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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2023

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.)**
900 Wilshire Boulevard, Suite 1250 Los Angeles, California	**90017**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☐

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

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

As of May 3, 2023, there were 30,546,198 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries Quarterly Report on Form 10-Q
Three Months Ended March 31, 2023

Table of Contents

Part I – Financial Information

Part II – Other Information

Part I — Financial Information

Item 1. Financial Statements

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

	March 31, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and due from banks	$ 386,201	$ 352,421
Securities available for sale, at fair value (amortized cost of $990,052 and $978,796 as of March 31, 2023 and December 31, 2022, respectively)	878,701	853,838
Loans held for sale, at the lower of cost or fair value	3,652	8,043
Loans receivable, net of allowance for credit losses of $72,249 and $71,523 as of March 31, 2023 and December 31, 2022, respectively	5,908,209	5,895,610
Accrued interest receivable	19,004	18,537
Premises and equipment, net	22,625	22,850
Customers' liability on acceptances	41	328
Servicing assets	7,541	7,176
Goodwill and other intangible assets, net	11,193	11,225
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Income tax assets	39,658	51,924
Bank-owned life insurance	55,814	55,544
Prepaid expenses and other assets	85,106	84,381
Total assets	**$ 7,434,130**	**$ 7,378,262**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 2,334,083	$ 2,539,602
Interest-bearing	3,866,955	3,628,470
Total deposits	6,201,038	6,168,072
Accrued interest payable	20,512	7,792
Bank's liability on acceptances	41	328
Borrowings	350,000	350,000
Subordinated debentures ($136,800 and $136,800 face amount less unamortized discount and debt issuance costs of $7,242 and $7,391 as of March 31, 2023 and December 31, 2022, respectively)	129,558	129,409
Accrued expenses and other liabilities	70,816	85,146
Total liabilities	**6,771,965**	**6,740,747**
Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 10,000,000 shares; no shares issued as of March 31, 2023 and December 31, 2022	—	—
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,827,801 shares (30,555,287 shares outstanding) and 33,708,234 shares (30,485,621 shares outstanding) as of March 31, 2023 and December 31, 2022, respectively	33	33
Additional paid-in capital	584,884	583,410
Accumulated other comprehensive loss, net of tax benefit of $32,292 and $35,973 as of March 31, 2023 and December 31, 2022, respectively	(79,059)	(88,985)
Retained earnings	283,910	269,542
Less treasury stock; 3,272,514 shares and 3,222,613 shares as of March 31, 2023 and December 31, 2022, respectively	(127,603)	(126,485)
Total stockholders' equity	**662,165**	**637,515**
Total liabilities and stockholders' equity	**$ 7,434,130**	**$ 7,378,262**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2023	**2022**
Interest and dividend income:		
Interest and fees on loans receivable	$ 80,923	$ 53,924
Interest on securities	4,025	2,516
Dividends on FHLB stock	289	248
Interest on deposits in other banks	2,066	216
Total interest and dividend income	87,303	56,904
Interest expense:		
Interest on deposits	25,498	2,013
Interest on borrowings	2,369	337
Interest on subordinated debentures	1,583	3,598
Total interest expense	29,450	5,948
Net interest income before credit loss expense	57,853	50,956
Credit loss expense (recovery)	2,133	(1,375)
Net interest income after credit loss expense (recovery)	55,720	52,331
Noninterest income:		
Service charges on deposit accounts	2,579	2,875
Trade finance and other service charges and fees	1,258	1,142
Gain on sale of Small Business Administration ("SBA") loans	1,869	2,521
Other operating income	2,630	1,982
Total noninterest income	8,336	8,520
Noninterest expense:		
Salaries and employee benefits	20,610	17,717
Occupancy and equipment	4,412	4,646
Data processing	3,253	3,236
Professional fees	1,335	1,430
Supplies and communications	676	665
Advertising and promotion	833	817
Other operating expenses	1,672	3,181
Total noninterest expense	32,791	31,692
Income before tax	31,265	29,159
Income tax expense	9,274	8,464
Net income	**$ 21,991**	**$ 20,695**
Basic earnings per share	$ 0.72	$ 0.68
Diluted earnings per share	$ 0.72	$ 0.68
Weighted-average shares outstanding:		
Basic	30,347,325	30,254,212
Diluted	30,430,745	30,377,580

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2023	**2022**
Net income	**$ 21,991**	**$ 20,695**
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) arising during period	13,607	(52,163)
Income tax benefit (expense) related to items of other comprehensive income	(3,681)	15,787
Other comprehensive income (loss), net of tax	9,926	(36,376)
Comprehensive income (loss)	**$ 31,917**	**$ (15,681)**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2023 and 2022

(in thousands, except share data)

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2022	**33,603,839**	**(3,196,578)**	**30,407,261**	**$ 33**	**$ 580,796**	**$ (8,443)**	**$ 196,784**	**$ (125,753)**	**$ 643,417**
Restricted stock awards, net of forfeitures	66,358	—	66,358	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	541	—	—	—	541
Restricted stock surrendered due to employee tax liability	—	(5,161)	(5,161)	—	—	—	—	(134)	(134)
Cash dividends paid (common stock, $0.22/share)	—	—	—	—	—	—	(6,691)	—	(6,691)
Net income	—	—	—	—	—	—	20,695	—	20,695
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	(36,376)	—	—	(36,376)
Balance at March 31, 2022	**33,670,197**	**(3,201,739)**	**30,468,458**	**$ 33**	**$ 581,337**	**$ (44,819)**	**$ 210,788**	**$ (125,887)**	**$ 621,452**
Balance at January 1, 2023	**33,708,234**	**(3,222,613)**	30,485,621	**$ 33**	**$ 583,410**	**$ (88,985)**	**$ 269,542**	**$ (126,485)**	**$ 637,515**
Stock options exercised	50,000	(35,273)	14,727	—	822	—	—	(1,003)	(181)
Restricted stock awards, net of forfeitures	69,567	—	69,567	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	652	—	—	—	652
Restricted stock surrendered due to employee tax liability	—	(11,392)	(11,392)	—	—	—	—	(40)	(40)
Options surrendered due to employee tax liability	—	(3,236)	(3,236)	—	—	—	—	(75)	(75)
Cash dividends paid (common stock, $0.25/share)	—	—	—	—	—	—	(7,623)	—	(7,623)
Net income	—	—	—	—	—	—	21,991	—	21,991
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	9,926	—	—	9,926
Balance at March 31, 2023	**33,827,801**	**(3,272,514)**	**30,555,287**	**$ 33**	**$ 584,884**	**$ (79,059)**	**$ 283,910**	**$ (127,603)**	**$ 662,165**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2023	**2022**
Cash flows from operating activities:		
Net income	**$ 21,991**	**$ 20,695**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,742	6,024
Amortization of servicing assets - net	634	544
Share-based compensation expense	652	541
Credit loss expense (recovery)	2,133	(1,375)
Gain on sales of SBA loans	(1,869)	(2,521)
Origination of SBA loans held for sale	(25,316)	(31,853)
Proceeds from sales of SBA loans	30,954	32,098
Change in bank-owned life insurance	(270)	(244)
Change in prepaid expenses and other assets	(3,000)	(13,745)
Change in income tax assets	8,585	7,908
Valuation adjustment on servicing assets	(384)	—
Change in accrued interest payable and other liabilities	276	2,062
Net cash provided by (used in) operating activities	**36,128**	**20,134**
Cash flows from investing activities:		
Purchases of securities available for sale	(29,504)	(52,475)
Proceeds from matured, called and repayment of securities	17,499	32,730
Purchases of loans receivable	—	(11,000)
Purchases of premises and equipment	(617)	(617)
Change in loans receivable, excluding purchases	(14,773)	(175,522)
Net cash provided by (used in) investing activities	**(27,395)**	**(206,884)**
Cash flows from financing activities:		
Change in deposits	32,966	(3,099)
Change in borrowings	—	(12,500)
Redemption of subordinated debentures, net of treasury debentures	—	(87,300)
Proceeds from exercise of stock options	822	—
Cash paid for surrender of vested shares due to employee tax liability	(1,118)	(134)
Cash dividends paid	(7,623)	(6,691)
Net cash provided by (used in) financing activities	**25,047**	**(109,724)**
Net increase (decrease) in cash and due from banks	**33,780**	**(296,474)**
Cash and due from banks at beginning of year	352,421	608,965
Cash and due from banks at end of period	**$ 386,201**	**$ 312,491**
Supplemental disclosures of cash flow information:		
Interest paid	$ 16,730	$ 6,143
Income taxes paid	$ 334	$ 129
Non-cash activities:		
Income tax benefit related to items of other comprehensive income	$ (3,681)	$ 15,787
Change in right-of-use asset obtained in exchange for lease liability	$ (145)	$ —

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1 — Organization and Basis of Presentation

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

In management's opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim periods ended March 31, 2023, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. The unaudited consolidated financial statements are prepared in conformity with GAAP and in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Annual Report on Form 10-K").

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

The extent to which the COVID-19 pandemic may impact business activity or financial results will depend on future developments, including new variants that may emerge and the actions required to contain the coronavirus or treat its impact, among others, which are highly uncertain and cannot be predicted. This uncertainty may impact the accuracy of our significant estimates, which includes the allowance for credit losses, the allowance for credit losses related to off-balance sheet items, and the valuation of intangible assets, including deferred tax assets, goodwill, and servicing assets.

Recently Issued Accounting Standards

FASB ASU 2020-04, *Reference Rate Reform (Topic 848):* Facilitation of the Effects of Reference Rate Reform on Financial Reporting, On March 12, 2020, the FASB issued ASU 2020-04 to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform.

The new guidance provided several optional expedients that reduce costs and complexity of accounting for reference rate reform, including measures to simplify or modify accounting issues resulting from reference rate reform for contract modifications, hedges, and debt securities.

FASB ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848:* In March 2021, it was announced LIBOR would cease on June 30, 2023. Because the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in this ASU will be deferred to December 31, 2024.

The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

Accounting Standards Adopted in 2023

FASB ASU 2022-02, *Troubled Debt Restructurings ("TDRs") and Vintage Disclosures (Topic 326*): The FASB amended the accounting and disclosure requirements for expected credit losses by removing the recognition and measurement guidance on TDRs and enhancing disclosures pertaining to certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Additionally, this standard requires disclosure of current-period gross write-offs by year of origination for financing receivables.

The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

Descriptions of our significant accounting policies are included in Note 1 - Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in the 2022 Annual Report on Form 10-K.

Note 2 — Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(in thousands)		
March 31, 2023				
U.S. Treasury securities	$ 56,174	$ 79	$ (1,327)	$ 54,926
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities - residential	532,117	152	(68,164)	464,105
Mortgage-backed securities - commercial	61,489	—	(10,623)	50,866
Collateralized mortgage obligations	112,021	69	(11,544)	100,546
Debt securities	150,362	—	(9,994)	140,368
Total U.S. government agency and sponsored agency obligations	855,989	221	(100,325)	755,885
Municipal bonds-tax exempt	77,889	—	(9,999)	67,890
Total securities available for sale	**$ 990,052**	**$ 300**	**$ (111,651)**	**$ 878,701**
December 31, 2022				
U.S. Treasury securities	$ 49,690	$ —	$ (1,664)	$ 48,026
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities - residential	540,590	63	(75,501)	465,152
Mortgage-backed securities - commercial	61,799	—	(10,507)	51,292
Collateralized mortgage obligations	98,236	—	(12,751)	85,485
Debt securities	150,338	—	(11,839)	138,499
Total U.S. government agency and sponsored agency obligations	850,963	63	(110,598)	740,428
Municipal bonds-tax exempt	78,143	—	(12,759)	65,384
Total securities available for sale	**$ 978,796**	**$ 63**	**$ (125,021)**	**$ 853,838**

The amortized cost and estimated fair value of securities as of March 31, 2023 and December 31, 2022, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. All other securities are included based on their contractual maturities.

	March 31, 2023 Available for Sale		December 31, 2022 Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(in thousands)		
Within one year	$ 35,558	$ 35,134	$ 28,665	$ 28,043
Over one year through five years	187,050	175,950	180,322	167,000
Over five years through ten years	61,568	56,330	39,213	35,318
Over ten years	705,876	611,287	730,596	623,477
Total	**$ 990,052**	**$ 878,701**	**$ 978,796**	**$ 853,838**

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at March 31, 2023 and December 31, 2022, aggregated by major security type and length of time in a continuous unrealized loss position:

	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)								
March 31, 2023									
U.S. Treasury securities	$ (186)	$ 24,606	11	$ (1,141)	$ 17,823	5	$ (1,327)	$ 42,429	16
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities - residential	(989)	30,094	16	(67,175)	422,817	107	(68,164)	452,911	123
Mortgage-backed securities - commercial	(65)	4,094	1	(10,558)	46,772	14	(10,623)	50,866	15
Collateralized mortgage obligations	(426)	18,991	5	(11,118)	66,075	23	(11,544)	85,066	28
Debt securities	(92)	13,834	4	(9,902)	126,534	26	(9,994)	140,368	30
Total U.S. government agency and sponsored agency obligations	(1,572)	67,013	26	(98,753)	662,198	170	(100,325)	729,211	196
Municipal bonds-tax exempt	—	—	—	(9,999)	67,890	19	(9,999)	67,890	19
Total	**$ (1,758)**	**$ 91,619**	**37**	**$ (109,893)**	**$ 747,911**	**194**	**$ (111,651)**	**$ 839,530**	**231**
December 31, 2022									
U.S. Treasury securities	$ (414)	$ 33,812	14	$ (1,250)	$ 14,215	4	$ (1,664)	$ 48,027	18
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities - residential	(1,712)	36,009	18	(73,789)	424,302	105	(75,501)	460,311	123
Mortgage-backed securities - commercial	(84)	4,069	1	(10,423)	47,221	14	(10,507)	51,290	15
Collateralized mortgage obligations	(1,011)	23,606	8	(11,740)	61,879	20	(12,751)	85,485	28
Debt securities	(1,103)	31,714	8	(10,736)	106,785	22	(11,839)	138,499	30
Total U.S. government agency and sponsored agency obligations	(3,910)	95,398	35	(106,688)	640,187	161	(110,598)	735,585	196
Municipal bonds-tax exempt	—	—	—	(12,759)	65,385	19	(12,759)	65,385	19
Total	**$ (4,324)**	**$ 129,210**	**49**	**$ (120,697)**	**$ 719,787**	**184**	**$ (125,021)**	**$ 848,997**	**233**

The Company evaluates its available-for-sale securities portfolio for impairment on a quarterly basis. The Company did not recognize unrealized losses in income because we have the ability and the intent to hold and we do not expect to be required to sell these securities until the recovery of their cost basis. The quarterly impairment assessment takes into account the changes in the credit quality of these debt securities since acquisition and the likelihood of a credit loss occurring over the life of the securities. In the event that a credit loss is expected to occur in the future, an allowance is established and a corresponding credit loss is recognized. Based on this analysis, as of March 31, 2023, the Company determined that no credit losses are expected to be realized on the tax-exempt municipal bond portfolio. The remainder of the portfolio consists of U.S. Treasury obligations, U.S. government agency securities, and U.S. government sponsored agency securities, all of which have the backing of the U.S. government, and are therefore not expected to incur credit losses.

