Percentage of assets | 6.43 % | 12.68 % | 1.74 % | 1.68 % |
| Percentage of interest-earning assets | 6.85 % | 13.56 % | 1.85 % | 1.79 % |

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

To supplement traditional gap analysis, we perform 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 market 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 one-year horizon, given the basis point adjustment in interest rates reflected below.

| | Percentage Changes | | Change in Amount | |
|---|---|---|---|---|
| Change in Interest Rate | Net Interest Income | Economic Value of Equity | Net Interest Income | Economic Value of Equity |
| | | | *(In thousands)* | |
| 300% | (1.60)% | (5.89)% | $ (2,860 ) | $ (34,560 ) |
| 200% | (1.16)% | (4.02)% | $ (2,063 ) | $ (23,575 ) |
| 100% | (0.44)% | (1.03)% | $ (777 ) | $ (6,044 ) |
| (100)% | *(1)* | *(1)* | *(1)* | *(1)* |

*(1)* *Results are not meaningful in a low interest rate environment*

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 periodically 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 December 31, 2016, the Bank's total risk-based capital ratio of 13.64 percent, Tier 1 risk-based capital ratio of 12.80 percent, common equity Tier 1 capital ratio of 12.80 percent and Tier 1 leverage capital ratio of 11.33 percent, placed the Bank in the "well capitalized" category, 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 ratio of 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Act, see "Note 15 — Regulatory Matters" of Notes to Consolidated Financial Statements in this Report.

### *Liquidity*

For a discussion of our liquidity position, see "Note 22 - Liquidity" of Notes to Consolidated Financial Statements in this Report.

## Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see "Note 21 — Off-Balance Sheet Commitments" of Notes to Consolidated Financial Statements and "Item 1. Business — Off-Balance Sheet Commitments" in this Report.

## Contractual Obligations

Our contractual obligations, excluding accrued interest payments, as of December 31, 2016 are as follows:

| | Less Than One Year | More Than One Year and Less Than Three Years | More Than Three Years and Less Than Five Years | More Than Five Years | Total |
|---|---|---|---|---|---|
| | | | *(In thousands)* | | |
| Time deposits | $ 969,612 | $ 174,421 | $ 35,009 | $ 1,275 | $ 1,180,317 |
| Federal Home Loan Bank advances | 315,000 | — | — | — | 315,000 |
| Commitments to extend credit | 207,190 | 84,977 | — | 18,820 | 310,987 |
| Standby letter of credit | 14,282 | 1,387 | — | — | 15,669 |
| Operating lease obligations | 5,954 | 8,521 | 5,228 | 2,625 | 22,328 |
| **Total** | **$ 1,512,038** | **$ 269,306** | **$ 40,237** | **$ 22,720** | **$ 1,844,301** |

Operating lease obligations represent the total minimum lease payments under non-cancelable operating leases with remaining terms of up to nine years.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures regarding market risks in the Bank's portfolio, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Risk Management" and "—Capital Resources and Liquidity."

## Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed as a part of this Report are set forth on pages 64 through 130.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

***Disclosure Controls and Procedures***

As of December 31, 2016, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer). The purpose of the disclosure controls and procedures is to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that Hanmi Financial's disclosure controls and procedures were effective controls as of the end of the period covered by this Annual Report.

***Management's Annual Report on Internal Control Over Financial Reporting***

The management of Hanmi Financial is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Hanmi Financial's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2016. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Hanmi Financial's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

The Company acquired certain leases of Irvine, California-based Banc of California on October 27, 2016. As a result, $243.3 million of leases receivable included in the Company's consolidated financial statements as of December 31, 2016 have been excluded from management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016.

Based on this assessment, management determined that, as of December 31, 2016, Hanmi Financial maintained effective internal control over financial reporting.

***Changes in Internal Control Over Financial Reporting***

During the quarter ended December 31, 2016, there has been no change in Hanmi Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial's internal control over financial reporting.

***Attestation Report of the Company's Independent Registered Public Accounting Firm***

KPMG LLP, the independent registered public accounting firm that audited and reported on the Consolidated Financial Statements of Hanmi Financial and its subsidiaries, has issued an audit report on the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2016 in accordance with the standards of Public Company Accounting Oversight Board (United States).

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (COSO 2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (COSO 2013)* issued by COSO.

The Company acquired certain leases of Irvine, California-based Banc of California on October 27, 2016. As a result, $243.3 million of leases receivable included in the Company's consolidated financial statements as of December 31, 2016 have been excluded from management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the acquired leases.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 1, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
March 1, 2017

### Item 9B. Other Information

None.

## Part III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement to be filed with the SEC in connection with its 2017 Annual Meeting of Stockholders (the “Proxy Statement”) entitled “Election of Directors,” “Corporate Governance Principles and Board Matters” and “Executive Officers.”

### Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled “Director Compensation,” and “Compensation Discussion and Analysis.”

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled “Beneficial Ownership of Principal Stockholders and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans.”

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled “Director Independence” and “Certain Relationships and Related Transactions.”

### Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section of the2017 Proxy Statement entitled “Ratification of the Appointment of the Independent Registered Public Accounting Firm.”

## Part IV

### Item 15. Exhibits and Financial Statement Schedules

(1) The financial statements are listed in the Index to consolidated financial statements on page 64 of this Report.

(2) All financial statement schedules have been omitted, as the required information is not applicable, not material or has been included in the notes to consolidated financial statements.

(3) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 132 – 133.

### Item 16. Form 10-K Summary

None.

**Hanmi Financial Corporation and Subsidiaries**

**Index to Consolidated Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
March 1, 2017

**Hanmi Financial Corporation and Subsidiaries**

**Consolidated Balance Sheets**

*(In thousands except share data)*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 147,235 | $ 164,364 |
| Securities available for sale, at fair value (amortized cost of $521,053 as of December 31, 2016 and $700,627 as of December 31, 2015) | 516,964 | 698,296 |
| Loans held for sale, at the lower of cost or fair value | 9,316 | 2,874 |
| Loans and leases receivable, net of allowance for loan and lease losses of $32,429 as of December 31, 2016 and $42,935 as of December 31, 2015 | 3,812,340 | 3,140,381 |
| Accrued interest receivable | 10,987 | 9,501 |
| Premises and equipment, net | 28,698 | 29,834 |
| Other real estate owned ("OREO"), net | 7,484 | 8,511 |
| Customers' liability on acceptances | 978 | 3,586 |
| Servicing assets | 10,564 | 11,744 |
| Goodwill and other intangibles, net | 12,889 | 1,701 |
| Federal Home Loan Bank stock ("FHLB"), at cost | 16,385 | 16,385 |
| Federal Reserve Bank ("FRB") stock, at cost | — | 14,098 |
| Deferred tax assets | 46,332 | 52,095 |
| Current tax assets | 1,715 | 5,079 |
| Bank-owned life insurance | 49,440 | 48,340 |
| Prepaid expenses and other assets | 30,019 | 27,732 |
| **Total assets** | **$ 4,701,346** | **$ 4,234,521** |
| **Liabilities and stockholders' equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 1,203,240 | $ 1,155,518 |
| Interest-bearing | 2,606,497 | 2,354,458 |
| Total deposits | 3,809,737 | 3,509,976 |
| Accrued interest payable | 2,567 | 3,177 |
| Bank's liability on acceptances | 978 | 3,586 |
| FHLB advances | 315,000 | 170,000 |
| Servicing liabilities | 3,143 | 4,784 |
| Subordinated debentures | 18,978 | 18,703 |
| Accrued expenses and other liabilities | 19,918 | 30,377 |
| **Total liabilities** | **4,170,321** | **3,740,603** |
| Stockholders' equity: | | |
| Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,946,197 shares (32,330,747 shares outstanding) as of December 31, 2016 and issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015 | 33 | 257 |
| Additional paid-in capital | 562,446 | 557,761 |
| Accumulated other comprehensive loss, net of tax benefit of $1,695 as of December 31, 2016 and $2,007 as of December 31, 2015 | (2,394) | (315) |
| Retained earnings | 41,726 | 6,422 |
| Less: treasury stock, at cost; 615,450 shares as of December 31, 2016 and 592,163 shares as of December 31, 2015 | (70,786) | (70,207) |
| **Total stockholders' equity** | **531,025** | **493,918** |
| **Total liabilities and stockholders' equity** | **$ 4,701,346** | **$ 4,234,521** |

See Accompanying Notes to Consolidated Financial Statements.

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

| | Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| Interest and dividend income: | | | |
| Interest and fees on loans and leases | $ 164,642 | $ 148,797 | $ 122,222 |
| Interest on securities | 11,154 | 12,422 | 12,638 |
| Dividends on FRB and FHLB stock | 2,467 | 2,786 | 1,767 |
| Interest on deposits in other banks | 208 | 221 | 107 |
| Total interest and dividend income | 178,471 | 164,226 | 136,734 |
| Interest expense: | | | |
| Interest on deposits | 16,570 | 15,410 | 13,560 |
| Interest on subordinated debentures | 825 | 623 | 235 |
| Interest on FHLB advances | 879 | 76 | 151 |
| Interest on rescinded stock obligation | — | — | 87 |
| Total interest expense | 18,274 | 16,109 | 14,033 |
| Net interest income before provision for loan and lease losses | 160,197 | 148,117 | 122,701 |
| Negative provision for loan and lease losses | (4,339) | (11,614) | (6,258) |
| Net interest income after provision for loan and lease losses | 164,536 | 159,731 | 128,959 |
| Noninterest Income: | | | |
| Bargain purchase gain, net of deferred taxes | — | — | 14,577 |
| Service charges on deposit accounts | 11,380 | 12,900 | 11,374 |
| Trade finance and other service charges and fees | 4,232 | 4,623 | 4,946 |
| Gain on sales of Small Business Administration ("SBA") loans | 6,034 | 8,749 | 3,494 |
| Net gain on sales of securities | 46 | 6,611 | 2,011 |
| Disposition gains on Purchased Credit Impaired ("PCI") loans | 4,970 | 10,167 | 1,432 |
| Other operating income | 6,413 | 4,552 | 4,462 |
| Total noninterest income | 33,075 | 47,602 | 42,296 |
| Noninterest Expense: | | | |
| Salaries and employee benefits | 63,956 | 62,864 | 50,177 |
| Occupancy and equipment | 14,992 | 17,371 | 12,295 |
| Data processing | 5,674 | 6,321 | 6,080 |
| Professional fees | 5,374 | 7,905 | 7,564 |
| Supplies and communications | 2,949 | 3,582 | 2,612 |
| Advertising and promotion | 3,910 | 4,201 | 3,435 |
| Merger and integration costs | 312 | 1,971 | 6,646 |
| OREO expense (income) | 63 | 307 | (49) |
| Other operating expenses | 10,993 | 10,806 | 9,911 |
| Total noninterest expense | 108,223 | 115,328 | 98,671 |
| Income from continuing operations before provision for income taxes | 89,388 | 92,005 | 72,584 |
| Provision for income taxes | 32,899 | 38,182 | 22,379 |
| **Income from continuing operations, net of taxes** | **$ 56,489** | **$ 53,823** | **$ 50,205** |
| Discontinued operations: | | | |
| Income from operations of discontinued subsidiaries (including gain on disposal of $51 in the second quarter of 2014) | $ — | $ — | $ 37 |
| Income tax expense | — | — | 481 |
| Loss from discontinued operations | — | — | (444) |
| **Net income** | **$ 56,489** | **$ 53,823** | **$ 49,761** |
| | | | |
| Basic earnings per share: | | | |
| Income from continuing operations, net of taxes | $ 1.76 | $ 1.69 | $ 1.58 |
| Loss from discontinued operations, net of taxes | — | — | (0.01) |
| Basic earnings per share | $ 1.76 | $ 1.69 | $ 1.57 |
| Diluted earnings per share: | | | |
| Income from continuing operations, net of taxes | $ 1.75 | $ 1.68 | $ 1.57 |
| Loss from discontinued operations, net of taxes | — | — | (0.01) |
| Diluted earnings per share | $ 1.75 | $ 1.68 | $ 1.56 |
| Weighted-average shares outstanding: | | | |
| Basic | 31,899,582 | 31,788,215 | 31,696,100 |
| Diluted | 32,048,704 | 31,876,820 | 31,978,064 |

See Accompanying Notes to Consolidated Financial Statements.

**Hanmi Financial Corporation and Subsidiaries**

**Consolidated Statements of Comprehensive Income**

*(In thousands)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net income | $ 56,489 | $ 53,823 | $ 49,761 |
| Other comprehensive (loss) income, net of tax: | | | |
| Unrealized gain (loss) on securities | | | |
| Unrealized holding gain (loss) arising during period | (1,712) | 5,265 | 19,213 |
| Less: reclassification adjustment for net gain included in net income | (46) | (6,611) | (2,011) |
| Unrealized loss on interest-only strip of servicing assets | (9) | (7) | — |
| Income tax benefit (expense) related to items of other comprehensive income | (312) | 575 | (7,359) |
| Other comprehensive (loss) income | (2,079) | (778) | 9,843 |
| **Comprehensive income** | **$ 54,410** | **$ 53,045** | **$ 59,604** |

See Accompanying Notes to Consolidated Financial Statements.

## Hanmi Financial Corporation and Subsidiaries
## Consolidated Statements of Changes in Stockholders' Equity
*(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) | Accumulated (Deficit) Retained Earnings | Treasury Stock, at Cost | Total Stockholders' Equity |
| **Balance at January 1, 2014** | **32,339,444** | **(577,894)** | **31,761,550** | **$ 257** | **$ 552,270** | **$ (9,380)** | **$ (73,212)** | **$ (69,858)** | **$ 400,077** |
| Stock options exercised | 37,569 | — | 37,569 | — | 467 | — | — | — | **467** |
| Stock warrants exercised | 429 | — | 429 | — | 2 | — | — | — | **2** |
| Restricted stock awards, net of forfeitures | 110,655 | — | 110,655 | — | — | — | — | — | **—** |
| Share-based compensation expense | — | — | — | — | 2,165 | — | — | — | **2,165** |
| Cash dividends declared | — | — | — | — | — | — | (8,928) | — | **(8,928)** |
| Net income | — | — | — | — | — | — | 49,761 | — | **49,761** |
| Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes | — | — | — | — | — | 9,843 | — | — | **9,843** |
| **Balance at December 31, 2014** | **32,488,097** | **(577,894)** | **31,910,203** | **$ 257** | **$ 554,904** | **$ 463** | **$ (32,379)** | **$ (69,858)** | **$ 453,387** |
| Stock options exercised | 46,516 | — | 46,516 | — | 616 | — | — | — | 616 |
| Stock warrants exercised | — | — | — | — | — | — | — | — | — |
| Restricted stock awards, net of forfeitures | 31,909 | — | 31,909 | — | — | — | — | — | — |
| Restricted stock surrendered due to employee tax liability | — | (14,269) | (14,269) | — | — | — | — | (349) | (349) |
| Share-based compensation expense | — | — | — | — | 2,241 | — | — | — | 2,241 |
| Cash dividends declared | — | — | — | — | — | — | (15,022) | — | (15,022) |
| Net income | — | — | — | — | — | — | 53,823 | — | 53,823 |
| Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes | — | — | — | — | — | (778) | — | — | (778) |
| **Balance at December 31, 2015** | **32,566,522** | **(592,163)** | **31,974,359** | **$ 257** | **$ 557,761** | **$ (315)** | **$ 6,422** | **$ (70,207)** | **$ 493,918** |
| Correction of accounting for the 2011 1-for-8 stock split | — | — | — | (224) | 224 | — | — | — | — |
| Stock options exercised | 94,997 | — | 94,997 | — | 1,453 | — | — | — | 1,453 |
| Restricted stock awards, net of forfeitures | 284,678 | — | 284,678 | — | — | — | — | — | — |
| Restricted stock surrendered due to employee tax liability | — | (23,287) | (23,287) | — | — | — | — | (579) | (579) |
| Share-based compensation expense | — | — | — | — | 3,008 | — | — | — | 3,008 |
| Cash dividends declared | — | — | — | — | — | — | (21,185) | — | (21,185) |
| Net income | — | — | — | — | — | — | 56,489 | — | 56,489 |
| Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes | — | — | — | — | — | (2,079) | — | — | (2,079) |
| **Balance at December 31, 2016** | **32,946,197** | **(615,450)** | **32,330,747** | **$ 33** | **$ 562,446** | **$ (2,394)** | **$ 41,726** | **$ (70,786)** | **$ 531,025** |

