

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the Fiscal Year Ended December 31, 2015

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-4788120  
(I.R.S. Employer  
Identification No.)

3660 Wilshire Boulevard, Penthouse Suite A  
Los Angeles, California  
(Address of Principal Executive Offices)

90010  
(Zip Code)

(213) 382-2200

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.001 Par Value	NASDAQ Global Select Market

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

None

(Title of Class)

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

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

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

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	<input type="checkbox"/>

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

As of June 30, 2015, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$766,849,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of February 26, 2016 was 32,158,153 shares.

**Documents Incorporated By Reference Herein:** Sections of the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2015, are incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K), as noted therein.

**Hanmi Financial Corporation**  
**Annual Report on Form 10-K for the Fiscal Year ended December 31, 2015**

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**Cautionary Note Regarding Forward-Looking Statements**

Some of the statements contained in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this Annual Report on Form 10-K other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. For additional information concerning risks we face, see "Item 1A. Risk Factors." We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

## Part I

### Item 1. Business

#### General

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

Hanmi Bank, the primary subsidiary of Hanmi Financial, is a state chartered bank incorporated under the laws of the State of California on August 24, 1981, and licensed pursuant to the California Financial Code (“Financial Code”) on December 15, 1982. The Bank’s deposit accounts are insured under the Federal Deposit Insurance Act (“FDIA”) up to applicable limits thereof, and the Bank is a member of the Federal Reserve System. The Bank’s headquarters is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

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

Hanmi Financial sold their insurance subsidiaries, Chun-Ha Insurance Services, Inc. (“Chun-Ha”) and All World Insurance Services, Inc. (“All World”), to Chunha Holding Corporation on June 30, 2014. Total assets and net asset of Chun-Ha and All World were \$5.6 million and \$3.3 million, respectively. The total sales price was \$3.5 million, of which \$2.0 million was paid upon signing. See “Note 4—Sale of Insurance Subsidiaries and Discontinued Operations.”

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp Inc., a Texas corporation (“CBI”), the parent company of United Central Bank (“UCB”). In the merger with CBI, each share of CBI common stock was exchanged for \$17.64 per share or \$50 million in the aggregate. In addition, Hanmi Financial paid \$28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of \$1.27 billion, \$1.17 billion and \$93.3 million, respectively. Total loans and deposits were \$297.3 million and \$1.10 billion, respectively, at August 31, 2014. The Company recorded a \$14.6 million bargain purchase gain related to this transaction. See “Note 2 — Acquisition.” The Company had no acquisitions during 2015.

The Bank’s revenues are derived primarily from interest and fees on loans, interest and dividends on securities portfolio, and service charges on deposit accounts, as well as a bargain purchase gain in 2014. A summary of revenues for the periods indicated follows:

	Year Ended December 31,					
	2015		2014		2013	
	<i>(In thousands)</i>					
Interest and fees on loans	\$ 148,797	70.2%	\$ 122,222	68.3%	\$ 108,804	74.0%
Interest and dividends on securities	15,208	7.2%	14,405	8.0%	10,121	6.9%
Other interest income	221	0.1%	107	0.1%	215	0.1%
Service charges on deposit accounts	12,900	6.1%	11,374	6.4%	11,307	7.7%
Bargain purchase gain, net of deferred taxes	—	—%	14,577	8.1%	—	—%
Other non-interest income	34,702	16.4%	16,345	9.1%	16,593	11.3%
<b>Total revenues</b>	<b>\$ 211,828</b>	<b>100.0%</b>	<b>\$ 179,030</b>	<b>100.0%</b>	<b>\$ 147,040</b>	<b>100.0%</b>

## Market Area

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

## Lending Activities

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

### *Real Estate Loans*

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

### *Commercial Property*

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

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

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

The Bank generally requires the borrower to provide, at least annually, current cash flow information in order for the Bank to re-assess the debt-coverage-ratio. In addition, the Bank requires title insurance to insure the status of its lien on all of the real estate secured loans when a trust deed on the real estate is taken as collateral. The Bank also requires the borrower to maintain fire insurance, extended coverage casualty insurance and, if the property is in a flood zone, flood insurance, in an amount equal to the outstanding loan balance, subject to applicable laws that may limit the amount of hazard insurance a lender

can require to replace such improvements. We cannot assure that these procedures will protect against losses on loans secured by real property.