Securities available for sale with market values of $22.9 million and $23.4 million as of March 31, 2023 and December 31, 2022, respectively, were pledged to secure borrowings from the Federal Reserve Bank (“FRB”) Discount Window and the new Bank Term Funding Program (“BTFP”).

At March 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies in an amount greater than 10% of shareholders’ equity.

Note 3 — Loans

Loans Receivable

Loans consisted of the following as of the dates indicated:

	March 31, 2023	December 31, 2022
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 1,052,353	$ 1,023,608
Hospitality	669,012	646,893
Office	533,703	499,946
Other [(1)]	1,415,748	1,553,729
Total commercial property loans	3,670,816	3,724,176
Construction	113,360	109,205
Residential [(2)]	817,917	734,472
Total real estate loans	4,602,093	4,567,853
Commercial and industrial loans [(3)]	778,149	804,492
Equipment financing agreements	600,216	594,788
Loans receivable	**5,980,458**	**5,967,133**
Allowance for credit losses	(72,249)	(71,523)
Loans receivable, net	**$ 5,908,209**	**$ 5,895,610**

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

(2) *Includes $2.4 million and $2.4 million of home equity loans and lines, and $6.7 million and $4.6 of personal loans at March 31, 2023 and December 31, 2022, respectively.*

(3) *At March 31, 2023 and December 31, 2022, Paycheck Protection Program loans were $0.7 million and $0.9 million, respectively.*

Accrued interest on loans was $16.4 million and $16.0 million at March 31, 2023 and December 31, 2022, respectively.

At March 31, 2023 and December 31, 2022, loans of $2.43 billion and $1.99 billion, respectively, were pledged to secure advances from the FHLB.

Loans Held for Sale

The following is the activity for loans held for sale for the three months ended March 31, 2023 and 2022:

	Real Estate	Commercial and Industrial	Total
		(in thousands)	
March 31, 2023			
Balance at beginning of period	$ 3,775	$ 4,268	$ 8,043
Originations and transfers	16,387	8,929	25,316
Sales	(19,781)	(9,918)	(29,699)
Principal paydowns and amortization	(2)	(6)	(8)
Balance at end of period	**$ 379**	**$ 3,273**	**$ 3,652**
March 31, 2022			
Balance at beginning of period	$ 6,954	$ 6,388	$ 13,342
Originations and transfers	20,164	11,689	31,853
Sales	(15,293)	(14,284)	(29,577)
Principal paydowns and amortization	—	(1)	(1)
Balance at end of period	**$ 11,825**	**$ 3,792**	**$ 15,617**

Loans held for sale was comprised of $3.7 million and $8.0 million of the guaranteed portion of SBA 7(a) loans at March 31, 2023 and December 31, 2022, respectively.

Allowance for Credit Losses

The following table details the information on the allowance for credit losses by portfolio segment as of and for the three months ended March 31, 2023 and 2022:

	Real Estate	Commercial and Industrial	Equipment Financing Agreements	Total
		(in thousands)		
March 31, 2023				
Balance at beginning of period	$ 44,026	$ 15,267	$ 12,230	$ 71,523
Charge-offs	(412)	(210)	(1,616)	(2,238)
Recoveries	68	235	480	783
Provision (recovery) for credit losses	(151)	41	2,291	2,181
Ending balance	**$ 43,531**	**$ 15,333**	**$ 13,385**	**$ 72,249**
March 31, 2022				
Balance at beginning of period	$ 48,890	$ 12,418	$ 11,249	$ 72,557
Charge-offs	(530)	(58)	(247)	(835)
Recoveries	197	317	423	937
Provision (recovery) for credit losses	(2,202)	267	788	(1,147)
Ending balance	**$ 46,355**	**$ 12,944**	**$ 12,213**	**$ 71,512**

The table below illustrates the allowance for credit losses by loan portfolio segment and each loan portfolio segment as a percentage of total loans.

	March 31, 2023				December 31, 2022			
	Allowance Amount	Percentage of Total Allowance	Total Loans	Percentage of Total Loans	Allowance Amount	Percentage of Total Allowance	Total Loans	Percentage of Total Loans
				(dollars in thousands)				
Real estate loans:								
Commercial property								
Retail	$ 9,405	13.0%	$1,052,353	17.6%	$ 7,872	11.0%	$1,023,608	17.2%
Hospitality	14,138	19.6	669,012	11.2	13,407	18.7	646,893	10.8
Office	2,509	3.5	533,703	8.9	2,293	3.2	499,946	8.4
Other	9,186	12.7	1,415,748	23.7	13,056	18.3	1,553,729	26.0
Total commercial property loans	35,238	48.8	3,670,816	61.4	36,628	51.2	3,724,176	62.4
Construction	4,003	5.5	113,360	1.9	4,022	5.7	109,205	1.8
Residential	4,290	6.0	817,917	13.7	3,376	4.7	734,472	12.4
Total real estate loans	43,531	60.3	4,602,093	77.0	44,026	61.6	4,567,853	76.6
Commercial and industrial loans	15,333	21.2	778,149	13.0	15,267	21.3	804,492	13.4
Equipment financing agreements	13,385	18.5	600,216	10.0	12,230	17.1	594,788	10.0
Total	**$ 72,249**	**100.0%**	**$5,980,458**	**100.0%**	**$ 71,523**	**100.0%**	**$5,967,133**	**100.0%**

The following table represents the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2023 and December 31, 2022, for which repayment is expected to be obtained through the sale of the underlying collateral.

	March 31, 2023 Amortized Cost	December 31, 2022 Amortized Cost
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 1,883	$ 1,930
Hospitality	—	—
Office	—	—
Other (1)	259	256
Total commercial property loans	2,142	2,186
Residential	487	508
Total real estate loans	2,629	2,694
Commercial and industrial loans	10,002	—
Total	**$ 12,631**	**$ 2,694**

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

Loan Quality Indicators

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

Pass and Pass-Watch: Pass and Pass-Watch loans, 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 grading system. It consists of all performing loans with no identified credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.

Special Mention: A Special Mention loan, 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 that have significant actual, not potential, weaknesses are considered more severely classified.

Substandard: A Substandard loan, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A loan 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, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

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

Loss: A loan 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 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 classified as Loss will be charged off in a timely manner.

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

Loans by Vintage Year and Risk Rating

	Term Loans Amortized Cost Basis by Origination Year [1]						Revolving Loans Amortized Cost Basis	
	2023	2022	2021	2020	2019	Prior		Total
				(in thousands)				
March 31, 2023								
Real estate loans:								
Commercial property								
Risk Rating								
Pass / Pass-Watch	$ 194,981	$ 1,064,796	$ 882,494	$ 587,432	$ 393,738	$ 443,388	$ 40,472	$ 3,607,301
Special Mention	—	1,579	20,228	5,820	1,596	3,793	1,700	34,716
Classified	1,272	9,401	4,846	261	4,289	8,730	—	28,799
Total commercial property	196,253	1,075,776	907,568	593,513	399,623	455,911	42,172	3,670,816
YTD gross charge-offs	—	—	—	412	—	—	—	412
YTD net charge-offs	—	—	—	412	—	(67)	—	345
Construction								
Risk Rating								
Pass / Pass-Watch	61,150	5,549	46,661	—	—	—	—	113,360
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total construction	61,150	5,549	46,661	—	—	—	—	113,360
YTD gross charge-offs	—	—	—	—	—	—	—	—
YTD net charge-offs	—	—	—	—	—	—	—	—
Residential								
Risk Rating								
Pass / Pass-Watch	94,413	400,059	169,111	13,007	228	132,970	7,624	817,412
Special Mention	—	—	—	—	—	—	500	500
Classified	—	—	—	—	—	5	—	5
Total residential	94,413	400,059	169,111	13,007	228	132,975	8,124	817,917
YTD gross charge-offs	—	—	—	—	—	—	—	—
YTD net charge-offs	—	—	—	—	—	(1)	—	(1)
Total real estate loans								
Risk Rating								
Pass / Pass-Watch	350,544	1,470,404	1,098,266	600,439	393,966	576,358	48,096	4,538,073
Special Mention	—	1,579	20,228	5,820	1,596	3,793	2,200	35,216
Classified	1,272	9,401	4,846	261	4,289	8,735	—	28,804
Total real estate loans	351,816	1,481,384	1,123,340	606,520	399,851	588,886	50,296	4,602,093
YTD gross charge-offs	—	—	—	412	—	—	—	412
YTD net charge-offs	—	—	—	412	—	(68)	—	344
Commercial and industrial loans:								
Risk Rating								
Pass / Pass-Watch	134,247	224,285	102,649	37,591	22,070	17,962	198,428	737,232
Special Mention	—	—	8,998	—	—	126	20,000	29,124
Classified	—	940	—	—	85	273	10,495	11,793
Total commercial and industrial loans	134,247	225,225	111,647	37,591	22,155	18,361	228,923	778,149
YTD gross charge-offs	—	—	—	—	20	190	—	210
YTD net charge-offs	—	(13)	(2)	—	20	(30)	—	(25)
Equipment financing agreements:								
Risk Rating								
Pass / Pass-Watch	65,243	285,484	146,563	40,374	42,570	13,292	—	593,526
Special Mention	—	—	—	—	—	—	—	—
Classified	—	1,484	3,130	451	1,143	482	—	6,690
Total equipment financing agreements	65,243	286,968	149,693	40,825	43,713	13,774	—	600,216
YTD gross charge-offs	—	176	935	—	358	147	—	1,616
YTD net charge-offs	—	176	840	(6)	154	(28)	—	1,136
Total loans receivable:								
Risk Rating								
Pass / Pass-Watch	550,034	1,980,173	1,347,478	678,404	458,606	607,612	246,524	5,868,831
Special Mention	—	1,579	29,226	5,820	1,596	3,919	22,200	64,340
Classified	1,272	11,825	7,976	712	5,517	9,490	10,495	47,287
Total loans receivable	**$ 551,306**	**$ 1,993,577**	**$ 1,384,680**	**$ 684,936**	**$ 465,719**	**$ 621,021**	**$ 279,219**	**$ 5,980,458**
YTD gross charge-offs	—	176	935	412	378	337	—	2,238
YTD net charge-offs	—	163	838	406	174	(126)	—	1,455

[1] *Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision.*

	Term Loans Amortized Cost Basis by Origination Year [(1)]							
	2022	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Total**
December 31, 2022								
Real estate loans:								
Commercial property								
Risk Rating								
Pass / Pass-Watch	$ 1,184,361	$ 901,029	$ 600,740	$ 404,786	$ 301,950	$ 207,861	$ 50,877	$ 3,651,604
Special Mention	847	13,384	5,857	7,115	—	6,080	1,701	34,984
Classified	—	—	412	4,312	12,304	20,560	—	37,588
Total commercial property	1,185,208	914,413	607,009	416,213	314,254	234,501	52,578	3,724,176
Construction								
Risk Rating								
Pass / Pass-Watch	41,662	67,543	—	—	—	—	—	109,205
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total construction	41,662	67,543	—	—	—	—	—	109,205
Residential								
Risk Rating								
Pass / Pass-Watch	405,975	173,236	13,102	232	731	134,766	5,422	733,464
Special Mention	—	—	—	—	—	—	500	500
Classified	12	—	—	—	—	496	—	508
Total residential	405,987	173,236	13,102	232	731	135,262	5,922	734,472
Total real estate loans								
Risk Rating								
Pass / Pass-Watch	1,631,998	1,141,808	613,842	405,018	302,681	342,627	56,299	4,494,273
Special Mention	847	13,384	5,857	7,115	—	6,080	2,201	35,484
Classified	12	—	412	4,312	12,304	21,056	—	38,096
Total real estate loans	1,632,857	1,155,192	620,111	416,445	314,985	369,763	58,500	4,567,853
Commercial and industrial loans:								
Risk Rating								
Pass / Pass-Watch	368,778	100,537	39,577	24,117	7,342	12,282	205,951	758,584
Special Mention	—	9,285	—	—	29	102	34,113	43,529
Classified	—	—	171	1,097	81	391	639	2,379
Total commercial and industrial loans	368,778	109,822	39,748	25,214	7,452	12,775	240,703	804,492
Equipment financing agreements:								
Risk Rating								
Pass / Pass-Watch	305,249	165,313	46,970	52,133	17,608	1,798	—	589,071
Special Mention	—	—	—	—	—	—	—	—
Classified	630	2,542	311	1,581	565	88	—	5,717
Total equipment financing agreements	305,879	167,855	47,281	53,714	18,173	1,886	—	594,788
Total loans receivable:								
Risk Rating								
Pass / Pass-Watch	2,306,025	1,407,658	700,389	481,268	327,631	356,707	262,250	5,841,928
Special Mention	847	22,669	5,857	7,115	29	6,182	36,314	79,013
Classified	642	2,542	894	6,990	12,950	21,535	639	46,192
Total loans receivable	**$ 2,307,514**	**$ 1,432,869**	**$ 707,140**	**$ 495,373**	**$ 340,610**	**$ 384,424**	**$ 299,203**	**$ 5,967,133**