See Accompanying Notes to Consolidated Financial Statements

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Cash flows from operating activities:** | | | |
| **Net income** | $ 56,489 | $ 53,823 | $ 49,761 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 14,578 | 17,846 | 8,701 |
| Share-based compensation expense | 3,008 | 2,241 | 2,165 |
| Negative provision for loan and lease losses | (4,339) | (11,614) | (6,258) |
| Gain on sales of securities | (46) | (6,611) | (2,011) |
| Gain on sales of premises and equipment | (1,053) | (137) | — |
| Gain on sales of SBA loans | (6,034) | (8,749) | (3,494) |
| Disposition gains on PCI loans | (4,970) | (10,167) | (1,432) |
| Bargain purchase gain on acquisition | — | — | (14,577) |
| Loss on sales of other real estate owned | — | — | 2 |
| Loss on sales of subsidiaries | — | — | 444 |
| Valuation adjustment on other real estate owned | 63 | (27) | — |
| Origination of SBA loans held for sale | (91,367) | (86,657) | (47,985) |
| Proceeds from sales of SBA loans | 92,215 | 98,083 | 46,829 |
| Change in accrued interest receivable | (1,486) | 248 | 740 |
| Change in bank-owned life insurance | (1,100) | (797) | (879) |
| Change in prepaid expenses and other assets | (1,434) | 3,720 | (8,713) |
| Change in deferred tax assets | 5,451 | 18,055 | (13,676) |
| Change in current tax assets | 3,364 | 9,142 | (2,268) |
| Change in accrued interest payable | (610) | (273) | (401) |
| Change in other liabilities | (8,346) | (11,596) | 18,519 |
| **Net cash provided by operating activities** | **54,383** | **66,530** | **25,467** |
| **Cash flows from investing activities:** | | | |
| Proceeds from redemption of FHLB stock | — | 1,195 | — |
| Proceeds from redemption of FRB stock | 14,423 | — | — |
| Proceeds from matured, called and repayment of securities | 114,012 | 135,413 | 101,713 |
| Proceeds from sales of securities | 78,282 | 454,201 | 169,533 |
| Proceeds from sales of other real estate owned | 5,474 | 7,532 | 20,200 |
| Proceeds from sales of loans held for sale | — | 360 | — |
| Proceeds from insurance settlement on bank-owned life insurance | — | 1,323 | — |
| Cash acquired in acquisition, net of cash consideration paid | — | — | 118,533 |
| Net proceeds from sales of subsidiaries | — | — | 398 |
| Change in loans and leases receivable | (271,733) | (169,816) | (153,138) |
| Purchases of securities available for sale | (19,992) | (232,035) | (124,442) |
| Purchases of premises and equipment | (730) | (1,146) | (1,150) |
| Purchases of loans and leases receivable | (410,897) | (215,469) | (111,846) |
| Purchases of FRB stock | (325) | (1,825) | (3,404) |
| **Net cash (used in) provided by investing activities** | **(491,486)** | **(20,267)** | **16,397** |
| **Cash flows from financing activities:** | | | |
| Change in deposits | 299,761 | (46,770) | (54,576) |
| Change in short-term FHLB advances | 145,000 | 20,000 | 14,865 |
| Redemption of FHLB advances | — | — | (2,411) |
| Redemption of rescinded stock obligation | — | (933) | (14,552) |
| Proceeds from exercise of stock options | 1,453 | 616 | 467 |
| Cash paid for repurchases of vested shares due to employee tax liability | (579) | (349) | — |
| Cash dividends paid *(1)* | (25,661) | (12,783) | (6,694) |
| **Net cash provided by (used in) financing activities** | **419,974** | **(40,219)** | **(62,901)** |
| **Net (decrease) increase in cash and cash equivalents** | **(17,129)** | **6,044** | **(21,037)** |
| Cash and cash equivalents at beginning of year | 164,364 | 158,320 | 179,357 |
| **Cash and cash equivalents at end of period** | **$ 147,235** | **$ 164,364** | **$ 158,320** |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the period for: | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest | $ | 18,884 | $ | 16,382 | $ | 14,434 |
| Income taxes | $ | 23,327 | $ | 7,928 | $ | 37,015 |
| Non-cash activities: | | | | | | |
| Transfer of loans receivable to other real estate owned | $ | 4,763 | $ | 318 | $ | 9,480 |
| Transfer of loans receivable to loans held for sale | $ | — | $ | 360 | $ | — |
| Note receivable from sale of insurance subsidiaries | $ | — | $ | — | $ | 1,394 |
| Conversion of stock warrants into common stock | $ | — | $ | — | $ | 2 |
| Income tax (expense) benefit related to items of other comprehensive income | $ | (312) | $ | 575 | $ | (7,359) |
| Change in unrealized (gain) loss in accumulated other comprehensive income | $ | 1,712 | $ | (5,258) | $ | (19,213) |
| Cash dividend declared *(1)* | $ | (21,185) | $ | (15,022) | $ | (8,928) |

*(1) The 2015 amounts have been corrected in the current year and differ from the previously reported amounts of$10.5 million and $4.5 million for cash dividends paid and declared, respectively; and the 2014 amount has been corrected in the current year from the previously reported amount of $2.2 million for cash dividends declared.*

See Accompanying Notes to Consolidated Financial Statements

**Note 1 — Summary of Significant Accounting Policies**

***Summary of Operations***

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) was formed as a holding company of Hanmi Bank (the “Bank”) and registered with the Securities and Exchange Commission under the Securities Act on March 17, 2001. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California ("Banc") and on August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp, Inc., a Texas corporation (“CBI”). See “Note 2 — Acquisitions.” During the second quarter of 2014, we sold two subsidiaries, Chun-Ha Insurance Services, Inc., a California corporation (“Chun-Ha”), and All World Insurance Services, Inc., a California corporation (“All World”). See “Note 3 — Sale of Insurance Subsidiaries and Discontinued Operations.”

Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the FDIC is now its primary federal bank regulator. The California Department of Business Oversight remains the Bank's primary state bank regulator. During the third quarter in 2016, the Federal Reserve canceled the Bank's holdings of Federal Reserve stock for $14.4 million in cash.

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Texas, Illinois, Virginia, New Jersey, and New York. The Bank’s full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank’s client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2016, the Bank maintained a network of 41 full-service branch offices and 6 loan production offices in California, Texas, Illinois, Virginia, New Jersey, New York, Colorado, Georgina and Washington State.

***Basis of Presentation***

The accounting and reporting policies of Hanmi Financial and subsidiaries conform, in all material respects, to U.S. generally accepted accounting principles (“GAAP”) and general practices within the banking industry. The information set forth in the following notes is presented on a continuing operations basis, unless otherwise noted. The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying Consolidated Financial Statements.

***Principles of Consolidation***

The Consolidated Financial Statements include the accounts of Hanmi Financial and our wholly-owned subsidiary, the Bank. In addition, the accounts of Chun-Ha and All World are included for all periods presented through the date of sale, June 30, 2014. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant areas where estimates are made consist of the allowance for loan and lease losses, other-than-temporary impairment, securities valuations, purchase credit impaired loans, the fair values of assets and liabilities acquired in a business combination and income taxes. Actual results could differ from those estimates.

***Reclassifications***

Certain amounts in the prior years' financial statements and related disclosures were reclassified to conform to the current year presentation with no effect on previously reported net income, stockholders’ equity or cash flows.

***Segment Reporting***

Through our branch network and lending units, we provide a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; and commercial and industrial, real estate and consumer lending. While our chief decision makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, we consider all of our operations to be aggregated in one reportable operating segment.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash, due from banks, overnight federal funds sold and Treasury bills, all of which have original or purchased maturities of less than 90 days.

***Securities***

Securities are classified into three categories and accounted for as follows:

(i) Securities that we have the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost;

(ii) Securities that are bought and held principally for the purpose of selling them in the near future are classified as "trading securities" and reported at fair value. Unrealized gains and losses are recognized in earnings; and

(iii) Securities not classified as held to maturity or trading securities are classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of stockholders' equity as accumulated other comprehensive income, net of income taxes.

Accreted discounts and amortized premiums on securities are included in interest income using the effective interest method over the remaining period to the call date or contractual maturity and, in the case of mortgage-backed securities and securities with call features, adjusted for anticipated prepayments. Unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific-identification method.

We review securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its cost basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not that we will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other than temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

***Loans and leases receivable***

*Originated loans and leases:* Loans and leases are originated by the Company with the intent to hold them for investment and are stated at the principal amount outstanding, net of unearned income. Unearned income includes deferred unamortized nonrefundable loan fees and direct loan origination costs. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the effective interest method or taken into income when the related loans are paid off or sold. The amortization of loan fees or costs is discontinued when a loan is placed on nonaccrual status. Interest income is recorded on an accrual basis in accordance with the terms of the respective loan and includes prepayment penalties.

*Purchased loans:* Purchased loans are stated at the principal amount outstanding, net of unearned discounts or unamortized premiums. All loans acquired in our acquisitions are initially measured and recorded at their fair value on the acquisition date. A component of the initial fair value measurement is an estimate of the loan losses over the life of the purchased loans. Purchased loans are also evaluated for impairment as of the acquisition date and are accounted for as “acquired non-impaired” or “purchased credit impaired” loans.

*Leases Receivable:* As described in “Note 2 — Acquisitions” to the consolidated financial statements, we purchased a portfolio of leases receivable during the fourth quarter of 2016. These receivables include equipment finance agreements with terms ranging from 1 to 7 years. The acquired leases receivable were measured and recorded at fair value on the date of acquisition. Leases originated by the Bank subsequent to acquisition are recorded based on the principal amount outstanding, net of unearned income, if any.

Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial equipment leases may be substantially dependent on the success of the business itself, which in turn, is often dependent in part upon general economic conditions.

*Acquired non-impaired loans and leases:* Acquired non-impaired loans and leases are those loans for which there was no evidence of credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments. Acquired non-impaired loans and leases, together with originated loans and leases, are referred to as non-purchased credit impaired (“Non-PCI”) loans and leases. Purchase discount or premium on acquired non-impaired loans and leases is recognized as an adjustment to interest income over the contractual life of such loans and leases using the effective interest method or taken into income when the related loans or leases are paid off or sold.

*Purchased credit impaired loans.* Purchased credit impaired (“PCI”) loans are accounted for in accordance with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 310-30, “*Loans and Debt Securities Acquired with Deteriorated Credit Quality.”* A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that we would be unable to collect all contractually required payments. We apply PCI loan accounting when (i) we acquire loans deemed to be impaired, and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition.

For PCI loans, at the time of acquisition we (i) calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and (ii) estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the PCI loan portfolios; such amount is subject to change over time based on the performance of such loans. The carrying value of PCI loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the “accretable yield” and is recorded as interest income over the estimated life of the loans using the effective yield. If estimated cash flows are indeterminable, the recognition of interest income will cease to be recognized.

At acquisition, the Company may aggregate PCI loans into pools having common credit risk characteristics such as product type, geographic location and risk rating. Increases in expected cash flows over those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those previously estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses. As the accretable yield increases or decreases from changes in cash flow expectations, the offset is a decrease or increase to the nonaccretable difference. The accretable yield is measured at each financial reporting date based on information then currently available and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

The Company removes loans from loan pools when the Company receives payment in settlement with the borrower, sells the loan, or foreclose upon the collateral securing the loan. The Company recognizes "Disposition gain on Purchased Credit Impaired Loans" when the cash proceeds or the amount received are in excess of the loan's carrying amount. The removal of the loan from the loan pool and the recognition of disposition gains do not affect the then applicable loan pool accretable yield.

PCI loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual with interest income recognized on either a cash basis or as a reduction of the principal amount outstanding.

Non-PCI loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When 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, which generally occurs after sustained payment of 6 months. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual.

Nonperforming assets consist of loans and leases on nonaccrual status, loans90 days or more past due and still accruing interest, loans restructured with troubled borrowers where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned ("OREO"). Loans are generally placed on nonaccrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Additionally, the Bank may place loans that are not 90 days past due on nonaccrual status, if management reasonably believes the borrower will not be able to comply with the contractual loan repayment terms and collection of principal or interest is in question.

***Loans Held for Sale***

Loans originated, or transferred from loans and leases receivable, and intended for sale in the secondary market are carried at the lower of aggregate cost or fair market value. Fair market value, if lower than cost, is determined based on valuations obtained from market participants or the value of underlying collateral, calculated individually. A valuation allowance is established if the market value of such loans is lower than their cost and net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans.

***Allowance for Loan and Lease Losses on Non-PCI Loans***

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

The Bank charges or credits the income statement for provisions to the allowance for loan 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 on loans and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of, the Bank utilized a 24-quarter look-back period with equal weighting to all quarters. For the fourth quarter of 2015, the Bank utilized a 20-quarter look-back period. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 from estimated 1.0 year in 2015. Moreover, in the fourth quarter of 2015, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. In the first quarter of 2014, based upon a similar evaluation, the Bank utilized a 16-quarter look-back period, weighting the loss factors 46 percent for the most recent four-quarter period and31 percent, 15 percent, and 8 percent for each of the following four-quarter periods, respectively. The change in methodology did not materially affect the amount of the allowance at December 31, 2016, 2015 or 2014.

To determine general reserve requirements, in 2016 existing loans were divided into eleven general loan pools of risk-rated loans as well as three homogenous loan pools and in 2015, existing loans were divided into fourteen general loan pools of risk-rated loans as well as three homogenous loan pools. In 2016, the pooling was revised to eliminate loan types that can be combined under a broader category in order to maintain an accurate analysis of the defined segmentation. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. Since the homogeneous loans 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 losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan 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 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.

Loan losses are charged off, and recoveries are credited, to the allowance account. Additions to the allowance account are charged to earnings through a provision for loan losses while reductions are credited to earnings. The allowance for loan losses is maintained at a level considered adequate by management to absorb probable losses in the loan portfolio. The adequacy of the allowance is determined by management based upon an evaluation and review of the loan portfolio, consideration of historical loan loss experience, current economic conditions, changes in the composition of the loan portfolio, analysis of collateral values and other pertinent factors.

Loans are measured for impairment when it is probable that not all amounts, including principal and interest, will be collected in accordance with the original contractual terms of the loan agreement. The amount of impairment and any subsequent changes are recorded through the provision for loan losses as an adjustment to the allowance for loan losses.

The Bank follows the *"Interagency Policy Statement on the Allowance for Loan and Lease Losses"* and, as an integral part of the quarterly credit review process, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The California Department of Business Oversight and/or the Federal Deposit Insurance Corporation require the Bank to recognize additions to the allowance for loan losses based upon their assessment of the information available to them at the time of their examinations.

In general, the Bank will charge off a loan and declare a loss when its collectability is questionable and when the Bank can no longer justify presenting the loan as an asset on its balance sheet. To determine if a loan should be charged off, all possible sources of repayment are analyzed, including the potential for future cash flow from income or liquidation of other assets, the value of any collateral, and the strength of co-makers or guarantors. When these sources do not provide a reasonable probability that principal can be collected in full, the Bank will fully or partially charge off the loan.

For a real estate loan, including commercial term loans secured by collateral, any impaired portion is considered as loss if the loan is more than 90 days past due. In a case where the fair value of collateral is less than the loan balance and the borrower has no other assets or income to support repayment, the amount of the deficiency is considered a loss and charged off.

For a commercial and industrial loan other than those secured by real estate, if the borrower is in the process of a bankruptcy filing in which the Bank is an unsecured creditor or deemed virtually unsecured by lack of collateral equity or lien position and the borrower has no realizable equity in assets and prospects for recovery are negligible, the loan is considered a loss and charged off. Additionally, a commercial and industrial unsecured loan that is more than 120 days past due is considered a loss and charged off.

For an unsecured consumer loan where a borrower files for bankruptcy, the loan is considered a loss within 60 days of receipt of notification of filing from the bankruptcy court. Other consumer loans are considered a loss if they are more than 90 days past due. Other events, such as bankruptcy, fraud, or death result in charge offs being recorded in an earlier period.

***Allowance for Loan Losses on PCI Loans***

The PCI loans are subject to our internal and external credit review. If deterioration in the expected cash flows results in a reserve requirement, a provision for loan losses is charged to earnings. For PCI loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases or increases in the amount and changes in the timing of expected cash flows on the PCI loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision or a negative provision for loan losses on such loans.

***Impaired Loans***

Loans are identified and classified as impaired when it is probable that not all amounts, including principal and interest, will be collected in accordance with the contractual terms of the loan agreement. The Bank will consider the following loans as impaired: nonaccrual loans or loans where principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; loans classified as troubled debt restructuring loans.

The Bank considers whether the borrower is experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business deterioration in realizable value. The Bank also considers the financial condition of a borrower who is in industries or countries experiencing economic or political instability.

When a loan is considered impaired, any future cash receipts on such loans will be treated as either interest income or return of principal depending upon management’s opinion of the ultimate risk of loss on the individual loan. Cash payments are treated as interest income where management believes the remaining principal balance is fully collectible.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical 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 losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

For impaired loans where the impairment amount is measured based on the present value of expected future cash flows discounted at the loan’s original effective interest rate, any impairment that represents the change in present value attributable to the passage of time is recognized as provision for loan losses.

***Troubled Debt Restructuring***

A loan is identified as a troubled debt restructuring (“TDR”) when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Bank grants a concession to the borrower in the restructuring that it would not otherwise consider. The Bank has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including principal and/or interest accrued at the original terms of the loan. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. TDRs are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower’s performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

***Premises and Equipment***

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

| | |
|---|---|
| Buildings and improvements | 10 to 30 years |
| Furniture and equipment | 3 to 10 years |
| Leasehold improvements | Term of lease or useful life, whichever is shorter |
| Software | 3 years |

***Impairment of Long-Lived Assets***

We account for long-lived assets in accordance with the provisions of FASB ASC 360,*"Property, Plant and Equipment."* This requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

***Other Real Estate Owned***

Assets acquired through loan foreclosure are recorded at the lower of cost or fair value less estimated costs to sell when acquired. If fair value declines subsequent to foreclosure, valuation impairment is recorded through expense. Operating costs after acquisition are expensed.