#### *Construction*

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

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

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

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

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

#### *Residential Property*

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

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

#### *Commercial and Industrial Loans*

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the commercial loans that the Bank originates are for business located primarily in California, Illinois and Texas, and the maturity schedules range from 12 to 60 months. The Bank finances primarily small- and

middle-market businesses in a wide spectrum of industries. Commercial and industrial loans consist of credit lines for operating needs, loans for equipment purchases and working capital, and various other business purposes. The Bank requires credit underwriting before considering any extension of credit.

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

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

#### *Commercial Term*

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

#### *Commercial Lines of Credit*

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

#### *International*

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

#### *Consumer Loans*

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

#### *SBA Loans*

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

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA loan, it has an option to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. Even after the sale of an SBA loan, the Bank retains the right to service the SBA loan and to receive servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2015, the Bank had \$195.2 million of SBA loans in its loan portfolio, and was servicing \$474 million of SBA loans sold to investors.

#### **Off-Balance Sheet Commitments**

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

#### **Lending Procedures and Loan Limits**

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

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank's stockholders' equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2015, the Bank's authorized legal lending limits for loans to one borrower were \$74.5 million for unsecured loans plus an additional \$49.7 million for specific secured loans.

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

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

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

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

#### **Deposits**

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



## **Available Information**

We file reports with the U.S. Securities and Exchange Commission (the "SEC"), including our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto. These reports and other information on file can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington D.C., 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is [www.sec.gov](http://www.sec.gov).

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

## **Employees**

As of December 31, 2015, the Bank had a total of 609 full-time employees and 13 part-time employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that their employee relations are satisfactory.

## **Insurance**

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

## **Competition**

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

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

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

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

## **Economic, Legislative and Regulatory Developments**

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

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

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

## **Regulation and Supervision**

### ***(a) General***

The Company and the Bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. These regulations and restrictions are intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation, (“FDIC”) Deposit Insurance Fund (“DIF”) and for the protection of borrowers, and secondarily for the stability of the U.S. banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. From time to time, federal and state legislation is enacted and implemented by regulations which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers.

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

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

The implementation and impact of legislation and regulations enacted since 2008 in response to the U.S. economic downturn and financial instability, continued in 2015 as a modest recovery returned to many institutions in the banking sector. Certain provisions of the Dodd-Frank, Act of 2010 (“Dodd-Frank” or “Dodd-Frank Act”) are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to \$250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Implementation in 2014 of additional Dodd-Frank regulatory provisions included aspects of (i) the final new capital rules and (ii) the so called Volcker Rule restrictions on certain proprietary trading and investment activities.

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

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

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. New capital rules described below were effective on January 1, 2014, and are being phased in over various periods (the “New Capital Rules”). The basic capital rule changes were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (See “Prompt Corrective Action Provisions” below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived

degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules continue to apply.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed "well capitalized" a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2015, the Company and the Bank's total risk-based capital ratios were 14.91% and 14.86%, respectively; their Tier 1 risk-based capital ratios were 13.65% and 13.60%, respectively; their Common equity tier 1 capital ratios were 13.65% and 13.60%, respectively, and the Company's and Bank's leverage capital ratios were 11.31% and 11.27%, respectively, all of which ratios exceeded the minimum percentage requirements to be deemed "well-capitalized" for regulatory purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources." The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

***(d) New Capital Rules and Minimum Capital Ratios***

The federal bank regulatory agencies adopted final regulations in July 2013, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of Dodd-Frank and to implement Basel III international agreements reached by the Basel Committee. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank.

The following are among the new requirements that are phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures;
- An additional "countercyclical capital buffer" is required for larger and more complex institutions; and
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Including the capital conservation buffer of 2.5%, the new final capital rule would result in the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. In January 2016, the new capital conservation buffer requirement started to phase in at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Management believes that, as of December 31, 2015, the Company and the Bank would meet all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect.

***(e) Final Volcker Rule***

Under the Volcker Rule, and subject to certain exceptions, banking entities, including the Company and the Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the Federal Reserve. The Company and the Bank held no investment positions at December 31, 2015 which were subject to the final “Volcker Rule”. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

***(f) Bank Holding Company Regulation***

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

A wide range of requirements and restrictions are contained in both Federal and State banking laws, which together with implementing regulatory authority:

Require periodic reports and such additional reports of information as the Federal Reserve may require;

Require bank holding companies to meet or exceed increased levels of capital (See “Capital Adequacy Requirements” and “New Capital Rules and Minimum Capital Ratios” above);

Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank.