[(1)] *Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision.*

Loans by Vintage Year and Payment Performance

	Term Loans Amortized Cost Basis by Origination Year (1) 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
				(in thousands)				
March 31, 2023								
Real estate loans:								
Commercial property								
Payment performance								
Performing	$ 196,253	$ 1,075,696	$ 907,568	$ 593,252	$ 399,623	$ 453,511	$ 42,172	$ 3,668,075
Nonperforming	—	80	—	261	—	2,400	—	2,741
Total commercial property	196,253	1,075,776	907,568	593,513	399,623	455,911	42,172	3,670,816
YTD gross charge-offs	—	—	—	412	—	—	—	412
YTD net charge-offs	—	—	—	412	—	(67)	—	345
Construction								
Payment performance								
Performing	61,150	5,549	46,661	—	—	—	—	113,360
Nonperforming	—	—	—	—	—	—	—	—
Total construction	61,150	5,549	46,661	—	—	—	—	113,360
YTD gross charge-offs	—	—	—	—	—	—	—	—
YTD net charge-offs	—	—	—	—	—	—	—	—
Residential								
Payment performance								
Performing	94,413	400,059	169,111	13,007	228	132,483	8,124	817,425
Nonperforming	—	—	—	—	—	492	—	492
Total residential	94,413	400,059	169,111	13,007	228	132,975	8,124	817,917
YTD gross charge-offs	—	—	—	—	—	—	—	—
YTD net charge-offs	—	—	—	—	—	(1)	—	(1)
Total real estate loans								
Payment performance								
Performing	351,816	1,481,304	1,123,340	606,259	399,851	585,994	50,296	4,598,860
Nonperforming	—	80	—	261	—	2,892	—	3,233
Total real estate loans	351,816	1,481,384	1,123,340	606,520	399,851	588,886	50,296	4,602,093
YTD gross charge-offs	—	—	—	412	—	—	—	412
YTD net charge-offs	—	—	—	412	—	(68)	—	344
Commercial and industrial loans:								
Payment performance								
Performing	134,247	225,225	111,647	37,591	22,149	18,242	218,921	768,022
Nonperforming	—	—	—	—	6	119	10,002	10,127
Total commercial and industrial loans	134,247	225,225	111,647	37,591	22,155	18,361	228,923	778,149
YTD gross charge-offs	—	—	—	—	20	190	—	210
YTD net charge-offs	—	(13)	(2)	—	20	(30)	—	(25)
Equipment financing agreements:								
Payment performance								
Performing	65,243	285,484	146,563	40,374	42,570	13,292	—	593,526
Nonperforming	—	1,484	3,130	451	1,143	482	—	6,690
Total equipment financing agreements	65,243	286,968	149,693	40,825	43,713	13,774	—	600,216
YTD gross charge-offs	—	176	935	—	358	147	—	1,616
YTD net charge-offs	—	176	840	(6)	154	(28)	—	1,136
Total loans receivable:								
Payment performance								
Performing	551,306	1,992,013	1,381,550	684,224	464,570	617,528	269,217	5,960,408
Nonperforming	—	1,564	3,130	712	1,149	3,493	10,002	20,050
Total loans receivable	**$ 551,306**	**$ 1,993,577**	**$ 1,384,680**	**$ 684,936**	**$ 465,719**	**$ 621,021**	**$ 279,219**	**$ 5,980,458**
YTD gross charge-offs	—	176	935	412	378	337	—	2,238
YTD net charge-offs	—	163	838	406	174	(126)	—	1,455

(1) *Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision.*

	Term Loans Amortized Cost Basis by Origination Year [(1)]							
	2022	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Total**
December 31, 2022								
Real estate loans:								
Commercial property								
Payment performance								
Performing	$ 1,185,208	$ 914,413	$ 606,597	$ 416,213	$ 312,324	$ 233,643	$ 52,578	$ 3,720,976
Nonperforming	—	—	412	—	1,930	858		3,200
Total commercial property	1,185,208	914,413	607,009	416,213	314,254	234,501	52,578	3,724,176
Construction								
Payment performance								
Performing	41,662	67,543	—	—	—	—	—	109,205
Nonperforming	—	—	—	—	—	—	—	—
Total construction	41,662	67,543	—	—	—	—	—	109,205
Residential								
Payment performance								
Performing	405,975	173,236	13,102	232	731	134,766	5,922	733,964
Nonperforming	12	—	—	—	—	496	—	508
Total residential	405,987	173,236	13,102	232	731	135,262	5,922	734,472
Total real estate loans								
Payment performance								
Performing	1,632,845	1,155,192	619,699	416,445	313,055	368,409	58,500	4,564,145
Nonperforming	12	—	412	—	1,930	1,354	—	3,708
Total real estate loans	1,632,857	1,155,192	620,111	416,445	314,985	369,763	58,500	4,567,853
Commercial and industrial loans:								
Payment performance								
Performing	368,778	109,822	39,577	25,199	7,452	12,539	240,703	804,070
Nonperforming	—	—	171	15	—	236	—	422
Total commercial and industrial loans	368,778	109,822	39,748	25,214	7,452	12,775	240,703	804,492
Equipment financing agreements:								
Payment performance								
Performing	305,249	165,313	46,970	52,133	17,608	1,798	—	589,071
Nonperforming	630	2,542	311	1,581	565	88	—	5,717
Total equipment financing agreements	305,879	167,855	47,281	53,714	18,173	1,886	—	594,788
Total loans receivable:								
Payment performance								
Performing	2,306,872	1,430,327	706,246	493,777	338,115	382,746	299,203	5,957,286
Nonperforming	642	2,542	894	1,596	2,495	1,678	—	9,847
Total loans receivable	**$ 2,307,514**	**$ 1,432,869**	**$ 707,140**	**$ 495,373**	**$ 340,610**	**$ 384,424**	**$ 299,203**	**$ 5,967,133**

(1) *Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision.*

The following is an aging analysis of loans, including loans on nonaccrual status, 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)			
March 31, 2023							
Real estate loans:							
Commercial property							
Retail	$ —	$ —	$ —	$ —	$ 1,052,353	$ 1,052,353	$ —
Hospitality	158	—	—	158	668,854	669,012	—
Office	—	—	—	—	533,703	533,703	—
Other	—	—	—	—	1,415,748	1,415,748	—
Total commercial property loans	158	—	—	158	3,670,658	3,670,816	—
Construction	—	—	—	—	113,360	113,360	—
Residential	1,669	—	—	1,669	816,248	817,917	—
Total real estate loans	1,827	—	—	1,827	4,600,266	4,602,093	—
Commercial and industrial loans	7,038	1	—	7,039	771,110	778,149	—
Equipment financing agreements	6,379	1,553	3,553	11,485	588,731	600,216	—
Total loans receivable	**$ 15,244**	**$ 1,554**	**$ 3,553**	**$ 20,351**	**$ 5,960,107**	**$ 5,980,458**	**$ —**
December 31, 2022							
Real estate loans:							
Commercial property							
Retail	$ —	$ —	$ —	$ —	$ 1,023,608	$ 1,023,608	$ —
Hospitality	—	—	—	—	646,893	646,893	—
Office	—	—	—	—	499,946	499,946	—
Other	—	494	—	494	1,553,235	1,553,729	—
Total commercial property loans	—	494	—	494	3,723,682	3,724,176	—
Construction	—	—	—	—	109,205	109,205	—
Residential	313	804	7	1,124	733,348	734,472	—
Total real estate loans	313	1,298	7	1,618	4,566,235	4,567,853	—
Commercial and industrial loans	77	79	—	156	804,336	804,492	—
Equipment financing agreements	5,825	1,271	2,949	10,045	584,743	594,788	—
Total loans receivable	**$ 6,215**	**$ 2,648**	**$ 2,956**	**$ 11,819**	**$ 5,955,314**	**$ 5,967,133**	**$ —**

Nonaccrual Loans and Nonperforming Assets

The following table represents the amortized cost basis of loans on nonaccrual status and loans past due 90 days and still accruing as of March 31, 2023 and December 31, 2022.

	March 31, 2023			
	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With Allowance for Credit Losses	Loans Past Due 90 Days Still Accruing	Total Nonperforming Loans
	(in thousands)			
Real estate loans:				
Commercial property				
Retail	$ 2,144	$ —	$ —	$ 2,144
Hospitality	—	65	—	65
Office	—	—	—	—
Other	259	273	—	532
Total commercial property loans	2,403	338	—	2,741
Residential	487	5	—	492
Total real estate loans	2,890	343	—	3,233
Commercial and industrial loans	—	10,127	—	10,127
Equipment financing agreements	358	6,332	—	6,690
Total	**$ 3,248**	**$ 16,802**	**$ —**	**$ 20,050**

	December 31, 2022			
	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With Allowance for Credit Losses	Loans Past Due 90 Days Still Accruing	Total Nonperforming Loans
	(in thousands)			
Real estate loans:				
Commercial property				
Retail	$ 1,929	$ —	$ —	$ 1,929
Office	—	—	—	—
Other	540	731	—	1,271
Total commercial property loans	2,469	731	—	3,200
Residential	508	—	—	508
Total real estate loans	2,977	731	—	3,708
Commercial and industrial loans	—	422	—	422
Equipment financing agreements	215	5,501	—	5,716
Total	**$ 3,192**	**$ 6,654**	**$ —**	**$ 9,846**

The Company recognized $104,000 and $27,000 of interest income on nonaccrual loans for the three months ended March 31, 2023 and 2022, respectively.

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

	March 31, 2023	December 31, 2022
	(in thousands)	
Nonaccrual loans	$ 20,050	$ 9,846
Loans receivable 90 days or more past due and still accruing	—	—
Total nonperforming loans receivable	20,050	9,846
Other real estate owned ("OREO")	117	117
Total nonperforming assets	**$ 20,167**	**$ 9,963**

OREO is included in prepaid expenses and other assets in the accompanying Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022.

Loan Modifications

No loans were modified during the three months ended March 31, 2023 or 2022.

Note 4 — Servicing Assets

The changes in servicing assets for the three months ended March 31, 2023 and 2022 were as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Balance at beginning of period	$ 7,176	$ 7,080
Addition related to sale of SBA loans	615	667
Amortization	(635)	(545)
Change in valuation allowance	385	—
Balance at end of period	**$ 7,541**	**$ 7,202**

At March 31, 2023 and December 31, 2022, we serviced loans sold to unaffiliated parties of $525.5 million and $523.6 million, respectively. These represented loans that were sold for which the Bank continues to provide servicing. These loans are maintained off-balance sheet and are not included in the loans receivable balance. All of the loans serviced were SBA loans.

The Company recorded servicing fee income of $1.3 million and $1.2 million for the three months ended March 31, 2023 and 2022, respectively. Servicing fee income, net of the amortization of servicing assets, is included in other operating income in the consolidated statements of income. Amortization expense was $0.6 million and $0.5 million for the three months ended March 31, 2023 and 2022, respectively.

The fair value of servicing rights was $8.6 million at March 31, 2023 and was determined using discount rates ranging from 12.0% to 13.9% and prepayment speeds ranging from 10.9% to 17.2%, depending on the stratification of the specific right. The fair value of servicing rights was $7.1 million at December 31, 2022 and was determined using discount rates ranging from 21.9% to 25.3% and prepayment speeds ranging from 10.8% to 16.7%, depending on the stratification of the specific right.

Note 5 — Income Taxes

The Company’s income tax expense was $9.3 million and $8.5 million, representing an effective income tax rate of 29.7% and 29.0% for the three months ended March 31, 2023 and 2022, respectively.

Management concluded that as of March 31, 2023 and December 31, 2022, a valuation allowance of $1.3 million was appropriate against certain state net operating loss carry forwards and certain tax credits. For all other deferred tax assets, management believes it was more likely than not these deferred tax assets will be realized principally through future taxable income and reversal of existing taxable temporary differences. Net income tax assets were $39.7 million and $51.9 million as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023, the Company was subject to examination by various taxing authorities for its federal and state tax returns for the years ending on or after December 31, 2018. During the quarter ended March 31, 2023, there was no material change to the Company’s uncertain tax positions. The Company does not expect its unrecognized tax positions to change significantly over the next twelve months.