***Servicing Assets and Servicing liabilities***

Servicing assets and servicing liabilities are initially recorded at fair value in accordance with the provisions of FASB ASC 860, "*Transfers and Servicing*." The fair values of servicing assets and servicing liabilities represent either the price paid if purchased, or the allocated carrying amounts based on relative values when retained in a sale. Servicing assets and servicing liabilities are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets and servicing liabilities are determined based on the present value of estimated net future cash flows related to contractually specified servicing fees and costs.

The servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation cost, for the estimated life of the loan, using a discount rate and a constant prepayment rate. Management periodically evaluates the servicing assets and servicing liabilities for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

***Goodwill and Other Intangible Assets***

Goodwill and other intangible assets consist of acquired intangible assets arising from acquisitions, including core deposit intangibles and third-party originators intangible. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives while goodwill is not amortized.

Goodwill and other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

***Federal Home Loan Bank Stock***

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco and is required to own common stock in the FHLB based upon the Bank's balance of outstanding FHLB advances. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

***Federal Reserve Bank Stock***

The Bank was a member of the Federal Reserve Bank ("FRB") of San Francisco and was required to maintain stock in the FRB based on a specified ratio relative to the Bank's capital. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the Federal Deposit Insurance Corporation is now its primary federal bank regulator. Our holdings of FRB stock were canceled by the Federal Reserve. FRB stock is carried at cost as of December 31, 2015. Both cash and stock dividends received are reported as dividend income.

***Bank-Owned Life Insurance***

We have purchased single premium life insurance policies ("bank-owned life insurance") on certain officers. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due, if any, that are probable at settlement.

***Income Tax***

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision in accordance with Accounting Standard Update ("ASU") 2014-1, Accounting for Investments in Qualified Affordable Housing Projects.

***Share-Based Compensation***

The Company accounts for share-based compensation in accordance with FASB ASC 718,*"Compensation-Stock Compensation,"* During the first quarter in 2016, the Company early adopted ASU 2016-09 which provides improvements to the accounting for employee share-based payments. As a result of this new standard, excess tax benefits from exercise or vesting of share-based awards are included as a reduction in provision for income tax expense in the period in which the exercise or vesting occurs. As a result of adoption of this ASU, excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income for the year ended December 31, 2016.

***Earnings per Share***

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

For diluted EPS, weighted-average number of common shares included the impact of restricted stock under the treasury method. The Company amended all restricted stock agreements with time-based vesting criterion as of September 1, 2015 to allow for the payment of non-forfeitable dividends on unvested restricted stock, accordingly, we adopted the two-class method for EPS calculation pursuant to ASC 260-10, Earnings Per Share. Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method. Basic EPS is computed by dividing net income, net of income allocated to participating securities, by the weighted-average number of shares of common stock. For diluted EPS, weighted-average number of common shares include the diluted effect of stock options.

***Treasury Stock***

We use the cost method of accounting for treasury stock. The cost method requires us to record the reacquisition cost of treasury stock as a deduction from stockholders' equity on the Consolidated Balance Sheets.

***Business Combinations***

For business combinations that are accounted forunder the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

***Recently Issued Accounting Standards***

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

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

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

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

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

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

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

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

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

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

**Note 2 — Acquisitions**

**Acquisition of Certain Leases of Irvine, California-based Banc of California**

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California. The acquisition included purchase of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. This transaction was considered purchase of a business in accordance with current accounting guidance and accordingly the Bank applied the acquisition method of accounting to the transaction.

Cash consideration paid was $240.8 million and the net estimated fair value of the equipment lease portfolio was $228.2 million as of the acquisition date. In addition to the leases, the Bank recorded other tangible and intangible assets of $12.6 million. The intangible assets included an identifiable intangible asset representing the estimated fair value of third-party originators ("TPO") of $483,000 and goodwill of $11.0 million. The TPO intangible is being amortized over its estimated useful life of 7 years.

**Acquisition of Central Bancorp, Inc.**

On August 31, 2014, Hanmi Financial completed its acquisition of CBI, the parent company of United Central Bank ("UCB"). In the merger with CBI, each share of CBI common stock was exchanged for $17.64 per share or $50 million in the aggregate. In addition, Hanmi Financial paid $28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of $1.27 billion, $1.17 billion and $93.3 million, respectively. Total loans and deposits were $297.3 million and $1.1 billion, respectively, at August 31, 2014.

CBI was headquartered in Garland, Texas and through UCB, operated 23 branch locations within Texas, Illinois, Virginia, New York, New Jersey and California. The combined companies operate as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations under the Hanmi Bank brand. The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, *Business Combinations.* The consideration paid, assets acquired and liabilities assumed are summarized in the following table:

| | | As Remeasured (1) |
|---|---|---|
| | | (In thousands) |
| **Consideration paid:** | | |
| CBI stockholders | $ | 50,000 |
| Redemption of preferred and cumulative unpaid dividends | | 28,675 |
| Accrued interest on subordinated debentures | | — |
| | | 78,675 |
| Assets acquired: | | |
| Cash and cash equivalents | | 197,209 |
| Securities available for sale | | 663,497 |
| Loans | | 297,272 |
| Premises and equipment | | 17,925 |
| Other real estate owned | | 25,952 |
| Income tax assets, net | | 12,011 |
| Core deposit intangible | | 2,213 |
| FDIC loss sharing assets | | 11,413 |
| Bank-owned life insurance | | 18,296 |
| Servicing assets | | 7,497 |
| Other assets | | 14,636 |
| Total assets acquired | | 1,267,921 |
| Liabilities assumed: | | |
| Deposits | | 1,098,997 |
| Subordinated debentures | | 18,473 |
| Rescinded stock obligation | | 15,485 |
| FHLB advances | | 10,000 |
| Servicing liabilities | | 6,039 |
| Other liabilities | | 25,675 |
| Total liabilities assumed | | 1,174,669 |
| **Total identifiable net assets** | **$** | **93,252** |
| **Bargain purchase gain, net of deferred taxes** | **$** | **(14,577)** |

*(1) There were no measurement period adjustments recorded during the year ended December 31, 2015. All adjustments were recorded in the year ended December 31, 2014.*

The application of the acquisition method of accounting resulted in a bargain purchase gain of$14.6 million. The operations of CBI are included in our operating results since the acquisition date. Acquisition-related costs of $2.0 million and $6.6 million for the years ended December 31, 2015 and 2014, respectively, were expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees. The $297.3 million estimated fair value of loans acquired from CBI was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future loan losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a current market rate for similar loans. There was no carryover of CBI’s allowance for loan losses associated with the loans acquired as loans were initially recorded at fair value.

The following table summarizes the accretable yield on the PCI loans acquired from the CBI merger at August 31, 2014.

| | | (In thousands) |
|---|---|---|
| Undiscounted contractual cash flows | $ | 93,623 |
| Nonaccretable discount | | (17,421 ) |
| Undiscounted cash flow to be collected | | 76,202 |
| Estimated fair value of PCI loans | | 65,346 |
| **Accretable yield** | **$** | **10,856** |

The core deposit intangible (“CDI”) of $2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately 10 years on an accelerated basis and reviewed for impairment as circumstances warrant. The CDI amortization expense for the years ended December 31, 2016, 2015 and 2014 was $326,000, $379,000 and $132,000, respectively.

The fair value of savings and transactional deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Expected cash flows were utilized for the fair value calculation of the certificates of deposit based on the contractual terms of the certificates of deposit and the cash flows were discounted based on a current market rate for certificates of deposit with corresponding maturities. The premium of $11.3 million was recognized for certificates of deposit acquired from CBI. The accretion of time deposits premium for the years ended December 31, 2016, 2015 and 2014 was $2.7 million, $5.6 million and $2.3 million, respectively.

The fair value of subordinated debentures was determined by estimating projected future cash flows and discounting them at a market rate of interest. A discount of $8.3 million was recognized for subordinated debentures, which will be amortized over their contractual term. The amortization of discount for the years ended December 31, 2016, 2015 and 2014 was $275,000, $176,000 and $71,000, respectively.

**Note 3 — Sale of Insurance Subsidiaries and Discontinued Operations**

In June 2014, Hanmi Financial sold its insurance subsidiaries, Chun-Ha and All World, and entered into a stock purchase agreement for their sale. The subsidiaries were classified as held for sale in April 2014 and accounted for as discontinued operations. The operations and cash flows of the businesses have been eliminated and in accordance with the provisions of ASC 205*, Presentation of Financial Statements*, the results are reported as discontinued operations for all periods presented.

Hanmi Financial completed the sale of its two insurance subsidiaries to Chunha Holding Corporation on June 30, 2014 when total assets and net assets of Chun-Ha and All World were $5.6 million and $3.3 million as of June 30, 2014, respectively. The total sales price was $3.5 million, of which $2.0 million was paid upon signing. The remaining $1.5 million will be payable in three equal installments on each anniversary of the closing date through June 30, 2017.

The sale resulted in a $51,000 gain, offset by a $470,000 capital gain tax, a $14,000 operating losses and an $11,000 income tax expense. Consequently, the net loss from discontinued operations for the year ended December 31, 2014 was $444,000, or $0.01 per diluted share. For the year ended December 31, 2014, the discontinued operations generated noninterest income, primarily in the line item for insurance commissions, of $2.7 million and incurred noninterest expense of $2.7 million in various line items.

Summarized financial information for our discontinued operations related to Chun-Ha and All World are as follows:

| | June 30, 2014 |
|---|---|
| | *(In thousands)* |
| Cash and cash equivalents | $ 1,602 |
| Premises and equipment, net | 90 |
| Other intangible assets, net | 1,089 |
| Other assets | 2,855 |
| **Total assets** | **$ 5,636** |
| | |
| Income tax payable | $ 415 |
| Accrued expenses and other liabilities | 1,878 |
| **Total liabilities** | **$ 2,293** |
| **Net assets of discontinued operations** | **$ 3,343** |

| | Year Ended December 31, 2014 |
|---|---|
| | *(In thousands)* |
| Noninterest (loss) income | $ (14) |
| Gain on disposal | 51 |
| Income before taxes | 37 |
| Provision for income taxes | 481 |
| **Net (loss) income from discontinued operations** | **$ (444)** |

**Note 4 — Securities**

The following is a summary of securities available for sale as ofDecember 31, 2016 and 2015:

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| **December 31, 2016** | | | | |
| Mortgage-backed securities *(1) (2)* | $ 230,489 | $ 598 | $ 1,457 | $ 229,630 |
| Collateralized mortgage obligations *(1)* | 77,447 | 6 | 1,002 | 76,451 |
| U.S. government agency securities | 7,499 | — | 58 | 7,441 |
| SBA loan pool securities | 4,356 | — | 210 | 4,146 |
| Municipal bonds-tax exempt | 159,789 | 236 | 1,995 | 158,030 |
| Municipal bonds-taxable | 13,391 | 319 | 9 | 13,701 |
| Corporate bonds | 5,010 | 5 | — | 5,015 |
| U.S. treasury securities | 156 | — | — | 156 |
| Mutual funds | 22,916 | — | 522 | 22,394 |
| **Total securities available for sale** | **$ 521,053** | **$ 1,164** | **$ 5,253** | **$ 516,964** |
| **December 31, 2015** | | | | |
| Mortgage-backed securities *(1) (2)* | $ 286,450 | $ 392 | $ 2,461 | $ 284,381 |
| Collateralized mortgage obligations *(1)* | 97,904 | 79 | 997 | 96,986 |
| U.S. government agency securities | 48,478 | — | 656 | 47,822 |
| SBA loan pool securities | 63,670 | 7 | 411 | 63,266 |
| Municipal bonds-tax exempt | 162,101 | 1,820 | 19 | 163,902 |
| Municipal bonds-taxable | 13,932 | 189 | 88 | 14,033 |
| Corporate bonds | 5,017 | — | 24 | 4,993 |
| U.S. treasury securities | 159 | 1 | — | 160 |
| Mutual funds | 22,916 | — | 163 | 22,753 |
| **Total securities available for sale** | **$ 700,627** | **$ 2,488** | **$ 4,819** | **$ 698,296** |

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

*(2) Include securities collateralized by home equity conversion mortgages with total estimated fair value of$52.9 million and $58.6 million as of December 31, 2016 and 2015, respectively.*

The amortized cost and estimated fair value of securities as ofDecember 31, 2016, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. Mutual funds do not have contractual maturities. However, they are included in the table shown below as over ten years since the Company intends to hold these securities for at least this duration. All other securities are included based on their contractual maturities.

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (In thousands) | |
| Within one year | $ 337 | $ 337 |
| Over one year through five years | 78,893 | 78,747 |
| Over five years through ten years | 212,719 | 211,025 |
| Over ten years | 229,104 | 226,855 |
| **Total** | **$ 521,053** | **$ 516,964** |

FASB ASC 320, “*Investments – Debt and Equity Securities*,” requires us to periodically evaluate our investments for other-than-temporary impairment (“OTTI”). There was no OTTI charge during the year ended December 31, 2016.

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 December 31, 2016 and 2015:

| | 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) | | | | | | | | |
| **December 31, 2016** | | | | | | | | | |
| Mortgage-backed securities | $ 1,345 | $ 102,647 | 38 | $ 112 | $ 11,350 | 3 | $ 1,457 | $ 113,997 | 41 |
| Collateralized mortgage obligations | 676 | 60,786 | 27 | 326 | 10,579 | 7 | 1,002 | 71,365 | 34 |
| U.S. government agency securities | 58 | 7,441 | 3 | — | — | — | 58 | 7,441 | 3 |
| SBA loan pool securities | — | — | — | 210 | 4,146 | 2 | 210 | 4,146 | 2 |
| Municipal bonds-tax exempt | 1,995 | 125,004 | 54 | — | — | — | 1,995 | 125,004 | 54 |
| Municipal bonds-taxable | 9 | 2,904 | 2 | — | — | — | 9 | 2,904 | 2 |
| Mutual funds | 413 | 21,478 | 4 | 109 | 916 | 3 | 522 | 22,394 | 7 |
| **Total** | **$ 4,496** | **$ 320,260** | **128** | **$ 757** | **$ 26,991** | **15** | **$ 5,253** | **$ 347,251** | **143** |
| **December 31, 2015** | | | | | | | | | |
| Mortgage-backed securities | $ 1,734 | $ 193,931 | 52 | $ 727 | $ 21,659 | 9 | $ 2,461 | $ 215,590 | 61 |
| Collateralized mortgage obligations | 335 | 48,970 | 18 | 662 | 32,964 | 13 | 997 | 81,934 | 31 |
| U.S. government agency securities | 201 | 23,289 | 8 | 455 | 24,533 | 8 | 656 | 47,822 | 16 |
| SBA loan pool securities | 161 | 50,499 | 12 | 250 | 7,036 | 3 | 411 | 57,535 | 15 |
| Municipal bonds-tax exempt | 19 | 8,922 | 6 | — | — | — | 19 | 8,922 | 6 |
| Municipal bonds-taxable | 88 | 7,106 | 4 | — | — | — | 88 | 7,106 | 4 |
| Corporate bonds | 24 | 4,994 | 1 | — | — | — | 24 | 4,994 | 1 |
| Mutual funds | 66 | 21,820 | 3 | 97 | 928 | 3 | 163 | 22,748 | 6 |
| **Total** | **$ 2,628** | **$ 359,531** | **104** | **$ 2,191** | **$ 87,120** | **36** | **$ 4,819** | **$ 446,651** | **140** |

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2016 and December 31, 2015 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 December 31, 2016 and December 31, 2015. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired securities to be written down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security’s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2016 and December 31, 2015 were not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2016 and December 31, 2015 were warranted.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Gross realized gains on sales of securities | $ 396 | $ 6,776 | $ 2,012 |
| Gross realized losses on sales of securities | (350) | (165) | (1) |
| **Net realized gains on sales of securities** | **$ 46** | **$ 6,611** | **$ 2,011** |
| Proceeds from sales of securities | $ 78,282 | $ 456,098 | $ 169,533 |

For the year ended December 31, 2016, there was a $46,000 net gain in earnings resulting from the redemption and sale of securities that had previously been recognized as net unrealized losses of $314,000 in comprehensive income. For the year ended December 31, 2015, there was a $6.6 million net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized gains of $1.9 million in comprehensive income.

Securities available for sale with market values of $133.0 million and $72.0 million as of December 31, 2016 and 2015, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

**Note 5 — Loans and Leases**

The Board of Directors and management review and approve the Bank's loan and lease policy and procedures on a regular basis to reflect issues such as regulatory and organizational structure changes, strategic planning revisions, concentrations of credit, loan and lease delinquencies and nonperforming loans and leases, problem loans and leases, and policy adjustments.

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and Small Business Administration ("SBA") loans. Leases receivables include equipment finance agreements which are typically secured by the business assets being financed. Consumer loans consist of auto loans, credit cards, personal loans, and home equity lines of credit. We maintain management loan review and monitoring departments that review and monitor pass graded loans as well as problem loans to prevent further deterioration.

Concentrations of Credit: The majority of the Bank's loan and lease portfolio consists of commercial real estate and commercial and industrial loans. The Bank has been diversifying and monitoring commercial real estate loans based on property types, tightening underwriting standards, and portfolio liquidity and management, and has not exceeded certain specified limits set forth in the Bank's loan and lease policy.