Limit dividends payable to shareholders and restricts the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company’s ability to pay dividends on both its common and preferred stock is subject to legal and regulatory restrictions. Substantially all of the Company’s funds to pay dividends or to pay principal and interest on our debt obligations are derived from dividends paid by the Bank;

Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in “troubled condition”;

Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and

Require prior Federal agency approval of acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required.

***(g) Other Restrictions on the Company’s Activities***

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (“CRA”), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. The Company has

elected, and currently maintains, financial holding company status. Neither the Company nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature. The Federal Reserve rated the Bank as “satisfactory” in meeting community credit needs under the CRA at its most recent examination for CRA performance.

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

***(h) Bank Regulation***

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FRB, as the Bank’s primary Federal regulator, and must additionally comply with certain applicable regulations of the FDIC. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to “insiders”, including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

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

***(i) Enforcement Authority***

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

Require affirmative action to correct any conditions resulting from any violation or practice;

Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;

Restrict the Bank’s growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;

Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and  
Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

***(j) Deposit Insurance***

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

Our FDIC insurance expense totaled \$2.4 million for 2015. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

***(k) Prompt Corrective Action Provisions***

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

The prompt corrective action standards were changed when the new capital rule ratios became effective. Under the new standards, in order to be considered well-capitalized, the Bank is required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

***(l) Dividends***

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

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

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

In addition, under federal law, a member bank, such as the Bank, may not declare or pay a dividend if the total of all dividends declared during the calendar year, including a proposed dividend, exceeds the sum of the Bank's net income during

the calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the FRB.

***(m) Operations and Consumer Compliance Laws***

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

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

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

In 2015, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer’s ability to repay and establish certain protections from liability under this requirement for “qualified mortgages” meeting certain standards. In particular, it will prevent banks from making “no doc” and “low doc” home loans, as the rules require that banks determine a consumer’s ability to pay based in part on verified and documented information. Because we do not originate “no doc” or “low doc” loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definitions for a “qualified mortgage” under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

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

The Bank is a member and holder of the capital stock of the Federal Home Loan Bank of San Francisco (“FHLBSF”). There are a total of twelve Federal Home Loan Banks (each, an “FHLB”) across the U.S. owned by their members who are more than 7,500 community financial institutes of all sizes and types. Each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of FHLBSF is required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution’s “membership asset value” which is determined by multiplying the amount of the member’s membership assets by the applicable membership asset factors and is capped at \$25 million, or (ii) an activity based stock requirement (4.7% of the member’s outstanding advances plus 5.0% of the member’s outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2015, the Bank was in compliance with the FHLBSF’s stock ownership requirement, and our investment in FHLBSF capital stock totaled \$16.4 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2015 were \$457.2 million and \$287.2 million, respectively.

***(o) Impact of Monetary Policies***

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

***(p) Securities Regulation and Corporate Governance***

The Company's common stock is publicly held and listed on the NASDAQ Global Select Market ("NASDAQ"), and the Company is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Exchange Act and the regulations of the Securities and Exchange Commission ("SEC") promulgated thereunder as well as listing requirements of NASDAQ.

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

The Company is subject to the disclosure and regulatory requirements of the Securities Act, and the Exchange Act, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. The Company is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which facilitate stockholders and investors to monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Company's independent registered public accounting firm are required to assess the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. These assessments are included in Part II — Item 9A — "Controls and Procedures."

***(q) Audit Requirements***

The Bank is required to have an annual independent audit, alone or as a part of its bank holding company's audit, and to prepare all financial statements in accordance with U.S. generally accepted accounting principles. The Bank and the Company are also each required to have an audit committee comprised entirely of independent directors. As required by NASDAQ, the Company has certified that its audit committee has adopted formal written charters and meets the requisite number of directors, independence, and other qualification standards. As such, among other requirements, the Company must maintain an audit committee that includes members with banking or related financial management expertise, has access to its own outside counsel, and does not include members who are large customers of the Bank. In addition, because the Bank has more than \$4 billion in total assets, it is subject to the FDIC requirements for audit committees of large institutions.