Note 6 — Goodwill and other Intangibles

The third-party originators intangible of $0.5 million and goodwill of $11.0 million were recorded as a result of the acquisition of an equipment financing agreements portfolio in 2016. The core deposit intangible of $2.2 million was recognized for the core deposits acquired in a 2014 acquisition. The Company's intangible assets were as follows for the periods indicated:

		March 31, 2023			December 31, 2022		
	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	$ (2,060)	$ 153	$ 2,213	$ (2,031)	$ 182
Third-party originators intangible	7 years	483	(474)	9	483	(471)	12
Goodwill	N/A	11,031	—	11,031	11,031	—	11,031
Total intangible assets		**$ 13,727**	**$ (2,534)**	**$ 11,193**	**$ 13,727**	**$ (2,502)**	**$ 11,225**

The Company performed an impairment analysis on its goodwill and other intangible assets as of December 31, 2022 and determined there was no impairment. No triggering event has occurred subsequent to December 31, 2022 that would require a reassessment of goodwill and other intangible assets.

Note 7 — Deposits

Time deposits exceeding the FDIC insurance limit of $250,000 as of March 31, 2023 and December 31, 2022 were $1.05 billion and $697.0 million, respectively.

The scheduled maturities of time deposits are as follows for the periods indicated:

At March 31, 2023	**Time Deposits of $250,000 or More**	**Other Time Deposits**	**Total**
		(in thousands)	
2023	$ 645,391	$ 927,402	$ 1,572,793
2024	404,225	395,667	799,892
2025	266	3,860	4,126
2026	263	2,549	2,812
2027 and thereafter	—	615	615
Total	**$ 1,050,145**	**$ 1,330,093**	**$ 2,380,238**
At December 31, 2022			
2023	$ 696,470	$ 1,185,020	$ 1,881,490
2024	—	68,037	68,037
2025	266	3,151	3,417
2026	263	2,430	2,693
2027 and thereafter	—	570	570
Total	**$ 696,999**	**$ 1,259,208**	**$ 1,956,207**

Accrued interest payable on deposits was $20.5 million and $7.8 million at March 31, 2023 and December 31, 2022, respectively. Total deposits reclassified to loans due to overdrafts at March 31, 2023 and December 31, 2022 were $1.4 million and $1.2 million, respectively.

Note 8 — Borrowings and Subordinated Debentures

At March 31, 2023, the Bank had $250.0 million of overnight advances and $100.0 million of term advances outstanding with the FHLB with a weighted average interest rate of 5.11% and 1.60% respectively. At December 31, 2022, the Bank had $250.0 million of overnight advances and $100.0 million of term advances with the FHLB with a weighted average rate of 4.65% and 0.87%, respectively. Interest expense on borrowings for the three months ended March 31, 2023 and 2022 was $2.4 million and $0.3 million, respectively.

	March 31, 2023		December 31, 2022	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	(dollars in thousands)			
Overnight advances	$ 250,000	5.11%	$ 250,000	4.65%
Advances due within 12 months	50,000	0.37	50,000	0.97
Advances due over 12 months through 24 months	25,000	1.22	37,500	0.40
Advances due over 24 months through 36 months	25,000	4.44	12,500	1.90
Outstanding advances	**$ 350,000**	**4.11%**	**$ 350,000**	**3.57%**

The following is financial data pertaining to FHLB advances:

	March 31, 2023	December 31, 2022
	(dollars in thousands)	
Weighted-average interest rate at end of period	4.11%	3.57%
Weighted-average interest rate during the period	3.58%	1.52%
Average balance of FHLB advances	$ 268,056	$ 148,027
Maximum amount outstanding at any month-end	$ 350,000	$ 350,000

The Bank maintains a secured credit facility with the FHLB, allowing the Bank to borrow on an overnight and term basis. The Bank had $2.43 billion and $1.99 billion of loans pledged as collateral with the FHLB as of March 31, 2023 and December 31, 2022, respectively. The remaining available borrowing capacity was $1.15 billion and $1.07 billion at March 31, 2023 and December 31, 2022, respectively.

The Bank also had securities with market values of $22.9 million and $23.4 million at March 31, 2023 and December 31, 2022, respectively, pledged with the FRB, which provided $22.2 million and $22.0 million in available borrowing capacity through the Fed Discount Window and the new BTFP of March 31, 2023 and December 31, 2022, respectively.

On August 20, 2021, the Company issued $110.0 million of Fixed-to-Floating Subordinated Notes (“2031 Notes”) with a maturity date of September 1, 2031. The 2031 Notes have an initial fixed interest rate of 3.75% per annum, payable semiannually in arrears on March 1 and September 1 of each year, up to but excluding September 1, 2026. From and including September 1, 2026 and thereafter, the 2031 Notes will bear interest at a floating rate per annum equal to the Benchmark rate (which is expected to be the Three-Month Term SOFR) plus 310 basis points, payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year. If the then current three-month term SOFR rate is less than zero, the three-month SOFR will be deemed to be zero. Debt issuance cost was $2.1 million, which is being amortized through the 2031 Notes’ maturity date. At March 31, 2023 and December 31, 2022, the balance of the 2031 Notes included in the Company’s Consolidated Balance Sheet, net of issuance cost, was $108.2 million.

The Company issued $100.0 million of Fixed-to-Floating Subordinated Notes (“2027 Notes”) on March 21, 2017, with a maturity on March 30, 2027. The 2027 Notes had an initial fixed interest rate of 5.45% per annum. From and including March 30, 2022 and thereafter, the 2027 Notes bore interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315% payable quarterly.

On March 30, 2022, the Company redeemed its 2027 Notes. A portion of the redemption was funded with the proceeds from the Company’s 2021 subordinated debt offering. The redemption price for each of the 2027 Notes equaled 100% of the outstanding principal amount redeemed, plus any accrued and unpaid interest thereon. All interest accrued on the 2027 Notes ceased to accrue on and after March 30, 2022. Upon the redemption, the Company recognized a pre-tax charge of $1.1 million for the remaining unamortized debt issuance costs associated with the 2027 Notes.

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of an acquisition in 2014 with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount is being amortized to interest expense through the debentures’ maturity date of March 15, 2036. A trust was formed in 2005 which issued $26.0 million of Trust Preferred Securities ("TPS") at a 6.26% fixed rate for the first five years and a variable rate of three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The rate on the TPS at March 31, 2023 was 6.27%. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At March 31, 2023 and December 31, 2022, the balance of Subordinated Debentures included in the Company's Consolidated Balance Sheets, net of discount of $5.5 million and $5.6 million, was $21.3 million and $21.2 million, respectively. The amortization of discount was $104,000 and $102,000 for the three months ended March 31, 2023 and 2022, respectively.

Note 9 — 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, the weighted-average number of common shares includes the impact of unvested performance stock units ("PSUs") under the treasury method.

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

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

	Three Months Ended March 31,	
	2023	2022
	(dollars in thousands, except per share amounts)	
Basic EPS		
Net income	$ 21,991	$ 20,695
Less: income allocated to unvested restricted stock	117	124
Income allocated to common shares	$ 21,874	$ 20,571
Weighted-average shares for basic EPS	30,347,325	30,254,212
Basic EPS *(1)*	**$ 0.72**	**$ 0.68**
Effect of dilutive stock options and unvested performance stock units	83,420	123,368
Diluted EPS		
Income allocated to common shares	$ 21,874	$ 20,571
Weighted-average shares for diluted EPS	30,430,745	30,377,580
Diluted EPS *(1)*	**$ 0.72**	**$ 0.68**

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

On a weighted-average basis, options to purchase 31,034 shares of common stock were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2023, because their effect would have been anti-dilutive. There were no anti-dilutive stock options for the three months ended March 31, 2022. There were no anti-dilutive unvested PSUs outstanding for the three months ended March 31, 2023 or 2022.

During the three months ended March 31, 2023, the Company issued 52,450 PSUs to executive officers from the 2021 Equity Compensation plan with a fair value of $1.1 million on the grant date of March 10, 2023. During the three months ended March 31, 2022, the Company issued 38,036 PSUs to executive officers from the 2021 Equity Compensation Plan with a fair value of $1.0 million on the grant date of March 23, 2022. These units have a three-year cliff vesting period and include dividend equivalent rights. Total PSUs outstanding as of March 31, 2023 were 157,049 with an aggregate grant fair value of $3.1 million. Total PSUs outstanding as of March 31, 2022 were 104,599 with an aggregate grant fair value of $2.0 million.

Note 10 — Regulatory Matters

Federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0% and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%. 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%.

In order for banks to be considered "well capitalized," federal bank regulatory agencies require a minimum ratio of qualifying total capital to risk-weighted assets of 10.0% and a minimum ratio of Tier 1 capital to risk-weighted assets of 8.0%. 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%.

At March 31, 2023, the Bank's capital ratios exceeded the minimum requirements for the Bank to be considered "well capitalized" and the Company exceeded all of its applicable minimum regulatory capital ratio requirements.

A capital conservation buffer of 2.5% must be met to avoid limitations on the ability of the Bank and the Company to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 6.15% and 5.86% and the Company's capital conservation buffer was 5.94% and 5.71% as of March 31, 2023 and December 31, 2022, respectively.

In March 2020, federal banking agencies announced an interim final rule to delay the impact on regulatory capital arising from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company and the Bank adopted the capital transition relief over the permissible five-year period.

The capital ratios of Hanmi Financial and the Bank as of March 31, 2023 and December 31, 2022 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(dollars in thousands)			
March 31, 2023						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 917,551	14.80%	$ 495,951	8.00%	N/A	N/A
Hanmi Bank	$ 876,961	14.15%	$ 495,874	8.00%	$ 619,842	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 740,064	11.94%	$ 371,963	6.00%	N/A	N/A
Hanmi Bank	$ 809,474	13.06%	$ 371,905	6.00%	$ 495,874	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	$ 718,717	11.59%	$ 278,973	4.50%	N/A	N/A
Hanmi Bank	$ 809,474	13.06%	$ 278,929	4.50%	$ 402,897	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 740,064	10.09%	$ 293,509	4.00%	N/A	N/A
Hanmi Bank	$ 809,474	11.06%	$ 292,658	4.00%	$ 365,822	5.00%
December 31, 2022						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 901,239	14.49%	$ 497,508	8.00%	N/A	N/A
Hanmi Bank	$ 860,503	13.86%	$ 496,607	8.00%	$ 620,758	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 728,344	11.71%	$ 373,131	6.00%	N/A	N/A
Hanmi Bank	$ 797,608	12.85%	$ 372,455	6.00%	$ 496,607	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	$ 707,101	11.37%	$ 279,848	4.50%	N/A	N/A
Hanmi Bank	$ 797,608	12.85%	$ 279,341	4.50%	$ 403,493	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 728,344	10.07%	$ 289,311	4.00%	N/A	N/A
Hanmi Bank	$ 797,608	11.07%	$ 288,110	4.00%	$ 360,137	5.00%

Note 11 — Fair Value Measurements

Fair Value Measurements

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

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

- Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

Derivatives – The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Loans held for sale - Loans held for sale includes the guaranteed portion of SBA 7(a) loans carried at the lower of cost or fair value. Management obtains quotes, bids or pricing indication sheets on all or part of the 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 March 31, 2023 and December 31, 2022, the entire balance of loans held for sale was recorded at its cost. We record loans held for sale on a nonrecurring basis with Level 2 inputs.

Nonperforming loans – Nonaccrual loans receivable and loans 90-days past due and still accruing interest are considered nonperforming for reporting purposes and are measured and recorded at fair value on a non-recurring basis. All nonperforming loans with a carrying balance over $250,000 are individually evaluated for the amount of impairment, if any. Nonperforming loans with a carrying balance of $250,000 or less are evaluated collectively. However, from time to time, nonrecurring fair value adjustments to collateral dependent nonperforming loans are recorded based on either the current appraised value of the collateral, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, and result in 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 3 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.

Servicing assets - On a quarterly basis, the Company utilizes a third party service to evaluate servicing assets related to loans sold to unaffiliated parties with servicing retained, and result in a Level 3 classification. Servicing assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Other repossessed assets – Fair value of equipment from equipment financing agreements contracts is based primarily on a third party valuation service, less costs to sell and result in a Level 3 classification of the inputs for determining fair value. Valuations are required at the time the asset is repossessed and may be subsequently updated periodically due to the Company's short-term possession of the asset prior to sale or as circumstances require and the fair value adjustments are made to the asset based on its value prior to sale.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2023 and December 31, 2022, 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	Total Fair Value
		(in thousands)		
March 31, 2023				
Assets:				
Securities available for sale:				
U.S. Treasury securities	$ 54,926	$ —	$ —	$ 54,926
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities - residential	—	464,105	—	464,105
Mortgage-backed securities - commercial	—	50,866	—	50,866
Collateralized mortgage obligations	—	100,546	—	100,546
Debt securities	—	140,368	—	140,368
Total U.S. government agency and sponsored agency obligations	—	755,885	—	755,885
Municipal bonds-tax exempt	—	67,890	—	67,890
Total securities available for sale	**$ 54,926**	**$ 823,775**	**$ —**	**$ 878,701**
Derivative financial instruments	$ —	$ 5,621	$ —	$ 5,621
Liabilities:				
Derivative financial instruments	$ —	$ 5,617	$ —	$ 5,617
December 31, 2022				
Assets:				
Securities available for sale:				
U.S. Treasury securities	$ 48,026	$ —	$ —	$ 48,026
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities - residential	—	465,152	—	465,152
Mortgage-backed securities - commercial	—	51,292	—	51,292
Collateralized mortgage obligations	—	85,485	—	85,485
Debt securities	—	138,499	—	138,499
Total U.S. government agency and sponsored agency obligations	—	740,428	—	740,428
Municipal bonds-tax exempt	—	65,384	—	65,384
Total securities available for sale	**$ 48,026**	**$ 805,812**	**$ —**	**$ 853,838**
Derivative financial instruments	$ —	$ 7,507	$ —	$ 7,507
Liabilities:				
Derivative financial instruments	$ —	$ 7,375	$ —	$ 7,375