**Loans and leases receivable**

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

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Non-PCI Loans and Leases | PCI Loans | Total | Non-PCI Loans and Leases | PCI Loans | Total |
| | (In thousands) | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ 857,629 | $ 2,324 | $ 859,953 | $ 735,501 | $ 4,849 | $ 740,350 |
| Hotel/motel | 649,540 | 1,618 | 651,158 | 539,345 | 4,080 | 543,425 |
| Gas station | 260,187 | 2,692 | 262,879 | 319,363 | 4,292 | 323,655 |
| Other *(1)* | 1,107,589 | 2,067 | 1,109,656 | 973,243 | 5,418 | 978,661 |
| Construction | 55,962 | — | 55,962 | 23,387 | — | 23,387 |
| Residential property | 337,791 | 976 | 338,767 | 234,879 | 1,157 | 236,036 |
| Total real estate loans | 3,268,698 | 9,677 | 3,278,375 | 2,825,718 | 19,796 | 2,845,514 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 138,032 | 136 | 138,168 | 152,602 | 171 | 152,773 |
| Commercial lines of credit | 136,231 | — | 136,231 | 128,224 | — | 128,224 |
| International loans | 25,821 | — | 25,821 | 31,879 | — | 31,879 |
| Total commercial and industrial loans | 300,084 | 136 | 300,220 | 312,705 | 171 | 312,876 |
| Leases receivable | 243,294 | — | 243,294 | — | — | — |
| Consumer loans *(2)* | 22,830 | 50 | 22,880 | 24,879 | 47 | 24,926 |
| **Total loans and leases** | **3,834,906** | **9,863** | **3,844,769** | **3,163,302** | **20,014** | **3,183,316** |
| Allowance for loan and lease losses | (31,458) | (971) | (32,429) | (37,494) | (5,441) | (42,935) |
| **Loans and leases receivable, net** | **$ 3,803,448** | **$ 8,892** | **$ 3,812,340** | **$ 3,125,808** | **$ 14,573** | **$ 3,140,381** |

*(1)* *Includes, among other property types, mixed-use, apartment, office, industrial, faith-based facilities and warehouse; the remaining real estate categories represents less than one percent of the Bank's total loans and leases.*

*(2)* *Consumer loans include home equity lines of credit of $17.7 million and $21.8 million as of December 31, 2016 and 2015, respectively.*

Accrued interest on loans and leases receivable was$8.2 million and $7.9 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, loans and leases receivable totaling $1.0 billion and $557.7 million, respectively, were pledged to secure advances from the FHLB and the FRB’s discount window.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale (excluding PCI loans) by portfolio segment for the years ended December 31, 2016 and 2015:

| | Real Estate | Commercial and Industrial | Total Non-PCI |
|---|---|---|---|
| | | (In thousands) | |
| **December 31, 2016** | | | |
| Balance at beginning of period | $ 840 | $ 2,034 | $ 2,874 |
| Origination of loans held for sale | 65,416 | 25,951 | 91,367 |
| Sales of loans held for sale | (58,836) | (26,065) | (84,901) |
| Principal payoffs and amortization | (10) | (14) | (24) |
| **Balance at end of period** | **$ 7,410** | **$ 1,906** | **$ 9,316** |
| **December 31, 2015** | | | |
| Balance at beginning of period | $ 3,323 | $ 2,128 | $ 5,451 |
| Origination of loans held for sale | 56,247 | 30,410 | 86,657 |
| Reclassification from loans receivable to loans held for sale | 360 | — | 360 |
| Sales of loans held for sale | (59,030) | (30,441) | (89,471) |
| Principal payoffs and amortization | (60) | (63) | (123) |
| **Balance at end of period** | **$ 840** | **$ 2,034** | **$ 2,874** |

**Allowance for Loan and Lease Losses**

Activity in the allowance for loan and lease losses and allowance for off-balance sheet items was as follows for the periods indicated:

| | Non-PCI Loans and Leases | PCI Loans | Total |
|---|---|---|---|
| **As of and for the Year Ended December 31, 2016** | | (In thousands) | |
| Balance at beginning of period | $ 37,494 | $ 5,441 | $ 42,935 |
| Charge-offs | (3,736) | (5,133) | (8,869) |
| Recoveries on loans and leases previously charged off | 2,702 | — | 2,702 |
| Net loan and lease recoveries (charge-offs) | (1,034) | (5,133) | (6,167) |
| (Negative provision) provision charged to operating expense | (5,002) | 663 | (4,339) |
| **Balance at end of period** | **$ 31,458** | **$ 971** | **$ 32,429** |
| **As of and for the Year Ended December 31, 2015** | | | |
| Balance at beginning of period | $ 51,640 | $ 1,026 | $ 52,666 |
| Charge-offs | (3,531) | — | (3,531) |
| Recoveries on loans and leases previously charged off | 5,423 | — | 5,423 |
| Net loan and lease recoveries (charge-offs) | 1,892 | — | 1,892 |
| (Negative provision) provision charged to operating expense | (16,038) | 4,415 | (11,623) |
| **Balance at end of period** | **$ 37,494** | **$ 5,441** | **$ 42,935** |
| **As of and for the Year Ended December 31, 2014** | | | |
| Balance at beginning of period | $ 57,555 | $ — | $ 57,555 |
| Charge-offs | (6,992) | — | (6,992) |
| Recoveries on loans and leases previously charged off | 8,361 | — | 8,361 |
| Net loan and lease recoveries (charge-offs) | 1,369 | — | 1,369 |
| (Negative provision) provision charged to operating expense | (7,284) | 1,026 | (6,258) |
| **Balance at end of period** | **$ 51,640** | **$ 1,026** | **$ 52,666** |

The following table details the information on the allowance for loan and lease losses on non-PCI loans leases by portfolio segment for the years ended December 31, 2016 and 2015:

| | Real Estate | Commercial and Industrial | Leases Receivable | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | *(In thousands)* | | | |
| **December 31, 2016** | | | | | | |
| **Allowance for loan losses on non-PCI loans and leases:** | | | | | | |
| Beginning balance | $ 29,800 | $ 7,081 | — | $ 242 | $ 371 | $ 37,494 |
| Charge-offs | (3,022) | (706) | (6) | (2) | — | (3,736) |
| Recoveries on loans and leases previously charged off | 667 | 1,978 | 1 | 56 | — | 2,702 |
| (Negative provision) provision | (2,233) | (2,771) | 312 | (105) | (205) | (5,002) |
| **Ending balance** | **$ 25,212** | **$ 5,582** | **$ 307** | **$ 191** | **$ 166** | **$ 31,458** |
| Ending balance: individually evaluated for impairment | $ 3,980 | $ 347 | $ — | $ — | $ — | $ 4,327 |
| Ending balance: collectively evaluated for impairment | $ 21,232 | $ 5,235 | $ 307 | $ 191 | $ 166 | $ 27,131 |
| **Non-PCI loans and leases receivable:** | | | | | | |
| **Ending balance** | **$ 3,268,698** | **$ 300,084** | **$ 243,294** | **$ 22,830** | **$ —** | **$ 3,834,906** |
| Ending balance: individually evaluated for impairment | $ 21,757 | $ 4,174 | $ — | $ 419 | $ — | $ 26,350 |
| Ending balance: collectively evaluated for impairment | $ 3,246,941 | $ 295,910 | $ 243,294 | $ 22,411 | $ — | $ 3,808,556 |
| | | | | | | |
| **Allowance for loan losses on PCI loans:** | | | | | | |
| Beginning balance | $ 5,397 | $ 42 | $ — | $ 2 | $ — | $ 5,441 |
| Charge-offs | (5,133) | — | — | — | — | (5,133) |
| Provision | 658 | (1) | — | 6 | — | 663 |
| **Ending balance: acquired with deteriorated credit quality** | **$ 922** | **$ 41** | **$ —** | **$ 8** | **$ —** | **$ 971** |
| **PCI loans receivable:** | | | | | | |
| **Ending balance: acquired with deteriorated credit quality** | **$ 9,677** | **$ 136** | **$ —** | **$ 50** | **$ —** | **$ 9,863** |

| | Real Estate | Commercial and Industrial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|
| **December 31, 2015** | | | | | |
| **Allowance for loan and lease losses on non-PCI loans:** | | | | | |
| Beginning balance | $ 41,194 | $ 9,142 | $ 220 | $ 1,084 | $ 51,640 |
| Charge-offs | (565) | (2,966) | — | — | (3,531) |
| Recoveries on loans and leases previously charged off | 2,080 | 3,339 | 4 | — | 5,423 |
| Provision (negative provision) | (12,909) | (2,434) | 18 | (713) | (16,038) |
| **Ending balance** | **$ 29,800** | **$ 7,081** | **$ 242** | **$ 371** | **$ 37,494** |
| Ending balance: individually evaluated for impairment | $ 3,858 | $ 587 | $ — | $ — | $ 4,445 |
| Ending balance: collectively evaluated for impairment | $ 25,942 | $ 6,494 | $ 242 | $ 371 | $ 33,049 |
| **Non-PCI loans and leases receivable:** | | | | | |
| **Ending balance** | **$ 2,825,718** | **$ 312,705** | **$ 24,879** | **$ —** | **$ 3,163,302** |
| Ending balance: individually evaluated for impairment | $ 27,341 | $ 6,853 | $ 1,665 | $ — | $ 35,859 |
| Ending balance: collectively evaluated for impairment | $ 2,798,377 | $ 305,852 | $ 23,214 | $ — | $ 3,127,443 |
| **Allowance for loan losses on PCI loans:** | | | | | |
| Beginning balance | $ 895 | $ 131 | $ — | $ — | $ 1,026 |
| Provision | 4,502 | (89) | 2 | — | 4,415 |
| **Ending balance: acquired with deteriorated credit quality** | **$ 5,397** | **$ 42** | **$ 2** | **$ —** | **$ 5,441** |
| **PCI loans receivable:** | | | | | |
| **Ending balance: acquired with deteriorated credit quality** | **$ 19,796** | **$ 171** | **$ 47** | **$ —** | **$ 20,014** |

**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 and every 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 lease 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 uncollectible 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.

As of December 31, 2016 and 2015, pass/pass-watch, special mention and classified (substandard and doubtful) loans and leases (excluding PCI loans), disaggregated by loan class, were as follows:

| | Pass/Pass-Watch | Special Mention | Classified | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| **December 31, 2016** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 851,147 | $ 2,275 | $ 4,207 | $ 857,629 |
| Hotel/motel | 634,397 | 5,497 | 9,646 | 649,540 |
| Gas station | 252,123 | 1,911 | 6,153 | 260,187 |
| Other | 1,100,070 | 1,645 | 5,874 | 1,107,589 |
| Construction | 55,962 | — | — | 55,962 |
| Residential property | 337,227 | — | 564 | 337,791 |
| Commercial and industrial loans: | | | | |
| Commercial term | 133,811 | 2,060 | 2,161 | 138,032 |
| Commercial lines of credit | 135,699 | 464 | 68 | 136,231 |
| International loans | 23,406 | 2,415 | — | 25,821 |
| Leases receivable | 242,393 | — | 901 | 243,294 |
| Consumer loans | 22,139 | — | 691 | 22,830 |
| **Total Non-PCI loans and leases** | **$ 3,788,374** | **$ 16,267** | **$ 30,265** | **$ 3,834,906** |
| **December 31, 2015** | | | | |
| Real estate loans: | | | | |
| Commercial property | | | | |
| Retail | $ 722,483 | $ 9,519 | $ 3,499 | $ 735,501 |
| Hotel/motel | 517,462 | 9,604 | 12,279 | 539,345 |
| Gas station | 309,598 | 5,897 | 3,868 | 319,363 |
| Other | 953,839 | 8,662 | 10,742 | 973,243 |
| Construction | 23,387 | — | — | 23,387 |
| Residential property | 232,862 | 58 | 1,959 | 234,879 |
| Commercial and industrial loans: | | | | |
| Commercial term | 145,773 | 2,370 | 4,459 | 152,602 |
| Commercial lines of credit | 127,579 | 195 | 450 | 128,224 |
| International loans | 29,719 | 2,160 | — | 31,879 |
| Consumer loans | 22,707 | 91 | 2,081 | 24,879 |
| **Total Non-PCI loans and leases** | **$ 3,085,409** | **$ 38,556** | **$ 39,337** | **$ 3,163,302** |

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

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total | Accruing 90 Days or More Past Due |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| **December 31, 2016** | | | | | | | |
| Real estate loans: | | | | | | | |
| Commercial property | | | | | | | |
| Retail | $ 9 | $ 137 | $ 234 | $ 380 | $ 857,249 | $ 857,629 | $ — |
| Hotel/motel | 1,037 | 46 | 600 | 1,683 | 647,857 | 649,540 | — |
| Gas station | 245 | 643 | 137 | 1,025 | 259,162 | 260,187 | — |
| Other | 432 | 79 | 1,100 | 1,611 | 1,105,978 | 1,107,589 | — |
| Construction | — | — | — | — | 55,962 | 55,962 | — |
| Residential property | 730 | 89 | 423 | 1,242 | 336,549 | 337,791 | — |
| Commercial and industrial loans: | | | | | | | |
| Commercial term | 484 | 42 | 111 | 637 | 137,395 | 138,032 | — |
| Commercial lines of credit | — | — | — | — | 136,231 | 136,231 | — |
| International loans | 80 | — | — | 80 | 25,741 | 25,821 | — |
| Leases receivable | 2,090 | 1,043 | 385 | 3,518 | 239,776 | 243,294 | |
| Consumer loans | 170 | — | — | 170 | 22,660 | 22,830 | — |
| **Total Non-PCI loans** | **$ 5,277** | **$ 2,079** | **$ 2,990** | **$ 10,346** | **$ 3,824,560** | **$ 3,834,906** | **$ —** |
| **December 31, 2015** | | | | | | | |
| Real estate loans: | | | | | | | |
| Commercial property | | | | | | | |
| Retail | $ 441 | $ 343 | $ 399 | $ 1,183 | $ 734,318 | $ 735,501 | $ — |
| Hotel/motel | 1,250 | 49 | 3,840 | 5,139 | 534,206 | 539,345 | — |
| Gas station | 959 | 406 | 1,517 | 2,882 | 316,481 | 319,363 | — |
| Other | 1,144 | 661 | 1,636 | 3,441 | 969,802 | 973,243 | — |
| Construction | — | — | — | — | 23,387 | 23,387 | — |
| Residential property | — | — | 396 | 396 | 234,483 | 234,879 | — |
| Commercial and industrial loans: | | | | | | | |
| Commercial term | 420 | 253 | 458 | 1,131 | 151,471 | 152,602 | — |
| Commercial lines of credit | 58 | — | 392 | 450 | 127,774 | 128,224 | — |
| International loans | — | 497 | — | 497 | 31,382 | 31,879 | — |
| Consumer loans | 250 | 5 | — | 255 | 24,624 | 24,879 | — |
| **Total Non-PCI loans** | **$ 4,522** | **$ 2,214** | **$ 8,638** | **$ 15,374** | **$ 3,147,928** | **$ 3,163,302** | **$ —** |