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

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

**Item 1A. Risk Factors**

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K (this "Report") and other documents we filed with the SEC. The following risks and uncertainties described below are those that we have identified as material. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face. Additional risks and uncertainties not presently known to us, or that we may currently view as not material, may also adversely impact our financial condition, business operations and results of operations.



## Risks Relating to our Business

### *Difficult business and economic conditions can adversely affect our industry and business.*

Our financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of the collateral securing those loans, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. Although the U.S. economy has shown signs of improvement, consumer spending and gross domestic product growth have been less robust than expected and there can be no assurance that the U.S. economy will continue to grow. There also remains uncertainty over the direction and long-term effects of the Federal Reserve's quantitative easing and tapering of it, as well as the interest rate environment. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China and Korea can impact the economy and financial markets here in the United States. These economic pressures on consumers and businesses may adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with deterioration in economic conditions:

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

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

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

***Our concentrations of loans in certain industries could have adverse effects on credit quality.*** As of December 31, 2015, the Bank's loan portfolio included loans to: (i) lessors of non-residential buildings totaling \$892 million, or 28 percent of total gross loans; (ii) borrowers in the hospitality industry totaling \$568 million, or 18 percent of total gross loans; and (iii) gas stations totaling \$350 million, or 11 percent of total gross loans. Most of these loans are in California. Because of these concentrations of loans in specific industries, a continued deterioration of the California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

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

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

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

***Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets, especially a downturn in the Southern California real estate market.*** A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. As of December 31, 2015, the Bank's loan portfolio included commercial property and construction, which were collateralized by commercial real estate properties located primarily in California, totaling \$1.95 billion, or 74.7 percent of total commercial real estate loans. If real estate values continue to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.

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

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

***Our earnings are affected by changing interest rates.*** Changes in interest rates affect the level of loans, deposits and investments, the credit profile of existing loans, the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of

operations. The current interest rate environment continues to be historically low caused by the response to the financial market crisis and the global economic recession and may affect our operating earnings negatively.

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

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

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

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

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

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

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

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

***The FDIC's restoration plan and the related increased assessment rate could adversely affect our earnings.*** As required by Dodd-Frank, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan (i) raised the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removed the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund, and (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required). The FDIA continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2 percent of insured deposits by 2027.

The amount of premiums that we are required to pay for FDIC insurance is generally beyond our control. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

***The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us.*** In June 2013, federal banking regulators jointly issued the Basel III Rules. The rules impose new capital requirements and implement Section 171 of Dodd-Frank. The new rules are being phased in through 2019, since January 1, 2015. Among other things, the rules require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. In addition, we have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. The rules also restrict trust preferred securities from comprising more than 25% of Tier 1 capital. If an institution grows above \$15 billion as a result of an acquisition, or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. In addition, more stringent capital requirements could require us to raise additional capital on terms which may not be favorable.

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

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

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

Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control, especially when effecting one of our third party vendors. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; degradation or loss of public internet domain; climate change

related impacts and natural disasters such as earthquakes, tornados, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts, building emergencies such as water leakage, fires and structural issues, and cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud (counterfeit, forgery, etc.), electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

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

Third parties with which we do business or that facilitate our business activities or vendors that provide services or security solutions for our operations, particularly those that are cloud-based, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. We are subject to operational risks relating to their technology and information systems. The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities.

To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to enhance our internet banking and mobile banking channel strategies to serve our customers when and how they want to be served, and our expanded geographic footprint. For example, financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. As a result, cybersecurity and the continued development and enhancement of our controls, processes and systems designed to protect our networks, computers, software and data from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other

compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

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

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

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

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

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

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

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

placed into conservatorship or receivership within 90 days, unless the FRB determines that other action would better achieve the purposes of the FDICIA regarding prompt corrective action with respect to undercapitalized banks.

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

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

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

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

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

***The Bank could be restricted from paying dividends to us, its sole shareholder, and, thus, we would be restricted from paying dividends to our stockholders in the future.*** The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank has a retained earnings of \$11.2 million as of December 31, 2015 and suffered net losses in 2010, 2009 and 2008, largely caused by provision for loan losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, without approval of the Commissioner of Business Oversight.