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

As of March 31, 2023 and December 31, 2022, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs
			(in thousands)	
March 31, 2023				
Assets:				
Collateral dependent loans [(1)]	$ 10,191	$ —	$ —	$ 10,191
Other real estate owned	117	—	—	117
Repossessed personal property	629	—	—	629
December 31, 2022				
Assets:				
Collateral dependent loans [(2)]	$ 2,694	$ —	$ —	$ 2,694
Other real estate owned	117	—	—	117
Repossessed personal property	467	—	—	467
Servicing assets	7,176	—	—	7,176

(1) *Consisted of real estate loans of $2.6 million and commercial and industrial loans of $7.6 million, which were secured by real estate and business assets.*

(2) *Consisted of real estate loans of $2.7 million.*

The following table represents quantitative information about Level 3 fair value assumptions for assets measured at fair value on a non-recurring basis at March 31, 2023 and December 31, 2022:

	Fair Value	Valuation Techniques	Unobservable Input(s)	Range (Weighted Average)	
		(in thousands)			
March 31, 2023					
Collateral dependent loans:					
Real estate loans:					
Commercial property					
Retail	$ 1,883	Market approach	Adjustments to market data	5% to 25% / 16%	(1)
Other	259	Market approach	Adjustments to market data	(35)% to (10)% / (24)%	(1)
Residential	487	Market approach	Adjustments to market data	(13)% to 5% / (2)%	(1)
Total real estate loans	2,629				
Commercial and industrial loans	7,562	Market approach	Adjustments to market data	10% to 15% / 11%	(1)
Total	**$ 10,191**				
Other real estate owned	$ 117	Market approach	Adjustments to market data	(10)% to 5% / (2)%	(1)
Repossessed personal property	629	Market approach	Adjustments to market data		(2)
December 31, 2022					
Collateral dependent loans:					
Real estate loans:					
Commercial property					
Retail	$ 1,930	Market approach	Adjustments to market data	5% to 25% / 16%	(1)
Other	256	Market approach	Adjustments to market data	(42)% to 3% / (24)%	(1)
Residential	508	Market approach	Adjustments to market data	(15)% to 3% / (1)%	(1)
Total real estate loans	2,694				
Total	**$ 2,694**				
Other real estate owned	$ 117	Market approach	Adjustments to market data	(20)% to 20% / (2)%	(1)
Repossessed personal property	467	Market approach	Adjustments to market data		(2)
Servicing assets	7,176	Market approach	Prepayment rate Discount rate	11% to 17% / 16% 22% to 25% / 22%	(3)

(1) *Appraisal reports utilize a combination of valuation techniques including a market approach, where prices and other relevant information generated by market transactions involving similar or comparable properties are used to determine the appraised value. Appraisals may include an 'as is' and 'upon completion' valuation scenarios. Adjustments are routinely made in the appraisal process by third-party appraisers to adjust for differences between the comparable sales and income data. Adjustments also result from the consideration of relevant economic and demographic factors with the potential to affect property values. Also, prospective values are based on the market conditions which exist at the date of inspection combined with informed forecasts based on current trends in supply and demand for the property types under appraisal. Positive adjustments disclosed in this table represent increases to the sales comparison and negative adjustments represent decreases.*

(2) *The equipment is usually too small in value to use a professional appraisal service. The values are determined internally using a combination of auction values, vendor recommendations and sales comparisons depending on the equipment type. Some highly commoditized equipment, such as commercial trucks have services that provide industry values.*

(3) *Fair value is based on a valuation model using the present value of estimated future cash flows, prepayment speeds, default rates, and discount rates. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into income over the period of the estimated future net servicing income of the underlying loans.*

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

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

Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825), among other provisions, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Other than certain financial instruments for which we had concluded that the carrying amounts approximate fair value, the fair value estimates shown below were based on an exit price notion as of March 31, 2023, as required by ASU 2016-01. The financial instruments for which we had concluded that the carrying amounts approximate fair value include, cash and due from banks, accrued interest receivable and payable, and noninterest-bearing deposits.

The estimated fair values of financial instruments were as follows:

	March 31, 2023			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 386,201	$ 386,201	$ —	$ —
Securities available for sale	878,701	54,926	823,775	—
Loans held for sale	3,652	—	3,653	—
Loans receivable, net of allowance for credit losses	5,908,209	—	—	5,753,059
Accrued interest receivable	19,004	19,004	—	—
Financial liabilities:				
Noninterest-bearing deposits	2,334,083	—	2,334,083	—
Interest-bearing deposits	3,866,955	—	—	3,870,056
Borrowings and subordinated debentures	479,558	—	346,689	131,791
Accrued interest payable	20,512	20,512	—	—

	December 31, 2022			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 352,421	$ 352,421	$ —	$ —
Securities available for sale	853,838	48,026	805,812	—
Loans held for sale	8,043	—	8,423	—
Loans receivable, net of allowance for credit losses	5,895,610	—	—	5,808,190
Accrued interest receivable	18,537	18,537	—	—
Financial liabilities:				
Noninterest-bearing deposits	2,539,602	—	2,539,602	—
Interest-bearing deposits	3,628,470	—	—	3,623,827
Borrowings and subordinated debentures	479,409	—	345,867	126,828
Accrued interest payable	7,792	7,792	—	—

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 due from banks – The carrying amounts of cash and due from banks 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 and 2).

Loans held for sale – Loans held for sale, representing the guaranteed portion of SBA loans, are carried at the lower of aggregate cost or fair market value, as determined based upon quotes, bids or sales contract prices (Level 2).

Loans receivable, net of allowance for credit losses – The fair value of loans receivable is estimated based on the discounted cash flow approach. To estimate the fair value of the loans, certain loan characteristics such as account types, remaining terms, annual interest rates or coupons, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan-to-value ratios, loss exposures, and remaining balances are considered. Additionally, the Company’s prior charge-off rates and loss ratios as well as various other assumptions relating to credit, interest, and prepayment risks are used as part of valuing the loan portfolio. Subsequently, the loans were individually evaluated by sorting and pooling them based on loan types, credit risk grades, and payment types. Consistent with the requirements of ASU 2016-01 which was adopted by the Company on January 1, 2018, the fair value of the Company's loans receivable is considered to be an exit price notion as of March 31, 2023 (Level 3).

The fair value of collateral dependent 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 loans are recorded based on the current appraised value of the collateral (Level 3).

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

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 and subordinated debentures – 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 2 and 3).

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

Note 12 — Off-Balance Sheet Commitments

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

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

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

	March 31, 2023	December 31, 2022
	(in thousands)	
Unused commitments to extend credit	$ 834,661	$ 780,543
Standby letters of credit	71,518	71,829
Commercial letters of credit	18,192	19,945
Total commitments	**$ 924,371**	**$ 872,317**

The allowance for credit losses related to off-balance sheet items was maintained at a level believed to be sufficient to absorb current expected lifetime losses related to these unfunded credit facilities. The determination of the allowance adequacy was 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.

Activity in the allowance for credit losses related to off-balance sheet items was as follows for the periods indicated:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Balance at beginning of period	$ 3,114	$ 2,586
Provision expense (recovery) for credit losses	(48)	(228)
Balance at end of period	**$ 3,066**	**$ 2,358**

Note 13 — Leases

The Company enters into leases in the normal course of business primarily for bank branch offices, back-office operations locations, business development offices, information technology data centers and information technology equipment. The Company's leases have remaining terms ranging from one to thirteen years, some of which include renewal or termination options to extend the lease for up to five years.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the term of the lease. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term.

As of March 31, 2023, the outstanding balances for our right-of-use asset and lease liability were $38.6 million and $42.4 million, respectively. The outstanding balances of the right-of-use asset and lease liability were $40.4 million and $44.2 million, respectively, as of December 31, 2022. The right-of-use asset is reported in prepaid expenses and other assets line item and lease liability is reported in accrued expenses and other liabilities line item on the Consolidated Balance Sheets.

In determining the discount rates, since most of our leases do not provide an implicit rate, we used our incremental borrowing rate provided by the FHLB of San Francisco based on the information available at the commencement date to calculate the present value of lease payments.

At March 31, 2023, future minimum rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

	Amount
	(in thousands)
2023	$ 7,995
2024	7,319
2025	6,418
2026	5,275
2027	5,105
Thereafter	14,030
Remaining lease commitments	46,142
Interest	(3,741)
Present value of lease liability	**$ 42,401**

Weighted average remaining lease terms for the Company's operating leases were 6.91 years and 7.12 years as of March 31, 2023 and December 31, 2022, respectively. Weighted average discount rates used for the Company's operating leases were 2.41% and 2.42% as of March 31, 2023 and December 31, 2022, respectively. Net lease expense recognized for the three months ended March 31, 2023 and 2022 was $2.0 million and $2.1 million, respectively. This included operating lease costs of $2.1 million and $2.0 million for the three months ended March 31, 2023 and 2022, respectively. Sublease income for operating leases was immaterial for both the three months ended March 31, 2023 and 2022.

Cash paid and included in cash flows from operating activities for amounts used in the measurement of the lease liability of the Company's operating leases was $2.1 million and $2.0 million for the three months ended March 31, 2023 and 2022.

Note 14 — Liquidity

Hanmi Financial

As of March 31, 2023, Hanmi Financial had $13.1 million in cash on deposit with its bank subsidiary and $24.3 million of U.S. Treasury securities at fair value. As of December 31, 2022, the Company had $10.6 million in cash on deposit with its bank subsidiary and $17.7 million of U.S. Treasury securities at fair value. Management believes that Hanmi Financial, on a stand-alone basis, had adequate liquid assets to meet its current debt 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 wish either 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 March 31, 2023 and December 31, 2022, the Bank had $350.0 million of FHLB advances, and $83.1 million and $83.3 million, respectively, of brokered deposits.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30% of its assets. As of March 31, 2023 and December 31, 2022, the total borrowing capacity available, based on pledged collateral was $1.62 billion and $1.54 billion, respectively. The remaining available borrowing capacity was $1.15 billion and $1.07 billion as of March 31, 2023 and December 31, 2022, 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 FHLB may adjust the advance rates for qualifying collateral upwards or downwards 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, equipment financing agreements and 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 $22.2 million from the Federal Reserve Discount Window and the new BTFP, to which the Bank pledged securities with a carrying value of $26.6 million, with no borrowings as of March 31, 2023. The Bank also maintains a line of credit for repurchase agreements up to $100.0 million. The Bank also had three unsecured federal funds lines of credit totaling $115.0 million with no outstanding balances as of March 31, 2023.

Note 15 — Derivatives and Hedging Activities

The Company's derivative financial instruments consist entirely of interest rate swap agreements between the Company and its customers and other third party counterparties. The Company enters into "back-to-back swap" arrangements whereby the Company executes interest rate swap agreements with its customers and acquires an offsetting swap position from a third party counterparty. These derivative financial statements are accounted for at fair value, with changes in fair value recognized in the Company's Consolidated Statements of Income.

The table below presents the fair value of the Company's derivative financial instruments as well as their location on the Balance Sheet as of March 31, 2023 and December 31, 2022.

As of March 31, 2023	**Derivative Assets**			**Derivative Liabilities**		
	Notional Amount	**Balance Sheet Location**	**Fair Value**	**Notional Amount**	**Balance Sheet Location**	**Fair Value**
			(in thousands)			
Derivatives not designated as hedging instruments						
Interest rate products	$ 106,480	Other Assets	$ 5,621	$ 106,480	Other Liabilities	$ 5,617
Total derivatives not designated as hedging instruments			**$ 5,621**			**$ 5,617**

As of December 31, 2022	**Derivative Assets**			**Derivative Liabilities**		
	Notional Amount	**Balance Sheet Location**	**Fair Value**	**Notional Amount**	**Balance Sheet Location**	**Fair Value**
			(in thousands)			
Derivatives not designated as hedging instruments						
Interest rate products	$ 61,460	Other Assets	$ 7,507	$ 61,460	Other Liabilities	$ 7,375
Total derivatives not designated as hedging instruments			**$ 7,507**			**$ 7,375**

The table below presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments on the Income Statement for the three months ended March 31, 2023 and 2022.

Derivatives Not Designated as Hedging Instruments under Subtopic 815-20	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
		Three Months Ended March 31,	
		2023	**2022**
		(in thousands)	
Interest rate products	Other income	$ (128)	$ 55
Total		**$ (128)**	**$ 55**

The Company recognized $0.6 million of fee income from its derivative financial instruments for the three months ended March 31, 2023. No fee income was earned for the three months ended March 31, 2022.

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of March 31, 2023 and December 31, 2022. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The derivative assets are located within the prepaid and other assets line item on the Consolidated Balance Sheets and the derivative liabilities are located within the accrued expenses and other liabilities line item on the Consolidated Balance Sheets.

Offsetting of Derivative Assets

As of March 31, 2023

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
			(in thousands)			
Derivatives	$ 5,621	$ —	$ 5,621	$ 5,617	$ 4	$ —

Offsetting of Derivative Liabilities

As of March 31, 2023

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Provided	Net Amount
			(in thousands)			
Derivatives	$ 5,617	$ —	$ 5,617	$ 5,617	$ —	$ —

Offsetting of Derivative Assets

As of December 31, 2022

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
			(in thousands)			
Derivatives	$ 7,507	$ —	$ 7,507	$ 7,375	$ 132	$ —

Offsetting of Derivative Liabilities

As of December 31, 2022

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Provided	Net Amount
			(in thousands)			
Derivatives	$ 7,375	$ —	$ 7,375	$ 7,375	$ —	$ —

The Company has agreements with each of its derivative counterparties that contain a provision stating if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. In addition, these agreements may also require the Company to post additional collateral should it fail to maintain its status as a well- or adequately- capitalized institution.