### Impaired Loans

Loans are considered impaired when nonaccrual and principal or interest payments have been contractually past due for90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as TDR loans to offer terms not typically granted by the Bank; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower’s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical 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 losses or, alternatively, a specific allocation will be established. Additionally, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan 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 table provides information on impaired loans (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

| | Recorded Investment | Unpaid Principal Balance | With No Related Allowance Recorded | With an Allowance Recorded | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| | | | (In thousands) | | | | |
| **As of or for The Year Ended December 31, 2016** | | | | | | | |
| Real estate loans: | | | | | | | |
| Commercial property | | | | | | | |
| Retail | $ 1,678 | $ 1,684 | $ 151 | $ 1,527 | $ 120 | $ 2,243 | $ 141 |
| Hotel/motel | 6,227 | 6,823 | 2,243 | 3,984 | 3,078 | 4,887 | 454 |
| Gas station | 4,984 | 5,092 | 4,984 | — | — | 4,831 | 645 |
| Other | 6,070 | 6,808 | 3,127 | 2,943 | 782 | 7,104 | 681 |
| Residential property | 2,798 | 2,851 | 2,798 | — | — | 2,656 | 112 |
| Commercial and industrial loans: | | | | | | | |
| Commercial term | 4,106 | 4,171 | 1,229 | 2,877 | 347 | 4,815 | 307 |
| Commercial lines of credit | 68 | 68 | 68 | — | — | 45 | 14 |
| International loans | — | — | — | — | — | 315 | — |
| Consumer loans | 419 | 489 | 419 | — | — | 622 | 29 |
| **Total Non-PCI loans** | **$ 26,350** | **$ 27,986** | **$ 15,019** | **$ 11,331** | **$ 4,327** | **$ 27,518** | **$ 2,383** |
| **As of or for The Year Ended December 31, 2015** | | | | | | | |
| Real estate loans: | | | | | | | |
| Commercial property | | | | | | | |
| Retail | $ 2,597 | $ 2,892 | $ 2,435 | $ 162 | $ 27 | $ 3,878 | $ 277 |
| Hotel/motel | 7,168 | 7,538 | 2,873 | 4,295 | 3,068 | 6,628 | 572 |
| Gas station | 5,393 | 5,815 | 4,400 | 993 | 112 | 7,116 | 436 |
| Other | 9,288 | 10,810 | 7,219 | 2,069 | 647 | 10,218 | 795 |
| Residential property | 2,895 | 3,081 | 2,608 | 287 | 4 | 2,839 | 120 |
| Commercial and industrial loans: | | | | | | | |
| Commercial term | 5,257 | 5,621 | 1,858 | 3,399 | 457 | 6,637 | 368 |
| Commercial lines of credit | 381 | 493 | 280 | 101 | 100 | 1,515 | 42 |
| International loans | 1,215 | 1,215 | 647 | 568 | 30 | 1,257 | — |
| Consumer loans | 1,665 | 1,898 | 1,665 | — | — | 1,753 | 73 |
| **Total Non-PCI loans** | **$ 35,859** | **$ 39,363** | **$ 23,985** | **$ 11,874** | **$ 4,445** | **$ 41,841** | **$ 2,683** |
| **As of or for The Year Ended December 31, 2014** | | | | | | | |
| Real estate loans: | | | | | | | |
| Commercial property | | | | | | | |
| Retail | $ 4,436 | $ 4,546 | $ 1,938 | $ 2,498 | $ 220 | $ 5,373 | $ 251 |
| Hotel/motel | 5,835 | 6,426 | 4,581 | 1,254 | 1,828 | 4,583 | 398 |
| Gas station | 8,974 | 9,594 | 8,526 | 448 | 150 | 11,281 | 787 |
| Other | 10,125 | 11,591 | 8,890 | 1,235 | 319 | 10,579 | 885 |
| Residential property | 3,127 | 3,268 | 3,127 | — | — | 2,924 | 115 |
| Commercial and industrial loans: | | | | | | | |
| Commercial term | 7,614 | 8,133 | 2,999 | 4,615 | 2,443 | 9,458 | 566 |
| Commercial lines of credit | 466 | 575 | 466 | — | — | 1,205 | 66 |
| International loans | 3,546 | 3,546 | 2,628 | 918 | 286 | 1,736 | 33 |
| Consumer loans | 1,742 | 1,907 | 1,742 | — | — | 1,651 | 59 |
| **Total Non-PCI loans** | **$ 45,865** | **$ 49,586** | **$ 34,897** | **$ 10,968** | **$ 5,246** | **$ 48,790** | **$ 3,160** |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Interest income that would have been recognized had impaired loans performed in accordance with their original terms | $ 3,053 | $ 4,168 | $ 4,468 |
| Less: Interest income recognized on impaired loans | (2,383 ) | (2,683 ) | (3,160 ) |
| **Interest foregone on impaired loans** | **$ 670** | **$ 1,485** | **$ 1,308** |

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

**Nonaccrual Loans and Leases**

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

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

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Real estate loans: | | |
| Commercial property | | |
| Retail | $ 404 | $ 946 |
| Hotel/motel | 5,266 | 5,790 |
| Gas station | 1,025 | 2,774 |
| Other | 2,033 | 4,068 |
| Residential property | 564 | 1,386 |
| Commercial and industrial loans: | | |
| Commercial term | 824 | 2,193 |
| Commercial lines of credit | — | 450 |
| Leases receivable | 901 | — |
| Consumer loans | 389 | 1,511 |
| **Total nonaccrual Non-PCI loans and leases** | **$ 11,406** | **$ 19,118** |

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

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Nonaccrual Non-PCI loans and leases | $ 11,406 | $ 19,118 |
| Loans and leases 90 days or more past due and still accruing | — | — |
| Total nonperforming Non-PCI loans and leases | 11,406 | 19,118 |
| Other real estate owned | 7,484 | 8,511 |
| **Total nonperforming assets** | **$ 18,890** | **$ 27,629** |

As of December 31, 2016, OREO consisted of twelve properties with a combined carrying value of $7.5 million, including a $5.7 million OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2015, OREO consisted of fourteen properties with a combined carrying value of $8.5 million, including a $7.4 million OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

**Troubled Debt Restructuring**

The following table details TDRs (excluding PCI loans), disaggregated by concession type and by loan type, as of December 31, 2016, 2015 and 2014:

| | 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) | | | | | |
| **December 31, 2016** | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| Commercial property | | | | | | | | | | |
| Retail | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 1,228 | | $ 1,228 |
| Hotel/motel | 1,292 | 3,722 | — | — | 5,014 | — | — | — | | — |
| Gas station | — | — | — | — | — | 1,324 | | — | | 1,324 |
| Other | 387 | 651 | 143 | — | 1,181 | 2,688 | | 286 | 1,344 | 4,318 |
| Residential property | — | | | | — | 783 | | — | 289 | 1,072 |
| Commercial and industrial loans: | | | | | | | | | | |
| Commercial term | 149 | 71 | 69 | 419 | 708 | 22 | 198 | 2,135 | 662 | 3,017 |
| Commercial lines of credit | — | | — | — | — | — | | | 68 | 68 |
| Consumer loans | | | — | | — | — | | 119 | | 119 |
| **Total Non-PCI loans** | **$ 1,828** | **$ 4,444** | **$ 212** | **$ 419** | **$ 6,903** | **$ 4,817** | **$ 198** | **$ 3,768** | **$ 2,363** | **$ 11,146** |
| **December 31, 2015** | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| Commercial property | | | | | | | | | | |
| Retail | $ — | $ — | $ — | $ 344 | $ 344 | $ — | $ — | $ 1,227 | $ — | $ 1,227 |
| Hotel/motel | 1,216 | 28 | — | — | 1,244 | 414 | — | — | — | 414 |
| Gas station | 959 | — | — | — | 959 | — | — | — | — | — |
| Other | — | 1,301 | 216 | 8 | 1,525 | 3,537 | — | 322 | 1,378 | 5,237 |
| Residential property | 689 | — | — | — | 689 | — | — | — | 299 | 299 |
| Commercial and industrial loans: | | | | | | | | | | |
| Commercial term | 45 | — | 997 | 679 | 1,721 | 40 | 214 | 1,673 | 945 | 2,872 |
| Commercial lines of credit | 222 | — | — | 58 | 280 | — | — | — | — | — |
| Consumer loans | — | — | 116 | — | 116 | 250 | — | — | — | 250 |
| **Total Non-PCI loans** | **$ 3,131** | **$ 1,329** | **$ 1,329** | **$ 1,089** | **$ 6,878** | **$ 4,241** | **$ 214** | **$ 3,222** | **$ 2,622** | **$ 10,299** |
| **December 31, 2014** | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| Commercial property | | | | | | | | | | |
| Retail | $ — | $ — | $ — | $ 2,032 | $ 2,032 | $ 306 | $ — | $ — | $ — | $ 306 |
| Hotel/motel | 1,115 | (53) | — | — | 1,062 | 1,807 | — | — | — | 1,807 |
| Gas station | 1,075 | — | — | — | 1,075 | 2,335 | — | — | — | 2,335 |
| Other | 943 | 1,498 | 433 | 24 | 2,898 | 2,343 | — | 782 | 1,372 | 4,497 |
| Residential property | 742 | — | — | — | 742 | — | — | — | 308 | 308 |
| Commercial and industrial loans: | | | | | | | | | | |
| Commercial term | 14 | (1) | 2,556 | 1,481 | 4,050 | 57 | 226 | 567 | 1,358 | 2,208 |
| Commercial lines of credit | 227 | — | 126 | 113 | 466 | 2,156 | — | — | — | 2,156 |
| International loans | — | — | — | — | — | — | — | 200 | — | 200 |
| Consumer loans | — | — | 131 | — | 131 | — | — | — | — | — |
| **Total Non-PCI loans** | **$ 4,116** | **$ 1,444** | **$ 3,246** | **$ 3,650** | **$ 12,456** | **$ 9,004** | **$ 226** | **$ 1,549** | **$ 3,038** | **$ 13,817** |

As of December 31, 2016, 2015 and 2014, total TDRs, excluding loans held for sale, were $18.0 million, $17.2 million and $26.3 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 through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1)the present value of expected future cash flows discounted at the loan's effective interest rate; (2)the loan's observable market price; or (3)the fair value of the collateral if the loan is collateral dependent.

At December 31, 2016, 2015 and 2014, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and we determined impairment reserves of $3.4 million, $1.0 million and $2.9 million, respectively, related to these loans which were included in the allowance for loan losses.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the years ended December 31, 2016, 2015 and 2014:

| | December 31, 2016 | | | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | (In thousands, except number of loans) | | | | | | | | |
| Real estate loans: | | | | | | | | | |
| Commercial property | | | | | | | | | |
| Retail *(1)* | 1 | $ 21 | $ 23 | 1 | $ 1,230 | $ 1,227 | 2 | $ 2,205 | $ 2,032 |
| Hotel/motel *(2)* | 1 | 3,764 | 3,722 | — | — | — | 1 | 832 | 821 |
| Gas station *(3)* | — | — | — | — | — | — | 1 | 2,040 | 1,979 |
| Other *(4)* | — | — | — | 2 | 725 | 724 | 3 | 1,422 | 1,352 |
| Residential property *(5)* | — | — | — | — | — | — | 1 | 317 | 308 |
| Commercial and industrial loans: | | | | | | | | | |
| Commercial term *(6)* | 5 | 403 | 331 | 10 | 973 | 801 | 5 | 721 | 629 |
| Commercial lines of credit *(7)* | — | — | — | — | — | — | 3 | 2,366 | 2,509 |
| International loans (8) | — | — | — | — | — | — | 1 | 480 | 200 |
| Consumer loans *(9)* | — | — | — | 1 | 250 | 250 | — | — | — |
| **Total Non-PCI loans** | **7** | **$ 4,188** | **$ 4,076** | **14** | **$ 3,178** | **$ 3,002** | **17** | **$ 10,383** | **$ 9,830** |

*(1) Includes a modification of $23,000 through a reduction of principal or accrued interest payment for the year ended December 31, 2016, a modification of $1.2 million through payment deferrals for the year ended December 31, 2015 and a modification of $2.0 million through payment deferrals for the year ended December 31, 2014.*

*(2) Includes a modification of $3.7 million through a payment deferral for the year ended December 31, 2016 and a modification of $821,000 through a payment deferral for the year ended December 31, 2014.*

*(3) Includes a modification of $2.0 million through a payment deferral for the year ended December 31, 2014.*

*(4) Includes a modification of $724,000 through a payment deferral for the year ended December 31, 2015 and modifications of $943,000 through a payment deferral, $385,000 through a reduction of principal or accrued interest and $24,000 through an extension of maturity for the year ended December 31, 2014.*

*(5) Includes a modification of $308,000 through an extension of maturity for the year ended December 31, 2014.*

*(6) Includes three modifications of $216,000 through payment deferrals, a modification of $65,000 through a reduction of principal or accrued interest payment and a modification of $50,000 through and extension of maturity for the year ended December 31, 2016. Includes modifications of $34,000 through payment deferral, $60,000 through reductions of principal or accrued interest and $707,000 through extensions of maturity for the year ended December 31, 2015 and modifications of $184,000 through reductions of principal or accrued interest and $445,000 through extensions of maturity for the year ended December 31, 2014.*

(7) *Includes modifications of $2.4 million through payment deferrals and $126,000 through a reduction of principal or accrued interest for the year ended December 31, 2014.*

(8) *Includes a modification of $200,000 through a reduction of principal or accrued interest for the year ended December 31, 2014.*

(9) *Includes a modification of $250,000 through a payment deferral for the year ended December 31, 2015.*

During the year ended December 31, 2016, we restructured monthly payments on 7 loans, with a net carrying value of $4.1 million as of December 31, 2016, through temporary payment structure modifications or re-amortization. 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.

The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for years ended December 31, 2016, 2015 and 2014, respectively:

| | For the Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2016 | | December 31, 2015 | | December 31, 2014 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| | *(In thousands, except number of loans)* | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | — | $ — | — | $ — | 1 | $ 1,856 |
| Gas station | — | — | — | — | — | — |
| Other | — | — | 1 | 412 | 3 | 1,352 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | 1 | 50 | 1 | 178 | — | — |
| Commercial lines of credit | — | — | — | — | 2 | 353 |
| **Total Non-PCI loans** | **1** | **$ 50** | **2** | **$ 590** | **6** | **$ 3,561** |

**Purchased Credit Impaired Loans**

As part of the acquisition of CBI, the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table summarizes the changes in carrying value of PCI loans for the three-year period ended December 31, 2016:

| | For the Year Ended December 31, 2016 | | For the Year Ended December 31, 2015 | | For the Year Ended December 31, 2014 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Accretable Yield | Carrying Amount | Accretable Yield | Carrying Amount | Accretable Yield |
| | *(In thousands)* | | *(In thousands)* | | *(In thousands)* | |
| **Beginning Balance** | **$ 14,573** | **$ (5,944)** | **$ 43,475** | **$ (11,025)** | **$ —** | **$ —** |
| Additions from CBI Acquisition at August 31, 2014 | — | — | — | — | 65,346 | (10,856) |
| Accretion | 1,144 | 1,144 | 2,956 | 2,956 | 1,448 | 1,448 |
| Payments received | (7,138) | — | (31,215) | — | (17,803) | — |
| Disposal/transfers to OREO | 977 | — | 3,772 | — | (4,490) | — |
| Change in expected cash flows, net | — | (877) | — | 2,125 | — | (1,617) |
| Provision for credit losses | (664) | — | (4,415) | — | (1,026) | — |
| **Ending Balance** | **$ 8,892** | **$ (5,677)** | **$ 14,573** | **$ (5,944)** | **$ 43,475** | **$ (11,025)** |

As of December 31, 2016 and 2015, pass/pass-watch, special mention and classified (substandard and doubtful) PCI loans, disaggregated by loan class, were as follows:

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Pass/Pass-Watch | Special Mention | Classified | Total | Allowance Amount | Total PCI Loans |
| | *(In thousands)* | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ — | $ — | $ 2,324 | $ 2,324 | $ 122 | $ 2,202 |
| Hotel/motel | 177 | — | 1,441 | $ 1,618 | 138 | 1,480 |
| Gas station | — | 1,180 | 1,512 | $ 2,692 | 589 | 2,103 |
| Other | — | — | 2,067 | $ 2,067 | 1 | 2,066 |
| Residential property | 976 | — | — | $ 976 | 72 | 904 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | — | — | 136 | $ 136 | 41 | 95 |
| Consumer loans | — | — | 50 | $ 50 | 8 | 42 |
| **Total PCI loans** | **$ 1,153** | **$ 1,180** | **$ 7,530** | **$ 9,863** | **$ 971** | **$ 8,892** |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Pass/Pass-Watch | Special Mention | Classified | Total | Allowance Amount | Total PCI Loans |
| | *(In thousands)* | | | | | |
| Real estate loans: | | | | | | |
| Commercial property | | | | | | |
| Retail | $ — | $ — | $ 4,849 | $ 4,849 | $ 269 | $ 4,580 |
| Hotel/motel | 186 | — | 3,894 | $ 4,080 | 88 | 3,992 |
| Gas station | — | 176 | 4,116 | $ 4,292 | 477 | 3,815 |
| Other | — | — | 5,418 | $ 5,418 | 4,412 | 1,006 |
| Residential property | 999 | — | 158 | $ 1,157 | 151 | 1,006 |
| Commercial and industrial loans: | | | | | | |
| Commercial term | — | — | 171 | $ 171 | 42 | 129 |
| Consumer loans | — | — | 47 | $ 47 | 2 | 45 |
| **Total PCI loans** | **$ 1,185** | **$ 176** | **$ 18,653** | **$ 20,014** | **$ 5,441** | **$ 14,573** |

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

| **As of December 31, 2016** | Pooled PCI Loans | | | | Non-pooled PCI Loans | | | |
|---|---|---|---|---|---|---|---|---|
| | #Loans | #Pools | Carrying Amount *(In thousands)* | % of total | #Loans | Carrying Amount *(In thousands)* | % of total | Total PCI Loans *(In thousands)* |
| Real estate loans: | | | | | | | | |
| Commercial property | 45 | 6 | $ 7,780 | 89% | 1 | $ 921 | 11% | $ 8,701 |
| Construction | — | — | — | —% | — | — | —% | — |
| Residential property | — | — | — | —% | 2 | 976 | 100% | 976 |
| Total real estate loans | 45 | 6 | 7,780 | 80% | 3 | 1,897 | 20% | 9,677 |
| Commercial and industrial loans | 6 | 3 | 136 | 100% | — | — | —% | 136 |
| Consumer loans | 1 | 1 | 50 | 100% | — | — | —% | 50 |
| Total acquired loans | 52 | 10 | $ 7,966 | 81% | 3 | $ 1,897 | 19% | $ 9,863 |
| Allowance for loan losses | | | $ (617) | | | $ (354) | | $ (971) |
| Total carrying amount | | | $ 7,349 | | | $ 1,543 | | $ 8,892 |

| **As of December 31, 2015** | Pooled PCI Loans | | | | Non-pooled PCI Loans | | | |
|---|---|---|---|---|---|---|---|---|
| | #Loans | #Pools | Carrying Amount *(In thousands)* | % of total | #Loans | Carrying Amount *(In thousands)* | % of total | Total PCI Loans *(In thousands)* |
| Real estate loans: | | | | | | | | |
| Commercial property | 71 | 9 | $ 17,644 | 95% | 2 | $ 995 | 5% | $ 18,639 |
| Construction | — | — | — | —% | — | — | —% | — |
| Residential property | 2 | 2 | 119 | 10% | 2 | 1,038 | 90% | 1,157 |
| Total real estate loans | 73 | 11 | 17,763 | 90% | 4 | 2,033 | 10% | 19,796 |
| Commercial and industrial loans | 11 | 3 | 171 | 100% | — | — | —% | 171 |
| Consumer loans | 1 | 1 | 47 | 100% | — | — | —% | 47 |
| Total acquired loans | 85 | 15 | $ 17,981 | 90% | 4 | $ 2,033 | 10% | $ 20,014 |
| Allowance for loan losses | | | $ (5,136) | | | $ (305) | | $ (5,441) |
| Total carrying amount | | | $ 12,845 | | | $ 1,728 | | $ 14,573 |