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

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;

- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

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

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

In addition, we adopted the 2013 Equity Compensation Plan that provides for the granting of awards to our directors, executive officers and other employees. The plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award. As of December 31, 2015, 510,148 shares of our common stock were issuable under options granted in connection with our stock option plans. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

Furthermore, as of December 31, 2015, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 62,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

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

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



## Risks Relating to Acquisitions

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

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

*We may not be able to realize the anticipated benefits of the CBI Acquisition, or any future mergers or acquisitions including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits.* The realization of the benefits anticipated as a result of the CBI Acquisition, including cost savings and synergies, will depend in part on the integration of CBI's operations with our operations. Though the core conversion took place in February 2015, there can be no assurance that CBI's operations can be integrated successfully into our operations in a timely fashion, or at all. The dedication of management and other internal resources to such integrations may divert attention from our day-to-day business, and there can be no assurance that there will not be substantial costs associated with the transition process or that there will not be other material adverse effects as a result of these integration efforts. Such effects, including, but not limited to, incurring unexpected costs or delays in connection with such integration, may have a material adverse effect on our financial results.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Hanmi Financial's principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. As of December 31, 2015, we had a total of 54 properties consisting of 42 active operating branch offices and 6 active loan production offices, and 6 other properties. We own 18 locations and the remaining properties are leased.

As of December 31, 2015, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled \$29.8 million. Our lease expense was \$7.6 million for the year ended December 31, 2015. We consider our present facilities to be sufficient for our current operations.

## Item 3. Legal Proceedings

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

## Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information

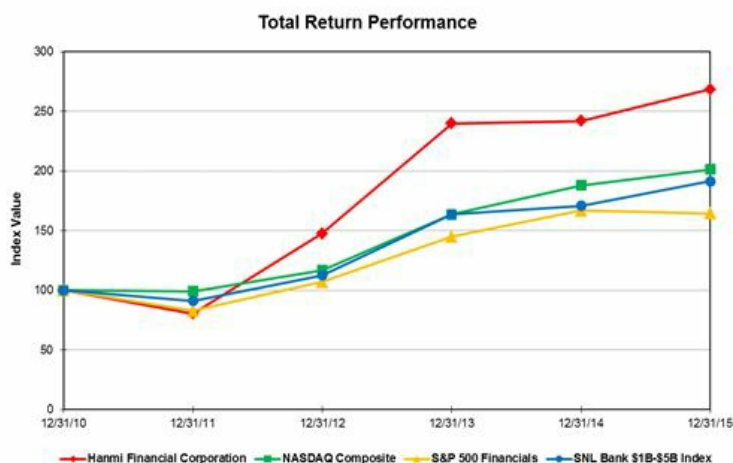
The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial’s common stock for the last two years as reported on NASDAQ under the symbol “HAFC”:

	High	Low	Cash Dividend
<b>2015</b>			
Fourth quarter	\$ 27.80	\$ 22.72	\$ 0.14
Third quarter	\$ 26.20	\$ 23.21	\$ 0.11
Second quarter	\$ 25.50	\$ 20.74	\$ 0.11
First quarter	\$ 21.49	\$ 19.73	\$ 0.11
<b>2014</b>			
Fourth quarter	\$ 22.33	\$ 19.42	\$ 0.07
Third quarter	\$ 22.46	\$ 20.13	\$ 0.07
Second quarter	\$ 24.51	\$ 20.77	\$ 0.07
First quarter	\$ 24.87	\$ 20.47	\$ 0.07

The closing price of our common stock on February 26, 2016 was \$21.29 per share, as reported by the NASDAQ Global Select Market. As of February 26, 2016, there were approximately 6,650 record holders of our common stock.

Performance Graph

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



	December 31,					
	2010	2011	2012	2013	2014	2015
Hanmi Financial Corporation	\$ 100.00	\$ 80.43	\$ 147.72	\$ 239.77	\$ 241.99	\$ 268.42
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
S&P 500 Financials	100.00	82.94	106.84	144.90	166.93	164.39
SNL Bank \$1B-\$5B	100.00	91.20	112.45	163.52	170.98	191.39

Source: SNL Financial LC, Charlottesville, VA

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

During the fourth quarter of 2015, there were no repurchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates. As of December 31, 2015, there was no current plan authorizing purchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates.