As of March 31, 2023 and December 31, 2022, the fair value of derivatives in a net asset position for counterparty transactions, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $5.6 million and $7.4 million, respectively. As of March 31, 2023, the Company had not posted any collateral with its counterparties related to these agreements and is adequately collateralized since its net asset position was $4,000 ($5.6 million of fair value of assets less $5.6 million of fair value of liabilities) as of March 31, 2023. As of December 31, 2022, the Company had not posted collateral related to these agreements and was adequately collateralized since its net asset position was $132,000 ($7.5 million of fair value of assets less $7.4 million of fair value of liabilities).

Note 16 — Subsequent Events

Cash Dividend

On April 27, 2023, the Board of Directors of the Company declared a quarterly cash dividend of $0.25 per share to be paid on May 24, 2023 to stockholders of record as of the close of business on May 8, 2023.

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

The following is management's discussion and analysis of our results of operations and financial condition as of and for the three months ended March 31, 2023. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Annual Report on Form 10-K") and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the period ended March 31, 2023 (this "Report").

Forward-Looking Statements

Some of the statements contained in this Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this Report other than statements of historical fact are "forward–looking statements" for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs and availability, plans and objectives of management for future operations, developments regarding our capital and strategic plans and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Forward-looking 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 statements. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; the effect of our rating under the Community Reinvestment Act and our ability to address any issues raised in our regulatory exams; general economic and business conditions internationally, nationally and in those areas in which we operate; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; inflation; risks of natural disasters; the current or anticipated impact of military conflict, terrorism or other geopolitical events; a failure in or breach of our operational or security systems or infrastructure, including cyber-attacks; the failure to maintain current technologies; the inability to successfully implement future information technology enhancements; difficult business and economic conditions that can adversely affect our industry and business, including competition, fraudulent activity and negative publicity; risks associated with Small Business Administration loans; failure to attract or retain key employees; our ability to access cost-effective funding; changes in liquidity, including the size and composition of our deposit portfolio, including the percentage of uninsured deposits in the portfolio; fluctuations in real estate values; changes in accounting policies and practices; the continuing impact of the COVID-19 pandemic on our business and results of operation; changes in governmental regulation, including, but not limited to, any increase in Federal Deposit Insurance Corporation insurance premiums; changes in the fiscal and monetary policies of the Board of Governors of the Federal Reserve System; the ability of Hanmi Bank to make distributions to Hanmi Financial Corporation, which is restricted by certain factors, including Hanmi Bank's retained earnings, net income, prior distributions made, and certain other financial tests; the ability to identify a suitable strategic partner or to consummate a strategic transaction; the adequacy of our allowance for credit losses; our credit quality and the effect of credit quality on our credit losses expense and allowance for credit losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to control expenses; changes in securities markets; and risks as it relates to cyber security against our information technology infrastructure and those of our third party providers and vendors.

For additional information concerning risks we face, see "Part II, Item 1A. Risk Factors" in this Report and "Item 1A. Risk Factors" in Part I of the 2022 Annual Report on Form 10-K. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

Critical Accounting Policies

We have established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the consolidated financial statements in our 2022 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2022 Annual Report on Form 10-K.

Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our 2022 Annual Report on Form 10-K. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of the Company's Board of Directors.

Executive Overview

Net income was $22.0 million, or $0.72 per diluted share, for the three months ended March 31, 2023 compared with $20.7 million, or $0.68 per diluted share, for the same period a year ago. The increase in net income was primarily driven by an increase in net interest income of $6.9 million, offset by a $1.1 million increase in noninterest expense attributable to higher salaries and employee benefits and an increase in credit loss expense of $3.5 million. The increase in credit loss expense during the first quarter of 2023 was due to $2.1 million in credit loss expense in the first quarter of 2023 and a $1.4 million recovery of credit loss expense in the first quarter of 2022.

Other financial highlights include the following:

- Cash and due from banks increased $33.8 million to $386.2 million as of March 31, 2023 from $352.4 million at December 31, 2022.
- Securities increased $24.9 million to $878.7 million at March 31, 2023 from $853.8 million at December 31, 2022.
- Loans receivable, before the allowance for credit losses, were $5.98 billion at March 31, 2023 compared with $5.97 billion at December 31, 2022.
- Deposits were $6.20 billion at March 31, 2023 compared with $6.17 billion at December 31, 2022.
- Stockholders' equity at March 31, 2023 was $662.2 million, compared with $637.5 million at December 31, 2022.
- Return on average assets for the quarter ended March 31, 2023 was 1.21% and return on average stockholders' equity was 12.19%.

Results of Operations

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest 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 receivable are affected principally by changes to interest rates, the demand for loans receivable, the supply of money available for lending purposes, and other competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

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

	Three Months Ended					
	March 31, 2023			March 31, 2022		
	Average Balance	**Interest Income / Expense**	**Average Yield / Rate**	**Average Balance**	**Interest Income / Expense**	**Average Yield / Rate**
Assets			*(dollars in thousands)*			
Interest-earning assets:						
Loans receivable [(1)]	$ 5,944,399	$ 80,923	5.51%	$ 5,231,672	$ 53,924	4.18%
Securities [(2)]	980,712	4,025	1.67%	930,505	2,516	1.11%
FHLB stock	16,385	289	7.16%	16,385	248	6.14%
Interest-bearing deposits in other banks	192,902	2,066	4.34%	494,887	216	0.18%
Total interest-earning assets	7,134,398	87,303	4.96%	6,673,449	56,904	3.46%
Noninterest-earning assets:						
Cash and due from banks	65,088			62,968		
Allowance for credit losses	(71,452)			(73,177)		
Other assets	239,121			229,952		
Total assets	**$ 7,367,155**			**$ 6,893,192**		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$ 109,391	$ 29	0.11%	$ 124,892	$ 17	0.06%
Money market and savings	1,453,569	7,315	2.04%	2,106,008	1,189	0.23%
Time deposits	2,223,615	18,154	3.31%	937,044	807	0.35%
Total interest-bearing deposits	3,786,575	25,498	2.73%	3,167,944	2,013	0.26%
Borrowings	268,056	2,369	3.58%	130,556	337	1.05%
Subordinated debentures	129,483	1,583	4.89%	213,171	3,598	6.75%
Total interest-bearing liabilities	4,184,114	29,450	2.85%	3,511,671	5,948	0.69%
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	2,324,413			2,634,398		
Other liabilities	127,112			88,367		
Stockholders' equity	731,516			658,756		
Total liabilities and stockholders' equity	**$ 7,367,155**			**$ 6,893,192**		
Net interest income		**$ 57,853**			**$ 50,956**	
Cost of deposits [(3)]			**1.69%**			**0.14%**
Net interest spread (taxable equivalent basis) [(4)]			**2.10%**			**2.77%**
Net interest margin (taxable equivalent basis) [(5)]			**3.28%**			**3.10%**

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

(2) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate of 21%.

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

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

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

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

	Three Months Ended March 31, 2023 vs March 31, 2022 Increases (Decreases) Due to Change In		
	Volume	**Rate**	**Total**
		(in thousands)	
Interest and dividend income:			
Loans receivable (1)	$ 7,288	$ 19,711	$ 26,999
Securities (2)	136	1,373	1,509
FHLB stock	—	41	41
Interest-bearing deposits in other banks	(132)	1,982	1,850
Total interest and dividend income	**7,292**	**23,107**	**30,399**
Interest expense:			
Demand: interest-bearing	$ (2)	$ 14	$ 12
Money market and savings	(372)	6,498	6,126
Time deposits	1,108	16,239	17,347
Borrowings	355	1,677	2,032
Subordinated debentures	(1,415)	(600)	(2,015)
Total interest expense	**(326)**	**23,828**	**23,502**
Change in net interest income	**$ 7,618**	**$ (721)**	**$ 6,897**

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

(2) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate of 21%.

For the three months ended March 31, 2023 and 2022, net interest income was $57.9 million and $51.0 million, respectively. The net interest spread and net interest margin, on a taxable equivalent basis, for the quarter ended March 31, 2023, were 2.10% and 3.28%, respectively, compared with 2.77% and 3.10%, respectively, for the same period in 2022. Interest and dividend income increased $30.4 million, or 53.4%, to $87.3 million for the three months ended March 31, 2023 from $56.9 million for the same period in 2022 due to higher average interest-earning asset balances and yields. Interest expense increased $23.5 million, or 395.1%, to $29.5 million for the three months ended March 31, 2023 from $5.9 million for the same period in 2022 primarily due to higher deposit and borrowing rates due to the rising interest rate environment offset by lower subordinated debenture costs.

The average balance of interest earning assets increased $460.9 million, or 6.9%, to $7.13 billion for the three months ended March 31, 2023 from $6.67 billion for the three months ended March 31, 2022. The average balance of loans increased $712.7 million, or 13.6%, to $5.94 billion for the three months ended March 31, 2023 from $5.23 billion for the three months ended March 31, 2022 due mainly to lower payoffs and $303.6 million of loan production during the quarter. The average balance of securities increased $50.2 million, or 5.4%, to $980.7 million for the three months ended March 31, 2023 from $930.5 million for the three months ended March 31, 2022. The average balance of interest-bearing deposits at other banks decreased $302.0 million to $192.9 million for the three months ended March 31, 2022, as excess funds were used to fund loan and securities growth.

The average yield on interest-earning assets, on a taxable equivalent basis, increased 150 basis points to 4.96% for the three months ended March 31, 2023 from 3.46% for the three months ended March 31, 2022, mainly due to the higher interest rate environment. The average yield on loans increased to 5.51% for the three months ended March 31, 2023 from 4.18% for the three months ended March 31, 2022, driven mainly by the higher interest rate environment. The average yield on securities, on a taxable equivalent basis, increased to 1.67% for the three months ended March 31, 2023 from 1.11% for the three months ended March 31, 2022, reflecting the rising market interest rate environment. The average yield on interest-bearing deposits in other banks increased 416 basis points to 4.34% for the three months ended March 31, 2023 from 0.18% for the three months ended March 31, 2022 mainly due to higher market rates.

The average balance of interest-bearing liabilities increased $672.4 million, or 19.1%, to $4.18 billion for the three months ended March 31, 2023 compared to $3.51 billion for the three months ended March 31, 2022. The average balance of time deposits and borrowings increased $1.29 billion and $137.5 million, respectively, offset by decreases in the average balance of money market and savings accounts and subordinated debentures of $652.4 million and $83.7 million, respectively.

The average cost of interest-bearing liabilities was 2.85% and 0.69% for the three months ended March 31, 2023 and 2022, respectively. The average cost of subordinated debentures decreased 186 basis points to 4.89% for the three months ended March 31, 2023 compared to 6.75% for the three months ended March 31, 2022, due to a pre-tax charge of $1.1 million for the three months ended March 31, 2022 for the remaining debt issuance costs due upon redemption on the 2027 Notes. The average cost of borrowings increased 253 basis points to 3.58% for the three months ended March 31, 2023 compared to 1.05% for the three months ended March 31, 2022. The average cost of interest-bearing deposits increased 247 basis points to 2.73% for the three months ended March 31, 2023, compared to 0.26% for the three months ended March 31, 2022. The increased costs were primarily due to increased market interest rates.

Credit Loss Expense

For the first quarter of 2023, the Company recorded $2.1 million of credit loss expense, comprised of a $2.2 million credit loss expense for loan losses, and a $48,000 negative provision for off-balance sheet items. For the same period in 2022, the Company recorded a $1.4 million recovery of credit loss expense, comprised of a $1.2 million negative provision for loan losses, and a $0.2 million negative provision for off-balance sheet items. The increase in credit loss expense for the three months ended March 31, 2023 as compared to the same period in 2022 was mainly attributable to a specific reserve allocation of $2.5 million on a nonperforming commercial and industrial loan in the health-care industry. The recovery of credit loss expense for the three months ended March 31, 2022 resulted from a combination of overall improvements in asset quality and economic forecasts, as well as a net reduction in specific qualitative factors allocated to criticized hospitality loans impacted by the pandemic, offset by strong loan growth

See also “Allowance for Credit Losses and Allowance for Credit Losses Related to Off-Balance Sheet Items” for further details.

Noninterest Income

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Increase (Decrease) Amount	Increase (Decrease) Percent
	(in thousands)			
Service charges on deposit accounts	$ 2,579	$ 2,875	$ (296)	(10.30)%
Trade finance and other service charges and fees	1,258	1,142	116	10.16
Servicing income	742	734	8	1.09
Bank-owned life insurance income	270	244	26	10.66
All other operating income	1,618	1,004	614	61.16
Service charges, fees & other	6,467	5,999	468	7.80
Gain on sale of SBA loans	1,869	2,521	(652)	(25.86)
Total noninterest income	**$ 8,336**	**$ 8,520**	**$ (184)**	**(2.16)%**

For the three months ended March 31, 2023, noninterest income was $8.3 million, a decrease of $0.2 million, or 2.2%, compared with $8.5 million for the same period in 2022. The decrease was mainly attributable to a $0.7 million decrease in the gain on loan sales resulting from lower volume and net trade premiums, offset by a $0.5 million increase in swap fee income included in other operating income.