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

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total | Allowance Amount | Total PCI Loans |
|---|---|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | | | |
| **December 31, 2016** | | | | | | | | |
| Real estate loans: | | | | | | | | |
| Commercial property | | | | | | | | |
| Retail | $ 797 | $ — | $ 238 | $ 1,035 | $ 1,289 | $ 2,324 | $ 122 | $ 2,202 |
| Hotel/motel | 178 | — | — | 178 | 1,440 | 1,618 | 138 | 1,480 |
| Gas station | — | — | 116 | 116 | 2,576 | 2,692 | 589 | 2,103 |
| Other | — | — | 7 | 7 | 2,060 | 2,067 | 1 | 2,066 |
| Residential property | — | — | — | — | 976 | 976 | 72 | 904 |
| Commercial and industrial loans: | | | | | | | | |
| Commercial term | — | — | 6 | 6 | 130 | 136 | 41 | 95 |
| Consumer loans | — | — | 50 | 50 | — | 50 | 8 | 42 |
| **Total PCI loans** | **$ 975** | **$ —** | **$ 417** | **$ 1,392** | **$ 8,471** | **$ 9,863** | **$ 971** | **$ 8,892** |
| **December 31, 2015** | | | | | | | | |
| Real estate loans: | | | | | | | | |
| Commercial property | | | | | | | | |
| Retail | $ — | $ 267 | $ 1,109 | $ 1,376 | $ 3,473 | $ 4,849 | $ 269 | $ 4,580 |
| Hotel/motel | — | 9 | 154 | 163 | 3,917 | 4,080 | 88 | 3,992 |
| Gas station | — | — | 457 | 457 | 3,835 | 4,292 | 477 | 3,815 |
| Other | 4 | — | 4,996 | 5,000 | 418 | 5,418 | 4,412 | 1,006 |
| Residential property | — | — | 158 | 158 | 999 | 1,157 | 151 | 1,006 |
| Commercial and industrial loans: | | | | | | | | |
| Commercial term | — | — | 4 | 4 | 167 | 171 | 42 | 129 |
| Consumer loans | — | — | 47 | 47 | — | 47 | 2 | 45 |
| **Total PCI loans** | **$ 4** | **$ 276** | **$ 6,925** | **$ 7,205** | **$ 12,809** | **$ 20,014** | **$ 5,441** | **$ 14,573** |

## Note 6 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the years ended December 31, 2016 and 2015 were as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| **Servicing assets:** | | |
| **Balance at beginning of period** | **$ 11,744** | **$ 13,773** |
| Addition related to sale of SBA loans | 2,184 | 2,573 |
| Impairment provision | — | (330) |
| Amortization | (3,364) | (4,272) |
| **Balance at end of period** | **$ 10,564** | **$ 11,744** |
| **Servicing liabilities:** | | |
| **Balance at beginning of period** | **$ 4,784** | **$ 5,971** |
| Amortization | (1,641) | (1,187) |
| **Balance at end of period** | **$ 3,143** | **$ 4,784** |

At December 31, 2016 and 2015, we serviced the loans sold to unaffiliated parties in the amount of $484.7 million and $474.0 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 being serviced were SBA loans.

The Company recorded servicing fee income of $4.7 million, $4.6 million and $3.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Net amortization expense was $1.7 million, $3.1 million and $1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Servicing fee income, net of amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income.

## Note 7 — Premises and Equipment

The following is a summary of the major components of premises and equipment:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Land | $ 8,750 | $ 9,810 |
| Building and improvements | 18,313 | 19,455 |
| Furniture and equipment | 20,668 | 19,711 |
| Leasehold improvements | 11,833 | 11,296 |
| Leased equipment | 880 | — |
| | 60,444 | 60,272 |
| Accumulated depreciation and amortization | (31,383) | (30,075) |
| Impairment reserve | (363) | (363) |
| **Total premises and equipment, net** | **$ 28,698** | **$ 29,834** |

Depreciation and amortization expense related to premises and equipment was $2.9 million, $3.1 million and $2.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Note 8 — Goodwill and other intangibles**

The third-party originators intangible of $483,000 and goodwill of $11.0 million was recorded as a result of the acquisition of the leasing portfolio on October 27, 2016. The core deposit intangible ("CDI") of $2.2 million was recognized for the core deposits acquired from CBI merger at August 31, 2014. Company's intangible assets were as follows for the periods indicated:

| | | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|---|
| | Amortization Period | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | | | | (In thousands) | | | |
| Core deposit intangible | 10 years | $ 2,213 | $ (838) | $ 1,375 | $ 2,213 | $ (512) | $ 1,701 |
| Third-party originators intangible | 7 years | $ 483 | $ — | $ 483 | $ — | $ — | $ — |
| Goodwill | N/A | $ 11,031 | $ — | $ 11,031 | $ — | $ — | $ — |
| **Total intangible assets** | | **$ 13,727** | **$ (838)** | **$ 12,889** | **$ 2,213** | **$ (512)** | **$ 1,701** |

Intangibles amortization expense for the years ended December 31, 2016, 2015 and 2014 was $326,000, $379,000 and $132,000, respectively, and estimated future amortization expense related to CDI and the third-party originators intangible for each of the next five years is as follows:

| Year Ending December 31, | Amount |
|---|---|
| | (In thousands) |
| 2017 | $ 337 |
| 2018 | 362 |
| 2019 | 310 |
| 2020 | 261 |
| 2021 | 216 |
| Thereafter | 365 |

As of December 31, 2016 management was not aware of any circumstances that would indicate impairment of goodwill or other intangible assets. There were no impairment charges related to intangible assets recorded through earnings in 2016 or 2015.

**Note 9 — Deposits**

At December 31, 2016, the scheduled maturities of time deposits are as follows:

| Year Ending December 31, | Time Deposits of $250,000 or More | Other Time Deposits | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2017 | $ 417,142 | $ 552,470 | $ 969,612 |
| 2018 | 22,984 | 133,372 | 156,356 |
| 2019 | 2,843 | 15,222 | 18,065 |
| 2020 | 794 | 17,234 | 18,028 |
| 2021 | 1,910 | 15,071 | 16,981 |
| Thereafter | 261 | 1,014 | 1,275 |
| **Total** | $ 445,934 | $ 734,383 | $ 1,180,317 |

A summary of interest expense on deposits was as follows for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (In thousands) | |
| Demand – interest-bearing | $ 75 | $ 114 | $ 101 |
| Money market and savings | 6,470 | 4,195 | 4,758 |
| Time deposits of $100,000 or more | 6,605 | 6,639 | 4,321 |
| Other time deposits | 3,420 | 4,462 | 4,380 |
| Total interest expense on deposits | **$ 16,570** | **$ 15,410** | **$ 13,560** |

Accrued interest payable on deposits totaled $2.6 million and $3.2 million at December 31, 2016 and 2015, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2016 and 2015 were $1.2 million and $1.8 million, respectively.

**Note 10 — FHLB Advances**

FHLB advances and other borrowings consisted of the following:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| FHLB advances | $ 315,000 | $ 170,000 |
| Total FHLB advances | **$ 315,000** | **$ 170,000** |

FHLB advances represent collateralized obligations with the FHLB. The following is a summary of contractual maturities pertaining to FHLB advances:

| Year of Maturity | Amount | Weighted-Average Interest Rate |
|---|---|---|
| | (In thousands) | |
| 2017 | $ 315,000 | 0.55 % |
| Total | $ 315,000 | 0.55 % |

The following is financial data pertaining to FHLB advances:

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (In thousands) | |
| Weighted-average interest rate at end of year | 0.55 % | 0.27 % | 0.27 % |
| Weighted-average interest rate during the year | 0.45 % | 0.20 % | 0.21 % |
| Average balance of FHLB advances | $ 196,708 | $ 38,110 | $ 69,781 |
| Maximum amount outstanding at any month-end | $ 320,000 | $ 180,000 | $ 150,000 |

We have pledged loans receivable with market values of $993.2 million as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is $736.6 million, of which $421.6 million remained available as of December 31, 2016. At December 31, 2016, we had $10.5 million available for use through the Fed Discount Window, as we pledged loans receivable with carrying values of $10.7 million, and there were no borrowings.

At December 31, 2016, advances from the FHLB were $315.0 million, an increase of $145.0 million from $170.0 million at December 31, 2015, and the FHLB advances were all overnight borrowings at December 31, 2016. For the years ended December 31, 2016, 2015 and 2014 interest expense on FHLB advances were $879,000, $76,000 and $151,000, respectively, and the weighted-average interest rates were 0.45 percent, 0.20 percent and 0.21 percent, respectively.

**Note 11 — Subordinated Debentures and Rescinded Stock Obligation**

**Subordinated Debentures**

During the third quarter of 2014, the Company assumed CBI's Junior Subordinated Deferrable Interest Debentures ("Subordinated Debentures") with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount will be amortized to interest expense over the remaining term. In December 2005, a trust was formed by CBI and issued $26.0 million Trust Preferred Securities ("TPS") at 6.26 percent fixed rate for the first five years and a variable rate at the 3 month LIBOR plus 140 basis thereafter and invested the proceeds in Subordinated Debentures. The Subordinated Debentures will mature on December 31, 2035, however, the Bank 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. The discount amortization was $275,000 and $176,000 for the years ended December 31, 2016 and 2015, respectively.

**Rescinded Stock Obligation**

On August 31, 2014, the closing date of CBI Acquisition, Hanmi Financial assumed a rescinded stock obligation of $15.5 million and a related accrued interest payable of $4.5 million. The obligation resulted from issuance of CBI common shares that CBI was not legally authorized to issue in 2010 and 2009. Interest has been accrued on the obligation at statutory interest rates which vary from state to state. The remaining rescinded stock obligation balance of $933,000 and related accrued interest payable of $288,000 were paid in full in 2015.

**Note 12 — Income Taxes**

In accordance with the provisions of FASB ASC 740, the Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| | | *(In thousands)* | |
| Unrecognized tax benefits at beginning of year | $ 934 | $ 1,765 | $ 1,254 |
| Gross increases for tax positions of prior years | 105 | — | 676 |
| Gross decreases for tax positions of prior years | — | — | (165) |
| Lapse of statute of limitations | — | (831) | — |
| **Unrecognized tax benefits at end of year** | **$ 1,039** | **$ 934** | **$ 1,765** |

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was $1.0 million, $0.9 million and $1.8 million as of December 31, 2016, 2015 and 2014, respectively.

For the year ended December 31, 2016, unrecognized tax benefits increased by $105,000 in connection with California Enterprise Zone interest deductions. For the year ended December 31, 2015, unrecognized tax benefits decreased by $831,000 in connection with the tax position taken on expense related to Section 195 and FRB Stock dividend. For the year ended December 31, 2014, unrecognized tax benefits increased by $676,000 related to California Enterprise Zone interest deduction, offset by $165,000 decrease in connection with the tax position related to non-qualified stock option.

In 2016, 2015 and 2014, the Company accrued interest of $33,000, $20,000 and $52,000 for uncertain tax benefits, respectively. As of December 31, 2016, 2015 and 2014, the total amounts of accrued interest related to uncertain tax positions, net of federal tax benefit, were $101,000, $67,000 and $366,000, respectively. We account for interest and penalties related to uncertain tax positions as part of our provision for federal and state income taxes. Accrued interest and penalties are included within the related tax liability line on the Consolidated Balance Sheets.

Unrecognized tax benefit primarily includes state exposures from California Enterprise Zone interest deductions. We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

As of December 31, 2016, the Company was subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2016. As of December 31, 2016, the Company was subjected to audit or examination by Internal Revenue Service for the 2013 and 2014 tax years and California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements due to the result of the audits.

The Company adopted ASU 2016-09, Compensation - Stock Compensation. In accordance with this standard the Company recognizes excess tax benefits as income tax expense or benefit in the income statement. During 2016, the Company recognized $614,000 of income tax deductions due to excess tax benefits arising from exercises and vesting.

A summary of the provision for income taxes was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | *(In thousands)* | | |
| Current expense: | | | |
| Federal | $ 19,802 | $ 14,755 | $ 21,037 |
| State | 6,503 | 5,084 | 5,753 |
| Total current expense | 26,305 | 19,839 | 26,790 |
| Deferred expense (benefit): | | | |
| Federal | 4,410 | 13,663 | (3,597) |
| State | 2,184 | 4,680 | (333) |
| Total deferred expense | 6,594 | 18,343 | (3,930) |
| **Provision for income taxes** | **$ 32,899** | **$ 38,182** | **$ 22,860** |

Deferred tax assets and liabilities were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Deferred tax assets: | | | |
| Loan and lease loss provision | $ 13,932 | $ 18,205 | $ 22,676 |
| Depreciation | — | — | 3,491 |
| Purchase accounting | 7,492 | 13,156 | 13,731 |
| Net operating loss carryforward | 16,876 | 21,511 | 24,435 |
| Unrealized loss on securities available for sale | 1,695 | 859 | 287 |
| Indemnified assets | 1,441 | 152 | — |
| Tax credit | 3,516 | 3,939 | 5,853 |
| State taxes | 2,231 | 1,539 | 1,951 |
| Other | 5,726 | 5,040 | 9,234 |
| Total deferred tax assets | 52,909 | 64,401 | 81,658 |
| Deferred tax liabilities: | | | |
| Mark to market | (3,960) | (10,469) | (6,462) |
| Depreciation | (396) | (705) | — |
| Purchase accounting | — | — | — |
| Indemnified assets | — | — | (2,995) |
| Other | (1,190) | (1,132) | (2,051) |
| Total deferred tax liabilities | (5,546) | (12,306) | (11,508) |
| Valuation Allowance | (1,031) | — | — |
| **Net deferred tax assets** | **$ 46,332** | **$ 52,095** | **$ 70,150** |

As of December 31, 2016 the Company's net deferred tax assets, which primarily consists of net operating loss carryforwards and the allowance for loan and lease losses, decreased by $5.8 million primarily due to the reduction in the allowance for loan and lease losses, net operating loss carryforwards, and purchase accounting, offset by a reduction in mark to market. As of December 31, 2015, the Company’s net deferred tax assets decreased by $18.1 million from 2014 due mainly to the reduction in the allowance for loan and lease losses and an increase in mark to market.

As of each reporting date, management considers the realization of deferred tax assets based on management’s judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2016, management determined that a valuation allowance of $1.0 million was appropriate against certain state net operating losses. 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. As of December 31, 2015, management determined no valuation allowance was required. Therefore the valuation allowance increased $1.0 million in 2016.

As of December 31, 2016, the Company had net operating loss carryforwards of $5.2 million and $236.6 million for federal and state income tax purposes, respectively, which are available to offset future taxable income, if any, through 2033. As of December 31, 2016, the Company had federal and state low income housing tax credit carryforwards of approximately $2.8 million and $440,000, respectively. The federal low income housing tax credits carry forward through 2031 and state low income housing tax credits carry forward indefinitely. The Company also had federal alternative minimum tax credits of $400,000, which carry forward indefinitely.

Reconciliation between the federal statutory income tax rate and the effective tax rate is shown in the following table:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Federal statutory income tax rate | 35.00 % | 35.00 % | 35.00 % |
| State taxes, net of federal tax benefits | 7.04 % | 8.32 % | 5.86 % |
| Tax-exempt municipal securities | (0.26)% | (0.26)% | (0.07)% |
| Tax credit - federal | (2.50)% | (2.51)% | (2.27)% |
| Bargain purchase gain | — % | — % | (7.03)% |
| Other | (2.48)% | 0.95 % | (0.01)% |
| **Effective tax rate** | **36.80 %** | **41.50 %** | **31.48 %** |

**Note 13 — Stockholders' Equity**

**Stock Warrants**

As part of an agreement dated as of July 27, 2010 with Cappello Capital Corp., the placement agent in connection with our best efforts offering and the financial advisor in connection with our completed rights offering, we issued warrants to purchase 250,000 shares of our common stock for services performed. The warrants had an exercise price of \$9.60 per share. According to the agreement, the warrants vested on October 14, 2010 and were exercisable until their expiration on October 14, 2015. The Company followed the guidance of FASB ASC Topic 815-40, *Derivatives and Hedging—Contracts in Entity's Own Stock,* which established a framework for determining whether certain freestanding and embedded instruments are indexed to a company's own stock for purposes of evaluation of the accounting for such instruments under existing accounting literature. Under GAAP, the issuer is required to measure the fair value of the equity instruments in the transaction as of the earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The fair value of the warrants at the date of issuance totaling \$2.0 million was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing model. The expected stock volatility was based on historical volatility of our common stock over the expected term of the warrants. We used a weighted average expected stock volatility of 111.46 percent. The expected life assumption was based on the contract term offive years. The dividend yield ofzero was based on the fact that we had no intention to pay cash dividends for the term at the grant date. The risk free rate of 2.07 percent used for the warrants was equal to thezero coupon rate in effect at the time of the grant. During the years of 2012, 2013 and 2014, all the stock warrants were exercised and there were no outstanding stock warrants as of December 31, 2014.