Noninterest Expense

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Increase (Decrease) Amount	Increase (Decrease) Percent
		(in thousands)		
Salaries and employee benefits	$ 20,610	$ 17,717	$ 2,893	16.33%
Occupancy and equipment	4,412	4,646	(234)	(5.04)
Data processing	3,253	3,236	17	0.53
Professional fees	1,335	1,430	(95)	(6.64)
Supplies and communications	676	665	11	1.65
Advertising and promotion	833	817	16	1.96
All other operating expenses	1,957	3,186	(1,229)	(38.58)
Subtotal	33,076	31,697	1,379	4.35
Other real estate owned expense (income)	(201)	12	(213)	NM
Repossessed personal property expense (income)	(84)	(17)	(67)	394.12
Total noninterest expense	**$ 32,791**	**$ 31,692**	**$ 1,099**	**3.47%**

For the three months ended March 31, 2023, noninterest expense was $32.8 million, an increase of $1.1 million, or 3.5% compared with $31.7 million for the same period in 2022. Salaries and employee benefits increased $2.9 million due to annual merit and bonus increases, and a 3.3% increase in average full-time equivalent employees. All other operating expenses decreased $1.2 million attributable mainly to a decrease in loan-related expenses.

Income Tax Expense

Income tax expense was $9.3 million and $8.5 million representing an effective income tax rate of 29.7% and 29.0% for the three months ended March 31, 2023 and 2022, respectively. The increase in the effective tax rate for the three months ended March 31, 2023, compared to the same period in 2022 was principally due to an increase in tax charges from the Company's share-based compensation and an increase in disallowed interest expense.

Financial Condition

Securities

As of March 31, 2023, our securities portfolio consisted of U.S. government agency and sponsored agency mortgage-backed securities, collateralized mortgage obligations and debt securities, tax-exempt municipal bonds and, to a lesser extent, U.S. Treasury securities. Most of these securities carry fixed interest rates. Other than holdings of U.S. government agency and sponsored agency obligations, there were no securities of any one issuer exceeding 10% of stockholders' equity as of March 31, 2023 or December 31, 2022. Securities increased $24.9 million to $878.7 million at March 31, 2023 from $853.8 million at December 31, 2022, due to $29.5 million in securities purchases and a $13.6 million increase in the fair value of securities at March 31, 2023 compared to December 31, 2022.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their cost weighted average yield, which is calculated using amortized cost as the weight, as of March 31, 2023:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(dollars in thousands)					
Securities available for sale:										
U.S. Treasury securities	$ 17,347	3.36%	$ 38,827	2.97%	$ —	0.00%	$ —	0.00%	$ 56,174	3.09%
U.S. government agency and sponsored agency obligations:										
Mortgage-backed securities - residential	1	2.52	114	2.90	5,565	2.85	526,437	1.59	532,117	1.60
Mortgage-backed securities - commercial	—	—	7,310	2.44	1,482	1.06	52,697	1.54	61,489	1.64
Collateralized mortgage obligations	—	—	255	1.28	725	2.65	111,041	2.40	112,021	2.40
Debt securities	18,211	1.34	132,151	1.36	—	—	—	—	150,362	1.36
Total U.S. government agency and sponsored agency obligations	18,212	1.34	139,830	1.42	7,772	2.49	690,175	1.72	855,989	1.67
Municipal bonds-tax exempt	—	—	—	—	19,985	1.38	57,904	1.32	77,889	1.34
Total securities available for sale	**$ 35,559**	**2.33%**	**$178,657**	**1.75%**	**$ 27,757**	**1.69%**	**$748,079**	**1.68%**	**$990,052**	**1.72%**

Loans Receivable

As of March 31, 2023 and December 31, 2022, loans receivable (excluding loans held for sale), net of deferred loan fees and costs, discounts and allowance for credit losses, were $5.91 billion and $5.90 billion, respectively. The increase primarily reflected $303.6 million in new loan production, offset by $154.9 million in loan sales and payoffs, and amortization and other reductions of $139.7 million. Loan production primarily consisted of residential mortgages of $97.2 million, commercial real estate of $75.5 million, equipment financing agreements of $69.3 million, SBA loans of $34.5 million and commercial and industrial loans of $27.1 million.

The table below shows the maturity distribution of outstanding loans, before the allowance for credit losses as of March 31, 2023. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates.

	Within One Year	After One Year but Within Three Years	After Three Years but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
			(in thousands)			
Real estate loans:						
Commercial property						
Retail	$ 100,032	$ 230,151	$ 315,128	$ 369,914	$ 37,128	$ 1,052,353
Hospitality	129,528	229,840	144,816	146,465	18,363	669,012
Office	41,917	184,439	273,115	29,981	4,251	533,703
Other	120,904	393,833	517,131	322,487	61,393	1,415,748
Total commercial property loans	392,381	1,038,263	1,250,190	868,847	121,135	3,670,816
Construction	85,072	28,288	—	—	—	113,360
Residential	6,669	46	15	5,053	806,134	817,917
Total real estate loans	484,122	1,066,597	1,250,205	873,900	927,269	4,602,093
Commercial and industrial loans	316,499	162,837	190,337	108,476	—	778,149
Equipment financing agreements	23,942	179,185	355,378	41,711	—	600,216
Loans receivable	**$ 824,563**	**$ 1,408,619**	**$ 1,795,920**	**$ 1,024,087**	**$ 927,269**	**$ 5,980,458**
Loans with predetermined interest rates	360,056	953,702	1,394,647	185,588	254,158	3,148,151
Loans with variable interest rates	464,507	454,917	401,273	838,499	673,111	2,832,307

The table below shows the maturity distribution of outstanding loans, before the allowance for credit losses, with fixed or predetermined interest rates due after one year, as of March 31, 2023.

	After One Year but Within Three Years	After Three Years but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
			(in thousands)		
Real estate loans:					
Commercial property					
Retail	$ 203,787	$ 272,471	$ 57,949	$ —	$ 534,207
Hospitality	91,464	134,054	6,497	—	232,015
Office	144,714	217,817	—	—	362,531
Other	303,177	408,040	65,111	7,721	784,049
Total commercial property loans	743,142	1,032,382	129,557	7,721	1,912,802
Construction	28,288	—	—	—	28,288
Residential	40	15	2,723	246,437	249,215
Total real estate loans	771,470	1,032,397	132,280	254,158	2,190,305
Commercial and industrial loans	3,047	6,872	11,597	—	21,516
Equipment financing agreements	179,185	355,378	41,711	—	576,274
Loans receivable	**$ 953,702**	**$ 1,394,647**	**$ 185,588**	**$ 254,158**	**$ 2,788,095**

The table below shows the maturity distribution of outstanding loans, before the allowance for credit losses, with floating or variable interest rates (including hybrids) due after one year, as of March 31, 2023.

	After One Year but Within Three Years	After Three Years but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
			(in thousands)		
Real estate loans:					
Commercial property					
Retail	$ 26,364	$ 42,657	$ 311,965	$ 37,128	$ 418,114
Hospitality	138,377	10,761	139,968	18,363	307,469
Office	39,725	55,298	29,981	4,251	129,255
Other	90,656	109,091	257,375	53,672	510,794
Total commercial property loans	295,122	217,807	739,289	113,414	1,365,632
Residential	5	—	2,331	559,697	562,033
Total real estate loans	295,127	217,807	741,620	673,111	1,927,665
Commercial and industrial loans	159,790	183,466	96,879	—	440,135
Loans receivable	**$ 454,917**	**$ 401,273**	**$ 838,499**	**$ 673,111**	**$ 2,367,800**

Industry

As of March 31, 2023, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10.0% of loans receivable outstanding:

	Balance as of March 31, 2023	Percentage of Loans Receivable Outstanding
	(in thousands)	
Lessor of nonresidential buildings	$ 1,780,674	29.8%
Hospitality	704,088	11.8%

Loan Quality Indicators

Loans 30 to 89 days past due and still accruing were $15.4 million at March 31, 2023, compared with $7.5 million at December 31, 2022, attributable mainly to a $6.7 million past due and accruing loan at March 31, 2023, that resolved its delinquency subsequent to the end of the first quarter.

At March 31, 2023 and December 31, 2022, there were no loans 90 days or more past due and still accruing interest.

Special mention loans were $64.3 million at March 31, 2023 compared with $79.0 million at December 31, 2022. The $14.7 million decrease in special mention loans included downgrades to classified loans of $10.0 million, and payoffs of $4.6 million.

Classified loans were $47.3 million at March 31, 2023 compared with $46.2 million at December 31, 2022. The $1.1 million increase was primarily driven by the downgrade of one loan in the amount of $10.0 million, offset by loan upgrades of $8.8 million.

Activity in criticized loans was as follows for the periods indicated:

	Special Mention	Classified
	(in thousands)	
March 31, 2023		
Balance at January 1, 2023	$ 79,013	$ 46,192
Additions	766	13,808
Reductions	(15,439)	(12,713)
Balance at March 31, 2023	$ 64,340	$ 47,287
December 31, 2022		
Balance at January 1, 2022	$ 95,294	$ 60,633
Additions	133,134	15,808
Reductions	(149,415)	(30,249)
Balance at December 31, 2022	$ 79,013	$ 46,192

Nonperforming Assets

Nonperforming loans consist of loans receivable on nonaccrual status and loans 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and OREO. 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 we believe 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. 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, or vacant bank properties for which their usage for operations has ceased and management intends to offer for sale.

Except for nonaccrual loans, management is not aware of any other loans as of March 31, 2023 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 equipment financing agreement repayment terms, or any known events that would result in a loan or equipment financing agreement 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, inflation or changes in the financial condition or business of borrowers may adversely affect a borrower’s ability to pay.

Nonperforming loans were $20.1 million at March 31, 2023, or 0.34% of loans, compared with $9.8 million at December 31, 2022, or 0.17% of the portfolio. The increase reflects a $10.0 million commercial and industrial loan in the health-care industry secured by real estate and business assets for which there was a specific allowance of $2.5 million.

Nonperforming assets were $20.2 million at March 31, 2023, or 0.27% of total assets, compared with $10.0 million, or 0.14%, at December 31, 2022.

Individually Evaluated Loans

The Company reviews loans on an individual basis when the loan does not share similar risk characteristics with loan pools.

Individually evaluated loans were $20.1 million and $9.8 million as of March 31, 2023 and December 31, 2022, respectively, representing an increase of $10.3 million, or 103.6%. The increase primarily reflects the addition of a $10.0 million nonperforming commercial and industrial loan in the health-care industry. Specific allowances associated with individually evaluated loans increased $2.9 million to $6.2 million as of March 31, 2023 compared with $3.3 million as of December 31, 2022. The increase primarily reflects the addition of a $2.5 million specific allowance on the previously mentioned nonperforming loan in the health-care industry.

No loans were modified during the three months ended March 31, 2023 or 2022.

Allowance for Credit Losses and Allowance for Credit Losses Related to Off-Balance Sheet Items

The Company's estimate of the allowance for credit losses at March 31, 2023 and December 31, 2022 reflected losses expected over the remaining contractual life of the assets based on historical, current, and forward-looking information. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring.

Management selected three loss methodologies for the collective allowance estimation. At March 31, 2023, the Company used the discounted cash flow ("DCF") method to estimate allowances for credit losses for the commercial and industrial loan portfolio, the Probability of Default/Loss Given Default ("PD/LGD") method for the commercial real estate, construction, SBA and residential real estate portfolios, and the Weighted Average Remaining Maturity ("WARM") method to estimate expected credit losses for the equipment financing agreements portfolio. Loans that do not share similar risk characteristics are individually evaluated for allowances.

For the loans utilizing the DCF method, the Company determined that four quarters represented a reasonable and supportable forecast period and reverted to a historical loss rate over twelve quarters on a straight-line basis. Reasonable and supportable forecasts of economic conditions are imbedded in the DCF model.

For each of the loan segments identified above, the Company applied an annualized historical PD/LGD using all available historical periods. The PD/LGD method incorporates a forecast of economic conditions into loss estimates using a qualitative adjustment.

The Company applied an expected loss ratio based on internal historical losses adjusted as appropriate for qualitative factors when applying the WARM method.

As of March 31, 2023 and December 31, 2022, the Company relied on the economic projections from Moody's to inform its loss driver forecasts over the four-quarter forecast period. For all loan pools, the Company utilizes and forecasts the national unemployment rate as the primary loss driver.

To adjust the historical and forecast periods to current conditions, the Company applies various qualitative factors derived from market, industry or business specific data, changes in the underlying portfolio composition, trends relating to credit quality, delinquency, nonperforming and adversely rated equipment financing agreements, and reasonable and supportable forecasts of economic conditions.

The allowance for credit losses was $72.2 million at March 31, 2023 compared with $71.5 million at December 31, 2022. The allowance attributed to individually evaluated loans was $6.2 million at March 31, 2023 compared with $3.3 million at December 31, 2022. The allowance attributed to collectively evaluated loans was $66.0 million at March 31, 2023 compared with $68.2 million at December 31, 2022, and considered the impact of changes in macroeconomic assumptions, lower average loss rates in the commercial and industrial segment and normalized interest rate forecasts for the subsequent four quarters.

The following table reflects our allocation of the allowance for credit losses by loan category as well as the amount of loans in each loan category, including related percentages:

	March 31, 2023				December 31, 2022			
	Allowance Amount	Percentage of Total Allowance	Total Loans	Percentage of Total Loans	Allowance Amount	Percentage of Total Allowance	Total Loans	Percentage of Total Loans
	(dollars in thousands)							
Real estate loans:								
Commercial property								
Retail	$ 9,405	13.0%	$ 1,052,353	17.6%	$ 7,872	11.0%	$ 1,023,608	17.2%
Hospitality	14,138	19.6	669,012	11.2	13,407	18.7	646,893	10.8
Office	2,509	3.5	533,703	8.9	2,293	3.2	499,946	8.4
Other	9,186	12.7	1,415,748	23.7	13,056	18.3	1,553,729	26.0
Total commercial property loans	35,238	48.8	3,670,816	61.4	36,628	51.2	3,724,176	62.4
Construction	4,003	5.5	113,360	1.9	4,022	5.7	109,205	1.8
Residential	4,290	6.0	817,917	13.7	3,376	4.7	734,472	12.4
Total real estate loans	43,531	60.3	4,602,093	77.0	44,026	61.6	4,567,853	76.6
Commercial and industrial loans	15,333	21.2	778,149	13.0	15,267	21.3	804,492	13.4
Equipment financing agreements	13,385	18.5	600,216	10.0	12,230	17.1	594,788	10.0
Total	**$ 72,249**	**100.0%**	**$ 5,980,458**	**100.0%**	**$ 71,523**	**100.0%**	**$ 5,967,133**	**100.0%**

The following table sets forth certain ratios related to our allowance for credit losses at the dates presented:

	As of	
	March 31, 2023	December 31, 2022
	(dollars in thousands)	
Ratios:		
Allowance for credit losses to loans receivable	1.21%	1.20%
Nonaccrual loans to loans	0.34%	0.17%
Allowance for credit losses to nonaccrual loans	360.34%	726.42%
Balance:		
Nonaccrual loans at end of period	$ 20,050	$ 9,846
Nonperforming loans at end of period	$ 20,050	$ 9,846

As of March 31, 2023 and December 31, 2022, the allowance for credit losses related to off-balance sheet items, primarily unfunded loan commitments, was $3.1 million. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these allowances were adequate for current expected lifetime losses in the loan portfolio and off-balance sheet exposure as of March 31, 2023.

The following table presents a summary of net (charge-offs) recoveries for the loan portfolio:

	Three Months Ended		
	Average Loans	Net (Charge-Offs) Recoveries	Net (Charge-Offs) Recoveries to Average Loans [(1)]
	(dollars in thousands)		
March 31, 2023			
Commercial real estate loans	$ 3,800,499	$ (412)	(0.04)%
Residential loans	780,833	68	0.03
Commercial and industrial loans	760,835	25	0.01
Equipment financing agreements	602,232	(1,136)	(0.75)
Total	**$ 5,944,399**	**$ (1,455)**	**(0.10)%**
March 31, 2022			
Commercial real estate loans	$ 3,752,658	$ (335)	(0.04)%
Residential loans	407,967	2	0.00
Commercial and industrial loans	578,583	259	0.18
Equipment financing agreements	492,464	176	0.14
Total	**$ 5,231,672**	**$ 102**	**0.01%**

(1) *Annualized*

For the three months ended March 31, 2023, gross charge-offs were $2.2 million, an increase of $1.4 million, from $0.8 million for the same period in 2022 and gross recoveries were $0.8 million, a decrease of $0.1 million, from $0.9 million for the three months ended March 31, 2022. Net loan charge-offs were $1.5 million, or 0.10% of average loans, compared with net loan recoveries of $0.1 million, or 0.01% of average loans, for the three months ended March 31, 2023 and 2022, respectively.

Deposits

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

	March 31, 2023		December 31, 2022	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Demand – noninterest-bearing	$ 2,334,083	37.6%	$ 2,539,602	41.3%
Interest-bearing:				
Demand	104,245	1.7	115,573	1.9
Money market and savings	1,382,472	22.3	1,556,690	25.2
Uninsured time deposits of more than $250,000:				
Three months or less	96,204	1.6	44,828	0.7
Over three months through six months	94,526	1.5	123,471	2.0
Over six months through twelve months	452,572	7.3	191,248	3.1
Over twelve months	72,093	1.2	138,451	2.2
Other time deposits	1,664,843	26.8	1,458,209	23.6
Total deposits	**$ 6,201,038**	**100.0%**	**$ 6,168,072**	**100.0%**

Total deposits were $6.20 billion and $6.17 billion as of March 31, 2023 and December 31, 2022, respectively, representing an increase of $33.0 million, or 0.5%. The increase in deposits was primarily driven by an increase of $424.0 million in time deposits, offset by a decrease of $391.0 million in all other deposits due to rising market rates and the shift to time deposits. At March 31, 2023, the loan-to-deposit ratio was 96.4% compared with 96.7% at December 31, 2022.

As of March 31, 2023, the aggregate amount of uninsured deposits (deposits in amounts greater than $250,000, which is the maximum amount for federal deposit insurance) was $2.60 billion, of which $1.88 billion were demand, money market and savings deposits and $715.4 million were time deposits. As of December 31, 2022, the aggregate amount of uninsured deposits was $2.65 billion, consisting of $2.15 billion in demand, money market and savings deposits and $498.0 million in time deposits.

Borrowings and Subordinated Debentures

Borrowings mostly take the form of advances from the FHLB. At both March 31, 2023 and December 31, 2022, total advances from the FHLB were $350.0 million. The Bank had $250.0 million of overnight advances from the FHLB at both March 31, 2023 and December 31, 2022.

The weighted-average interest rate of all FHLB advances at March 31, 2023 and December 31, 2022 was 4.11% and 3.57%, respectively.

The FHLB maximum amount outstanding at any month end during each of the year to date periods ended March 31, 2023 and December 31, 2022 was $350.0 million.

The following is a summary of contractual maturities greater than twelve months of FHLB advances:

	March 31, 2023		December 31, 2022	
FHLB of San Francisco	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	(dollars in thousands)			
Advances due over 12 months through 24 months	$ 25,000	1.22%	$ 37,500	0.40%
Advances due over 24 months through 36 months	25,000	4.44	12,500	1.90
Outstanding advances over 12 months	**$ 50,000**	**2.83%**	**$ 50,000**	**0.78%**

Subordinated debentures were $129.6 million as of March 31, 2023 and $129.4 million as of December 31, 2022. Subordinated debentures are comprised of fixed-to-floating subordinated notes of $108.2 million as of March 31, 2023 and December 31, 2022, and junior subordinated deferrable interest debentures of $21.3 million and $21.2 million as of March 31, 2023 and December 31, 2022, respectively. See "Note 8 – Borrowings and Subordinated Debentures" to the consolidated financial statements for more details.

Stockholders' Equity

Stockholders' equity at March 31, 2023 was $662.2 million, compared with $637.5 million at December 31, 2022. The increase was primarily due to $14.4 million of first quarter net income net of dividends as well as a $9.9 million reduction in unrealized after-tax loss due to changes in the value of the securities portfolio resulting from decreases in intermediate-term interest rates during the first quarter.

Interest Rate Risk Management

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

The Company performs simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below) as of March 31, 2023. The Company compares this stress simulation to policy limits, which specify the maximum tolerance level for net interest income exposure over a 1- to 12-month and a 13- to 24- month horizon, given the basis point adjustment in interest rates reflected below.

	Net Interest Income Simulation			
	1- to 12-Month Horizon		13- to 24-Month Horizon	
Change in Interest Rate	Dollar Change	Percentage Change	Dollar Change	Percentage Change
	(dollars in thousands)			
300%	$ 14,669	6.24%	$ 7,822	3.16%
200%	$ 9,031	3.84%	$ 3,210	1.30%
100%	$ 5,337	2.27%	$ 3,616	1.46%
(100%)	$ (7,224)	(3.07%)	$ (7,704)	(3.11%)
(200%)	$ (16,260)	(6.92%)	$ (19,522)	(7.88%)
(300%)	$ (26,613)	(11.32%)	$ (34,516)	(13.93%)

	Economic Value of Equity (EVE)	
Change in Interest Rate	Dollar Change	Percentage Change
	(dollars in thousands)	
300%	$ (30,634)	(4.05%)
200%	$ (20,334)	(2.69%)
100%	$ 522	0.07%
(100%)	$ (22,630)	(2.99%)
(200%)	$ (69,952)	(9.25%)
(300%)	$ (140,113)	(18.53%)

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 timing and magnitude of interest rate changes, prepayments on loans receivable and securities, pricing strategies on loans receivable and deposits, and replacement of asset and liability cash flows.

The key assumptions, based upon loans receivable, securities and deposits, are as follows:

Conditional prepayment rates*:	
Loans receivable	15%
Securities	6%
Deposit rate betas*:	
NOW, savings, money market demand	47%
Time deposits, retail and wholesale	76%

* *Balance-weighted average*

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 capital levels, the Board regularly assesses projected sources and uses of capital, expected loan growth, anticipated strategic actions (such as stock repurchases and dividends), and projected capital thresholds under adverse and severely adverse economic conditions. In addition, the Board considers the Company's access to capital from financial markets through the issuance of additional debt and securities, including common stock or notes, to meet its capital needs.

In response to the uncertainty surrounding the COVID-19 pandemic, the Board reduced the quarterly cash dividends paid on common stock beginning in the second quarter of 2020. Due to the continued stabilization of Company results and financial condition, the Board authorized an increase in the quarterly cash dividend to $0.12 per share for the second quarter of 2021 from $0.10 per share for the first quarter of 2021. As the effects of the pandemic continued to subside and the Company's results and financial condition improved, the Board again increased the dividend to $0.20 per share for the fourth quarter of 2021, to $0.22 per share for the first and second quarters of 2022, and to $0.25 per share for the third and fourth quarters of 2022 and first quarter of 2023. The Board will continue to re-evaluate the level of quarterly dividends in subsequent quarters.

The Company's ability to pay dividends to shareholders depends in part upon dividends it receives from the Bank. California law 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 Department of Financial Protection and Innovation ("DFPI"), in an amount not exceeding the greater of: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year. As of April 1, 2023, the Bank has the ability to pay dividends of approximately $156.1 million, after giving effect to the $0.25 dividend declared for the second quarter of 2023, without the prior approval of the Commissioner of the DFPI.

At March 31, 2023, the Bank's total risk-based capital ratio of 14.15%, Tier 1 risk-based capital ratio of 13.06%, common equity Tier 1 capital ratio of 13.06% and Tier 1 leverage capital ratio of 11.06%, placed the Bank in the "well capitalized" category pursuant to capital rules, which is defined as institutions with total risk-based capital ratio equal to or greater than 10.00%, Tier 1 risk-based capital ratio equal to or greater than 8.00%, common equity Tier 1 capital ratios equal to or greater than 6.50%, and Tier 1 leverage capital ratio equal to or greater than 5.00%.

At March 31, 2023, the Company's total risk-based capital ratio was 14.80%, Tier 1 risk-based capital ratio was 11.94%, common equity Tier 1 capital ratio was 11.59% and Tier 1 leverage capital ratio was 10.09%.

For a discussion of implemented changes to the capital adequacy framework prompted by Basel III and the Dodd- Frank Wall Street Reform and Consumer Protection Act, see our 2022 Annual Report on Form 10-K.

Liquidity

For a discussion of liquidity for the Company, see Note 14 - Liquidity included in the notes to unaudited consolidated financial statements in this Report and Note 22 – Liquidity in our 2022 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 12 - Off-Balance Sheet Commitments included in the notes to unaudited consolidated financial statements in this Report and “Item 1. Business - Off-Balance Sheet Commitments” in our 2022 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2022 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures regarding market risks in Hanmi Bank’s portfolio, see “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk Management” and “- Capital Resources” in this Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation’s management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures. Based on that evaluation, the Corporation’s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

From time to time, Hanmi Financial and its subsidiaries are parties to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of Hanmi Financial and its subsidiaries. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial condition, results of operations, or liquidity of Hanmi Financial or its subsidiaries.

Item 1A. Risk Factors

Except as provided below, there have been no material changes in risk factors applicable to the Corporation from those described in "Risk Factors" in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Our stock price may be negatively impacted by unrelated bank failures and negative depositor confidence in depository institutions. Further, if we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, which have come under greater scrutiny in light of recent bank failures, it may have a material adverse effect on our financial condition and results of operations

On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation and on March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services. In each case, the FDIC was named receiver. These banks also had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions.

These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of its deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. If we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, it may have a material adverse effect on our financial condition and results of operations.

Rising Interest Rates Have Decreased the Value of the Company's Securities Portfolio, and the Company Would Realize Losses if it Were Required to Sell Such Securities to Meet Liquidity Needs

As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including ours, resulting in unrealized losses embedded in the securities portfolios. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a BTFP available to eligible depository institutions secured by U.S. treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise.

Recent Negative Developments Affecting the Banking Industry, and Resulting Media Coverage, Have Eroded Customer Confidence in the Banking System

The recent high-profile bank failures involving Silicon Valley Bank and Signature Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks. These market developments have negatively impacted customer confidence in the safety and soundness of financial institutions. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly.

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

On January 24, 2019, the Company announced a stock repurchase program that authorized the repurchase of up to 5% of its outstanding shares or approximately 1.5 million shares of common stock. As of March 31, 2023, 659,972 shares remained available for future purchases under that stock repurchase program.

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended March 31, 2023:

Purchase Date:	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Shares That May Yet Be Purchased Under the Program
January 1, 2023 - January 31, 2023	$ —	—	659,972
February 1, 2023 - February 28, 2023	—	—	659,972
March 1, 2023 - March 31, 2023	—	—	659,972
Total	**$ —**	**—**	**659,972**

The Company acquired 14,628 shares from employees in connection with the satisfaction of employee tax withholding obligations incurred through vesting of Company stock awards for the three months ended March 31, 2023. Shares withheld to cover income taxes upon the vesting of stock awards are repurchased pursuant to the terms of the applicable plan and not under the Company's repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Document
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in Inline XBRL

* Attached as Exhibit 101 to this report are documents formatted in Inline XBRL (Extensible Business Reporting Language).
† Constitutes a management contract or compensatory plan or arrangement.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Hanmi Financial Corporation

Date: May 8, 2023	By: /s/ *Bonita I. Lee* Bonita I. Lee *President and Chief Executive Officer (Principal Executive Officer)*
Date: May 8, 2023	By: /s/ *Romolo C. Santarosa* Romolo C. Santarosa *Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)*