**Note 14 — Accumulated Other Comprehensive Income (Loss)**

Activity in accumulated other comprehensive income for the year ended December 31, 2016 and 2015 was as follows:

| | Unrealized Gains and Losses on Available-for-Sale Securities | Unrealized Gains and Losses on Interest-Only Strip | Tax Benefit (Expense) | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **For the year ended December 31, 2016** | | | | |
| Balance at beginning of period | $ (2,331) | $ 9 | $ 2,007 | $ (315) |
| Other comprehensive loss before reclassification | (1,712) | (9) | (312) | $ (2,033) |
| Reclassification from accumulated other comprehensive loss | (46) | — | — | $ (46) |
| Period change | (1,758) | (9) | (312) | $ (2,079) |
| **Balance at end of period** | **$ (4,089)** | **$ —** | **$ 1,695** | **$ (2,394)** |
| **For the year ended December 31, 2015** | | | | |
| Balance at beginning of period | $ (985) | $ 16 | $ 1,432 | $ 463 |
| Other comprehensive (loss) income before reclassification | 5,265 | (7) | 575 | $ 5,833 |
| Reclassification from accumulated other comprehensive income | (6,611) | | — | $ (6,611) |
| Period change | (1,346) | (7) | 575 | (778) |
| **Balance at end of period** | **$ (2,331)** | **$ 9** | **$ 2,007** | **$ (315)** |
| **For the year ended December 31, 2014** | | | | |
| Balance at beginning of period | $ (18,187) | $ 16 | $ 8,791 | $ (9,380) |
| Other comprehensive (loss) income before reclassification | 19,213 | — | (7,359) | $ 11,854 |
| Reclassification from accumulated other comprehensive loss | (2,011) | — | — | $ (2,011) |
| Period change | 17,202 | — | (7,359) | 9,843 |
| **Balance at end of period** | **$ (985)** | **$ 16** | **$ 1,432** | **$ 463** |

For the year ended December 31, 2016, there was a$46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of $314,000 related to these sold securities had previously been recorded in accumulated other comprehensive income or loss.

For the year ended December 31, 2015, there was a$6.6 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $6.6 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized gains of $1.9 million related to these sold securities had previously been recorded in accumulated other comprehensive income.

For the year ended December 31, 2014, there was a$2.0 million reclassification from accumulated other comprehensive income or loss to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $2.0 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of $498,000 related to these sold securities had previously been recorded in accumulated other comprehensive income.

**Note 15 — Regulatory Matters**

**Risk-Based Capital**

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 4.0 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 them to maintain 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 6.0 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.

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

In addition, a new capital conservation buffer of 2.5% began to be phased in effective January 1, 2016 through January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. In January 2016, the new capital conservation buffer requirement was 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. The Company and the Bank's capital conservation buffer was 5.86% and 5.64%, respectively, as of December 31, 2016.

The capital ratios of Hanmi Financial and the Bank as ofDecember 31, 2016 and 2015 were as follows:

| | Actual | | Minimum Regulatory Requirement | | Minimum to Be Categorized as "Well Capitalized" | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | *(In thousands)* | | | |
| **December 31, 2016** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 554,089 | 13.86% | $ 319,901 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 544,759 | 13.64% | $ 319,520 | 8.00% | $ 399,399 | 10.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 520,477 | 13.02% | $ 239,926 | 6.00% | N/A | N/A |
| Hanmi Bank | $ 511,146 | 12.80% | $ 239,640 | 6.00% | $ 319,520 | 8.00% |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 509,239 | 12.73% | $ 179,944 | 4.50% | N/A | N/A |
| Hanmi Bank | $ 511,146 | 12.80% | $ 179,730 | 4.50% | $ 259,610 | 6.50% |
| Tier 1 capital (to average assets): | | | | | | |
| Hanmi Financial | $ 520,477 | 11.53% | $ 180,581 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 511,146 | 11.33% | $ 180,411 | 4.00% | $ 225,514 | 5.00% |
| **December 31, 2015** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 499,076 | 14.91% | $ 267,760 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 496,710 | 14.86% | $ 267,377 | 8.00% | $ 334,222 | 10.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 456,941 | 13.65% | $ 200,820 | 6.00% | N/A | N/A |
| Hanmi Bank | $ 454,634 | 13.60% | $ 200,533 | 6.00% | $ 267,377 | 8.00% |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | | |
| Hanmi Financial | $ 456,941 | 13.65% | $ 150,615 | 4.50% | N/A | N/A |
| Hanmi Bank | $ 454,634 | 13.60% | $ 150,400 | 4.50% | $ 217,244 | 6.50% |
| Tier 1 capital (to average assets): | | | | | | |
| Hanmi Financial | $ 456,941 | 11.31% | $ 161,620 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 454,634 | 11.27% | $ 161,399 | 4.00% | $ 201,749 | 5.00% |

## Note 16 — Fair Value Measurements

### 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, goodwill and other intangible assets, are recorded at fair value on a non-recurring basis. Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

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

Securities available for sale - The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve, prepayment speeds, and default rates. Level 1 securities include U.S. treasury securities and mutual funds that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 securities primarily include mortgage-backed securities, collateralized mortgage obligations, U.S. government agency securities, SBA loan pool securities, municipal bonds and corporate bonds in markets that are not 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 bonds is determined based on a proprietary model maintained by the broker-dealers. 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 – All loans held for sale are SBA loans 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 December 31, 2016 and 2015, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

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

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

Nonperforming loans held for sale – We reclassify certain nonperforming loans as held for sale when we decide to sell those loans. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of December 31, 2016 and 2015, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

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

As of December 31, 2016 and 2015, 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) | | |
| **December 31, 2016** | | | | |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ — | $ 229,630 | $ — | $ 229,630 |
| Collateralized mortgage obligations | — | 76,451 | — | 76,451 |
| U.S. government agency securities | — | 7,441 | — | 7,441 |
| SBA loan pools securities | — | 4,146 | — | 4,146 |
| Municipal bonds-tax exempt | — | 158,030 | — | 158,030 |
| Municipal bonds-taxable | — | 13,701 | — | 13,701 |
| Corporate bonds | — | 5,015 | — | 5,015 |
| U.S. treasury securities | 156 | — | — | 156 |
| Mutual funds | 22,394 | — | — | 22,394 |
| Total securities available for sale | $ 22,550 | $ 494,414 | $ — | $ 516,964 |
| **December 31, 2015** | | | | |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ — | $ 284,381 | $ — | $ 284,381 |
| Collateralized mortgage obligations | — | 96,986 | — | 96,986 |
| U.S. government agency securities | — | 47,822 | — | 47,822 |
| SBA loan pools securities | — | 63,266 | — | 63,266 |
| Municipal bonds-tax exempt | — | 163,902 | — | 163,902 |
| Municipal bonds-taxable | — | 14,033 | — | 14,033 |
| Corporate bonds | — | 4,993 | — | 4,993 |
| U.S. treasury securities | 160 | — | — | 160 |
| Mutual funds | 22,753 | — | — | 22,753 |
| Total securities available for sale | $ 22,913 | $ 675,383 | $ — | $ 698,296 |

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

As of December 31, 2016 and 2015, 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 Years Ended |
| | | (In thousands) | | |
| **December 31, 2016** | | | | |
| **Assets:** | | | | |
| Impaired loans (excluding PCI loans) (1) | $ — | $ 15,257 | $ 6,767 | $ 868 |
| OREO (2) | — | 7,484 | — | — |
| **December 31, 2015** | | | | |
| **Assets:** | | | | |
| Impaired loans (3) | $ — | $ 29,595 | $ 1,044 | $ 2,756 |
| OREO (4) | — | 8,511 | — | — |

(1) *Includes real estate loans of $17.8 million, commercial and industrial loans of $3.8 million, and consumer loans of $419,000.*

(2) *Includes properties from the foreclosure of commercial property loans of $5.4 million and residential property loans of $2.1 million.*

(3) *Includes real estate loans of $27.9 million, commercial and industrial loans of $1.0 million, and consumer loans of $1.7 million.*

(4) *Includes properties from the foreclosure of commercial property loans of $6.6 million and residential property loans of $1.9 million.*

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

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

The estimated fair values of financial instruments were as follows:

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

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | | |
| | | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| **Financial assets:** | | | | |
| Cash and due from banks | $ 164,364 | $ 164,364 | $ — | $ — |
| Securities available for sale | 698,296 | 22,913 | 675,383 | — |
| Loans receivable, net of allowance for loan losses | 3,140,381 | | — | 3,127,172 |
| Loans held for sale | 2,874 | — | 2,874 | — |
| Accrued interest receivable | 9,501 | 9,501 | — | — |
| FHLB stock | 16,385 | — | 16,385 | — |
| FRB stock | 14,098 | — | 14,098 | — |
| **Financial liabilities:** | | | | |
| Noninterest-bearing deposits | 1,155,518 | — | 1,155,518 | — |
| Interest-bearing deposits | 2,354,458 | — | — | 2,329,335 |
| Borrowings | 188,703 | — | — | 188,703 |
| Accrued interest payable | 3,177 | 3,177 | — | — |
| **Off-balance sheet items:** | | | | |
| Commitments to extend credit | 262,680 | — | — | 262,680 |
| Standby letters of credit | 6,839 | — | — | 6,839 |

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

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

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

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

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

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

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

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

FHLB and FRB stock - The carrying amounts of FHLB and FRB stock approximate fair value, as such stock may be resold to the issuer at carrying value (Level 2).

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

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

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

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

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

**Note 17 — Share-based Compensation**

At December 31, 2016, we had three incentive plans, the Year 2000 Stock Option Plan (the “2000 Plan”), the 2007 Equity Compensation Plan (the “2007 Plan”) which replaced the 2000 Plan and the 2013 Equity Compensation Plan (the “2013 Plan” and with the 2000 Plan and 2007 Plan, the “Plans”) which replaced the 2007 Plan.

The 2013 Plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award, together with any other right or interest to a participant under the plan. Plan participant includes executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its related entities. Although no future stock options may be granted under the 2007 Plan and 2000 Plan, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2013 Plan. Under the 2013 Plan, we may grant equity incentive awards for up to 1,500,000 shares of common stock. As ofDecember 31, 2016, 646,664 shares were still available for issuance under the 2013 Plan.

The Company adopted Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation, during the three months ended March 31, 2016. Adoption of this ASU did not have a material impact on the Company's financial statements. As a result of adoption of this ASU, excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income in 2016.

The table below provides the share-based compensation expense and related tax benefits for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| | | *(In thousands)* | |
| Share-based compensation expense | $ 3,008 | $ 2,241 | $ 2,165 |
| Related tax benefits | $ 1,191 | $ 755 | $ 516 |

As of December 31, 2016, unrecognized share-based compensation expense was as follows

| | **Unrecognized Expense** | **Average Expected Recognition Period** |
|---|---|---|
| | *(In thousands)* | |
| Stock option awards | $ 99 | 0.8 years |
| Restricted stock awards | 3,836 | 2.3 years |
| **Total unrecognized share-based compensation expense** | **$ 3,935** | **2.2 years** |

***2013 and 2007 Equity Compensation Plans and 2000 Stock Option Plan***

*Stock Options*

All stock options granted under the Plans have an exercise price equal to the fair market value of the underlying common stock on the date of grant. Stock options granted under the Plans generally vest based on three to five years of continuous service and expire 10 years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan). New shares of common stock are issued or treasury shares are utilized upon the exercise of stock options.

The weighted-average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Weighted-average assumption** | | |
| Dividend yield | 1.80% | 1.27% |
| Expected volatility | 25.00% | 35.18% |
| Expected term | 3 years | 3 years |
| Risk-free interest rate | 1.11% | 0.86% |

Expected volatility was determined based on the historical weekly volatility of our stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with previous option grants. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

The following information under the Plans is presented for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | *(In thousands, except per share data)* | | |
| Grant date fair value of options granted | $ — | $ 78 | $ 583 |
| Fair value of options vested | $ 2,322 | $ 2,668 | $ 2,141 |
| Total intrinsic value of options exercised *(1)* | $ 1,862 | $ 488 | $ 353 |
| Cash received from options exercised | $ 1,453 | $ 616 | $ 467 |
| Weighted-average estimated fair value per share of options granted | $ — | $ 3.62 | $ 4.79 |

*(1) Intrinsic value represents the difference between the closing stock price on the exercise date and the exercise price, multiplied by the number of options.*

The following is a summary of stock option transactions under the Plans for the periods indicated:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | **Number of Shares** | **Weighted-Average Exercise Price Per Share** | **Number of Shares** | **Weighted-Average Exercise Price Per Share** | **Number of Shares** | **Weighted-Average Exercise Price Per Share** |
| Options outstanding at beginning of period | 510,148 | $ 24.38 | 603,872 | $ 23.78 | 546,595 | $ 28.09 |
| Options granted | — | $ — | 28,000 | $ 23.47 | 158,000 | $ 21.30 |
| Options exercised | (94,997) | $ 15.29 | (46,516) | $ 13.24 | (37,569) | $ 12.42 |
| Options forfeited | (125) | $ 144.00 | (71,608) | $ 20.59 | (30,917) | $ 14.64 |
| Options expired | (27,125) | $ 154.09 | (3,600) | $ 136.79 | (32,237) | $ 106.70 |
| **Options outstanding at end of period** | **387,901** | **$ 17.49** | **510,148** | **$ 24.38** | **603,872** | **$ 23.78** |
| Options exercisable at end of period | 341,561 | $ 16.85 | 333,460 | $ 27.16 | 224,766 | $ 33.35 |

The following is a summary of transactions for non-vested stock options under the Plans for the periods indicated:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Number of Shares | Weighted-Average Exercise Price Per Share | Number of Shares | Weighted-Average Exercise Price Per Share | Number of Shares | Weighted-Average Exercise Price Per Share |
| Non-vested options outstanding at beginning of period | 176,688 | $ 19.13 | 379,106 | $ 18.11 | 391,625 | $ 15.56 |
| Options granted | — | $ — | 28,000 | $ 23.47 | 158,000 | $ 21.30 |
| Options vested | (130,223) | $ 17.83 | (158,810) | $ 16.80 | (139,602) | $ 15.34 |
| Options forfeited | (125) | $ 144.00 | (71,608) | $ 20.59 | (30,917) | $ 14.64 |
| **Non-vested options outstanding at end of period** | **46,340** | **$ 22.42** | **176,688** | **$ 19.13** | **379,106** | **$ 18.11** |

As of December 31, 2016, stock options outstanding under the Plans were as follows:

| | Options Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Intrinsic Value *(1)* | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life | Number of Shares | Intrinsic Value *(1)* | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life |
| | | | | *(In thousands except share and per share data)* | | | | |
| $10.88 to $14.99 | 36,901 | $ 835 | $ 12.27 | 5.4 years | 36,901 | $ 835 | $ 12.27 | 5.4 years |
| $15.00 to $19.99 | 265,000 | 4,861 | 16.55 | 6.7 years | 255,000 | 4,710 | 16.43 | 6.7 years |
| $20.00 to $24.83 | 86,000 | 1,056 | 22.62 | 7.7 years | 49,660 | 509 | 22.39 | 7.5 years |
| | **387,901** | **$ 6,752** | **$ 17.49** | 6.8 years | **341,561** | **$ 6,054** | **$ 16.85** | 6.6 years |

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

*Restricted Stock Awards*

Restricted stock awards under the 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 prior to the lapsing of restrictions. Forfeitures of restricted stock are treated as cancelled shares.

The table below provides information for restricted stock awards under the 2013 Plan for the periods indicated:

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | Number of Shares | Weighted-Average Grant Date Fair Value Per Share | 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 | 137,114 | $ 20.74 | 173,222 | $ 19.58 | 116,082 | $ 16.43 |
| Restricted stock granted | 287,179 | $ 15.52 | 58,092 | $ 22.53 | 119,988 | 21.56 |
| Restricted stock vested | (77,515) | $ 19.75 | (68,017) | $ 19.16 | (53,515) | $ 17.61 |
| Restricted stock forfeited | (2,820) | $ 21.58 | (26,183) | $ 21.16 | (9,333) | $ 17.05 |
| **Restricted stock at end of period** | **343,958** | **$ 16.60** | **137,114** | **$ 20.74** | **173,222** | **$ 19.58** |

**Note 18 — 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 shares of common stock 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 shares of common stock in treasury.

Unvested restricted stock is excluded from the calculation of weighted-average number of common shares for basic EPS. For diluted EPS, weighted-average number of common shares included the impact of restricted stock under the treasury method. The Company amended all restricted stock agreements as of September 1, 2015 to allow for the payment of non-forfeitable dividends on unvested restricted stock, accordingly, we adopted the two-class method for EPS calculation pursuant to ASC 260-10, Earnings Per Share. Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method. Basic EPS is computed by dividing net income, net of income allocated to participating securities, by the weighted-average number of shares of common stock. For diluted EPS, weighted-average number of shares of common stock include the diluted effect of stock options.

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

| | Net Income (Numerator) | Weighted-Average Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| | *(In thousands, except share and per share data)* | | |
| **Year Ended December 31, 2016** | | | |
| Basic EPS | | | |
| Net income | $ 56,489 | 31,899,582 | $ 1.77 |
| Less: Income allocated to unvested restricted stock | 457 | 31,899,582 | 0.01 |
| **Basic EPS** | **$ 56,032** | **31,899,582** | **$ 1.76** |
| Effect of dilutive securities - options, warrants and unvested restricted stock | | 149,122 | |
| Diluted EPS | | | |
| Net income | $ 56,489 | 32,048,704 | $ 1.76 |
| Less: Income allocated to unvested restricted stock | 457 | 32,048,704 | 0.01 |
| **Diluted EPS** | **$ 56,032** | **32,048,704** | **$ 1.75** |
| **Year Ended December 31, 2015** | | | |
| Basic EPS | | | |
| Net income | $ 53,823 | 31,788,215 | $ 1.69 |
| Less: Income allocated to unvested restricted stock | 145 | 31,788,215 | — |
| **Basic EPS** | **$ 53,678** | **31,788,215** | **$ 1.69** |
| Effect of dilutive securities - options, warrants and unvested restricted stock | | 88,605 | |
| Diluted EPS | | | |
| Net income | $ 53,823 | 31,876,820 | $ 1.68 |
| Less: Income allocated to unvested restricted stock | 145 | 31,876,820 | — |
| **Diluted EPS** | **$ 53,678** | **31,876,820** | **$ 1.68** |
| **Year Ended December 31, 2014** | | | |
| Basic EPS | | | |
| Income from continuing operations, net of taxes | $ 50,205 | 31,696,100 | $ 1.58 |
| Loss from discontinued operations, net of taxes | (444) | 31,696,100 | (0.01) |
| **Basic EPS** | **$ 49,761** | **31,696,100** | **$ 1.57** |
| Effect of dilutive securities - options, warrants and unvested restricted stock | | 281,964 | |
| Diluted EPS | | | |
| Income from continuing operations, net of taxes | $ 50,205 | 31,978,064 | $ 1.57 |
| Loss from discontinued operations, net of taxes | (444) | 31,978,064 | (0.01) |
| **Diluted EPS** | **$ 49,761** | **31,978,064** | **$ 1.56** |

For the years ended December 31, 2016, 2015 and 2014, there were 74,389, 30,250 and 85,850 options, warrants and shares of unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

**Note 19 — Employee Benefits**

***401(k) Plan***

We have a Section 401(k) plan for the benefit of substantially all of our employees. We match 75 percent of participant contributions to the 401(k) plan up to 8 percent of each 401(k) plan participant's annual compensation. Contributions to the 401(k) plan were $1.9 million, $1.6 million and $1.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

***Bank-Owned Life Insurance***

As of December 31, 2016, cash surrender value of bank-owned life insurance was $49.4 million. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier.

***Deferred Compensation Plan***

Effective November 1, 2006, the Board of Directors approved the Hanmi Financial Corporation Deferred Compensation Plan (the "DCP"). The DCP is unfunded, and a non-qualified deferred compensation program for directors and certain key employees whereby they may defer a portion of annual compensation for payment upon retirement of the amount deferred plus a guaranteed return. The liabilities for the deferred compensation plan and interest thereon were zero both as of December 31, 2016 and 2015.

**Note 20 — Commitments and Contingencies**

We lease our premises under non-cancelable operating leases. At December 31, 2016, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

| **Year Ended December 31,** | | **Amount** |
|---|---|---|
| | | *(In thousands)* |
| 2017 | $ | 5,954 |
| 2018 | | 4,658 |
| 2019 | | 3,863 |
| 2020 | | 3,317 |
| 2021 | | 1,911 |
| Thereafter | | 2,625 |
| **Total** | **$** | **22,328** |

For the years ended December 31, 2016, 2015 and 2014, rental expenses recorded under such leases amounted to $6.6 million, $7.6 million and $6.1 million, respectively.

***Litigation***

In the normal course of business, we are involved in various legal claims. Management has reviewed all legal claims against us with in-house or outside legal counsel and has taken into consideration the views of such counsel as to the outcome of the claims. In management's opinion, the final disposition of all such claims will not have a material adverse effect on our financial position or results of operations.

**Note 21 — 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 loan 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:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | *(In thousands)* | |
| Commitments to extend credit | $ 310,987 | $ 262,680 |
| Standby letters of credit | 15,669 | 6,839 |
| Commercial letters of credit | 4,215 | 4,018 |
| **Total undisbursed loan commitments** | **$ 330,871** | **$ 273,537** |

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 off-balance sheet items was as follows for the periods indicated:

| | As of and for the Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | *(In thousands)* | | |
| **Allowance for off-balance sheet items:** | | | |
| Balance at beginning of period | $ 986 | $ 1,366 | $ 1,248 |
| Provision (negative provision) charged to operating expense | 198 | (380) | $ 118 |
| **Balance at end of period** | **$ 1,184** | **$ 986** | **$ 1,366** |

**Note 22 — Liquidity**

**Hanmi Financial**

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

**Hanmi Bank**

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originating from its branch platform. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of December 31, 2016, the Bank had $95 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 percent of its assets. As of December 31, 2016, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $736.6 million and $421.6 million, respectively, compared to $457.2 million and $287.2 million, respectively, as of December 31, 2015. The Bank's FHLB borrowings as of December 31, 2016 and December 31, 2015 totaled $315.0 million and $170 million, respectively.

The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and leases, securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $10.5 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of $10.7 million, and had no borrowings as of December 31, 2016. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for repurchase agreements up to $100.0 million. The Bank established unsecured federal funds lines of credit totaling $95.0 million from three financial institutions in June 2014 primarily to support short-term liquidity.

The Bank has Contingency Funding Plans ("CFPs") designed to ensure that liquidity sources are sufficient to meet its ongoing obligations and commitments, particularly in the event of a liquidity contraction. The CFPs are designed to examine and quantify its liquidity under various "stress" scenarios. Furthermore, the CFPs provide a framework for management and other critical personnel to follow in the event of a liquidity contraction or in anticipation of such an event. The CFPs address authority for activation and decision making, liquidity options and the responsibilities of key departments in the event of a liquidity contraction.

**Note 23 — Condensed Financial Information of Parent Company**

**Balance Sheets**

| | Year Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| **Assets** | | |
| Cash | $ 3,885 | $ 15,660 |
| Investment in consolidated subsidiaries | 540,672 | 491,610 |
| Other assets | 5,572 | 5,525 |
| **Total assets** | **$ 550,129** | **$ 512,795** |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Subordinated debentures | $ 18,978 | $ 18,703 |
| Other liabilities | 126 | 174 |
| Total liabilities | 19,104 | 18,877 |
| Stockholders' equity | 531,025 | 493,918 |
| **Total liabilities and stockholders' equity** | **$ 550,129** | **$ 512,795** |

**Statements of Income**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (In thousands) | |
| Equity in earnings of subsidiaries | $ 51,141 | $ 56,840 | $ 39,576 |
| Other income (expenses), net | 5,348 | (3,017 ) | 10,185 |
| **Net income** | **$ 56,489** | **$ 53,823** | **$ 49,761** |

**Statements of Cash Flows**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| **Cash Flows from Operating Activities:** | | | |
| Net income | $ 56,489 | $ 53,823 | $ 49,761 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Income from subsidiaries | (51,141) | (56,840) | (39,576) |
| Amortization of subordinated debentures | 275 | 159 | 71 |
| Share-based compensation expense | 3,008 | 2,241 | 2,165 |
| Bargain purchase gain | — | — | (14,577) |
| Change in other assets | (47) | (1,277) | (2,320) |
| Change in other liabilities | (48) | (1,403) | 15,715 |
| **Net cash provided by (used in) operating activities** | **8,536** | **(3,297)** | **11,239** |
| **Cash Flows from Investing Activities:** | | | |
| Cash paid for repurchases of vested shares due to employee tax liability | (579) | (349) | — |
| Cash acquired in acquisition, net of cash consideration paid | — | — | 116,967 |
| Proceeds from Hanmi Bank | — | 12,782 | 76,231 |
| Payments to Hanmi Bank | — | — | (193,179) |
| **Net cash provided by investing activities** | **(579)** | **12,433** | **19** |
| **Cash Flows from Financing Activities:** | | | |
| Proceeds from exercise of stock options and stock warrants | 1,453 | 616 | 467 |
| Cash dividend paid | (21,185) | (12,780) | (6,694) |
| **Net cash (used in) provided by financing activities** | **(19,732)** | **(12,164)** | **(6,227)** |
| **Net increase (decrease) in cash** | **(11,775)** | **(3,028)** | **5,031** |
| Cash at beginning of year | 15,660 | 18,688 | 13,657 |
| **Cash at end of year** | **$ 3,885** | **$ 15,660** | **$ 18,688** |

**Note 24 — Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data is shown in the following tables:

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| | *(In thousands, except per share data)* | | | |
| **2016:** | | | | |
| Interest and dividend income | $ 42,674 | $ 44,159 | $ 44,325 | $ 47,313 |
| Interest expense | 4,105 | 4,179 | 4,743 | 5,247 |
| Net interest income before provision for loan and lease losses | 38,569 | 39,980 | 39,582 | 42,066 |
| Negative provision for loan and lease losses | (1,525 ) | (1,515 ) | (1,450 ) | 151 |
| Non-interest income | 6,961 | 9,373 | 8,674 | 8,067 |
| Non-interest expense | 26,068 | 27,863 | 28,337 | 25,955 |
| Income before provision for income taxes | 20,987 | 23,005 | 21,369 | 24,027 |
| Provision for income taxes | 6,183 | 8,857 | 8,248 | 9,611 |
| **Net income** | **$ 14,804** | **$ 14,148** | **$ 13,121** | **$ 14,416** |
| Basic earnings per share | $ 0.46 | $ 0.44 | $ 0.41 | $ 0.45 |
| Diluted earnings per share | $ 0.46 | $ 0.44 | $ 0.41 | $ 0.45 |
| **2015:** | | | | |
| Interest and dividend income | $ 41,437 | $ 41,050 | $ 40,025 | $ 41,714 |
| Interest expense | 3,981 | 3,958 | 4,040 | 4,130 |
| Net interest income before provision for loan and lease losses | 37,456 | 37,092 | 35,985 | 37,584 |
| Negative provision for loan and lease losses | (1,672 ) | (2,403 ) | (3,704 ) | (3,835 ) |
| Non-interest income | 10,850 | 11,135 | 13,561 | 12,056 |
| Non-interest expense | 31,391 | 27,028 | 28,723 | 28,186 |
| Income before provision for income taxes | 18,587 | 23,602 | 24,527 | 25,289 |
| Provision for income taxes | 7,534 | 9,619 | 10,569 | 10,460 |
| **Net income** | **$ 11,053** | **$ 13,983** | **$ 13,958** | **$ 14,829** |
| Basic earnings per share | $ 0.35 | $ 0.44 | $ 0.44 | $ 0.46 |
| Diluted earnings per share | $ 0.35 | $ 0.44 | $ 0.44 | $ 0.46 |

**Note 25 — Subsequent Events**

Management has evaluated subsequent events through the date of issuance of the financial data included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Annual Report on Form 10-K or would be required to be recognized in the Consolidated Financial Statements as of December 31, 2016.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 1, 2017 **Hanmi Financial Corporation**

By: /s/ C. G. Kum

C. G. Kum

*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 1, 2017.

| | |
|---|---|
| /s/ C. G. Kum | /s/ Romolo C. Santarosa |
| C. G. Kum | Romolo C. Santanrosa |
| *President and Chief Executive Officer; Director* | *Senior Executive Vice President and Chief Financial Officer* |
| *(Principal Executive Officer)* | *(Principal Financial and Accounting Officer)* |
| /s/ Joseph K. Rho | /s/ John J. Ahn |
| Joseph K. Rho | John J. Ahn |
| *Chairman of the Board* | *Director* |
| /s/ Christie K. Chu | /s/ Harry H. Chung |
| Christie K. Chu | Harry H. Chung |
| *Director* | *Director* |
| /s/ Paul (Seon-Hong) Kim | /s/ Joon Hyung Lee |
| Paul (Seon-Hong) Kim | Joon Hyung Lee |
| *Director* | *Director* |
| /s/ David L. Rosenblum | /s/ Thomas J. Williams |
| David L. Rosenblum | Thomas J. Williams |
| *Director* | *Director* |
| /s/ Michael M. Yang | |
| Michael M. Yang | |
| *Director* | |

## Hanmi Financial Corporation and Subsidiaries

## Exhibit Index

| Exhibit Number | Document |
|---|---|
| 2.1 | Agreement and Plan of Merger by and among Hanmi Financial Corporation, Central Bancorp, Inc. and Harmony Merger Sub Inc., dated as of December 15, 2013 (incorporated by reference herein from Exhibit 2.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 16, 2013). |
| 3.1 | Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010). |
| 3.2 | Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 19, 2011). |
| 3.3 | Amended and Restated Bylaws of Hanmi Financial Corporation, dated as of March 23, 2016 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on March 29, 2016). |
| 4.1 | Specimen Stock Certificate representing Hanmi Financial Corporation Common Stock (incorporated by reference herein from Exhibit 4.1 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011). |
| 4.2 | Central Bancorp Statutory Trust I Junior Subordinated Indenture, dated as of December 27, 2005, entered into between Central Bancorp, Inc. and JPMorgan Chase Bank, National Association as Trustee (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016). |
| 4.3 | Amended and Restated Declaration of Trust of Central Bancorp Statutory Trust I, dated as of December 27, 2005, among Central Bancorp, Inc., JPMorgan Chase Bank, National Association, and the Administrative Trustees Named Therein (incorporated by reference herein from Exhibit 10.2 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016). |
| 4.4 | Central Bancorp Statutory Trust I Trust Preferred Securities Guarantee Agreement, dated as of December 27, 2005, entered into between Central Bancorp, Inc., as Guarantor, and JPMorgan Chase Bank, National Association, as Guarantee Trustee (incorporated by reference herein from Exhibit 10.3 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016). |
| 10.1 | Employment Agreement by and between Hanmi Financial Corporation and Hanmi Bank, on the One Hand, and C. G. Kum, on the Other Hand, dated as of May 24, 2013 (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on June 12, 2013).† |
| 10.2 | Hanmi Financial Corporation Form of Severance and Release Agreement (incorporated by reference herein from Exhibit 10.23 to Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009).† |
| 10.3 | Form of Indemnity Agreement (incorporated by reference herein from Exhibit 10.35 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011). |
| 10.4 | Hanmi Financial Corporation Amended and Restated 2013 Equity Compensation Plan (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).† |
| 10.5 | Form of Incentive Stock Option Agreement (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).† |
| 10.6 | Form of Non-Qualified Stock Option Agreement (incorporated by reference herein from Exhibit 4.3 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).† |
| 10.7 | Form of Restricted Stock Agreement (incorporated by reference herein from Exhibit 4.4 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).† |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |

| | |
|---|---|
| 31.1 | Certification of Chief 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 Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document * |

† Constitutes a management contract or compensatory plan or arrangement.

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

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
Hanmi Financial Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 333-177996, 333-164690, and 333-163206) on Form S-3 and (Nos. 333-115753, 333-122482, 333-149858, and 333-191855) on Form S-8 of Hanmi Financial Corporation of our reports dated March 1, 2017 with respect to the consolidated balance sheets of Hanmi Financial Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of Hanmi Financial Corporation.

/s/ KPMG LLP

Los Angeles, California
March 1, 2017

**Certification of Chief Executive Officer**

I, C. G. Kum, President and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) 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(s) 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: | March 1, 2017 | /s/ C. G. Kum |
| | | C. G. Kum |
| | | *President and Chief Executive Officer* |
| | | *(Principal Executive Officer)* |

**Certification of Chief Financial Officer**

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

1. I have reviewed this Annual Report on Form 10-K 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(s) 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(s) 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: | March 1, 2017 | /s/ Romolo C. Santarosa |
| | | Romolo C. Santarosa |
| | | *Senior Executive Vice President and Chief Financial Officer* |
| | | *(Principal Financial and Accounting Officer)* |

**Certification**
**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 Annual Report of Hanmi Financial Corporation (the “Company”) on Form 10-K for the year ended December 31, 2016 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, C. G. Kum, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 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.

| | | |
|---|---|---|
| Date: | March 1, 2017 | /s/ C. G. Kum |
| | | C. G. Kum |
| | | *President and Chief Executive Officer* |

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

**Certification**
**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 Annual Report of Hanmi Financial Corporation (the “Company”) on Form 10-K for the year ended December 31, 2016 (the “Report”), as filed with the Securities and Exchange Commission (the "SEC") on the date hereof, 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 Section 13(a) or 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.

| | | |
|---|---|---|
| Date: | March 1, 2017 | /s/ Romolo C. Santarosa |
| | | Romolo C. Santarosa |
| | | *Senior Executive Vice President and Chief Financial Officer* |

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