**Item 6. Selected Financial Data**

The following table presents selected historical financial information, including per share information as adjusted for the reverse stock split declared by us in December 2011. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2015 was derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

## As of and for the Year Ended December 31,

	2015	2014	2013	2012	2011
	<i>(In thousands, except share and per share data)</i>				
<b>Summary Statements of Operations:</b>					
Interest and dividend income	\$ 164,226	\$ 136,734	\$ 119,140	\$ 117,282	\$ 126,953
Interest expense	16,109	14,033	13,507	18,745	27,630
Net interest income before provision for loan losses	148,117	122,701	105,633	98,537	99,323
(Negative provision) provision for loan losses	(11,614)	(6,258)	576	7,156	12,536
Noninterest income	47,602	42,296	27,900	21,413	30,889
Noninterest expense	115,328	98,671	70,441	69,455	88,861
Income before provision (benefit) for income taxes	92,005	72,584	62,516	43,339	28,815
Provision (benefit) for income taxes	38,182	22,379	22,732	(46,818)	733
Net income from continuing operations	\$ 53,823	\$ 50,205	\$ 39,784	\$ 90,157	\$ 28,082
(Loss) income from discontinued operations	—	(444)	73	167	65
Net income	\$ 53,823	\$ 49,761	\$ 39,857	\$ 90,324	\$ 28,147
<b>Summary Balance Sheets:</b>					
Cash and due from banks	\$ 164,364	\$ 158,320	\$ 179,357	\$ 268,047	\$ 201,683
Securities	698,296	1,060,717	530,926	451,060	441,604
Loans receivable, net (1)	3,140,381	2,735,832	2,177,498	1,986,051	1,871,607
Assets	4,234,521	4,232,443	3,054,379	2,881,409	2,744,824
Deposits	3,509,976	3,556,746	2,512,325	2,395,963	2,344,910
Liabilities	3,740,603	3,779,056	2,654,302	2,504,156	2,459,216
Stockholders' equity	493,918	453,387	400,077	377,253	285,608
Tangible equity	492,217	451,307	398,906	375,918	284,075
Average loans (2)	2,901,698	2,440,682	2,156,626	1,993,367	2,114,546
Average securities	818,205	676,729	446,563	443,910	479,771
Average interest-earning assets	3,805,877	3,163,141	2,687,799	2,686,425	2,752,696
Average assets	4,076,669	3,410,751	2,827,508	2,792,349	2,787,707
Average deposits	3,502,886	2,872,029	2,391,248	2,349,082	2,404,655
Average borrowings	56,878	81,110	27,815	85,760	153,148
Average interest-bearing liabilities	2,493,513	2,054,680	1,678,618	1,758,135	1,957,077
Average stockholders' equity	476,401	425,913	392,601	328,013	200,517
Average tangible equity	474,498	425,018	391,342	326,586	198,626
<b>Per Share Data:</b>					
Earnings per share – basic (3)	\$ 1.69	\$ 1.57	\$ 1.26	\$ 2.87	\$ 1.38
Earnings per share – diluted (3)	\$ 1.68	\$ 1.56	\$ 1.26	\$ 2.87	\$ 1.38
Book value per share (4)	\$ 15.45	\$ 14.21	\$ 12.60	\$ 11.98	\$ 9.07
Tangible book value per share (5)	\$ 15.39	\$ 14.14	\$ 12.56	\$ 11.94	\$ 9.02
Cash dividends declared per share	\$ 0.47	\$ 0.28	\$ 0.14	\$ —	\$ —
Common shares outstanding	31,974,359	31,910,203	31,761,550	31,496,540	31,489,201

(1) Includes loans held for sale, net of allowance for loan losses, deferred loan fees, deferred loan costs and discounts.

(2) Includes loans held for sale, deferred loan fees, deferred loan costs and discounts.

- (3) The computation of basic and diluted earnings per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.
- (4) Stockholders' equity divided by common shares outstanding.
- (5) Tangible equity divided by common shares outstanding. Tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.

	As of and for the Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Selected Performance Ratios:</b>					
Return on average assets (6) (15)	1.32 %	1.47 %	1.41 %	3.23 %	1.01 %
Return on average stockholders' equity (7) (15)	11.30 %	11.79 %	10.13%	27.49%	14.00%
Return on average tangible equity (8) (15)	11.34 %	11.81 %	10.17%	27.61%	14.14%
Net interest spread (9)	3.67 %	3.65 %	3.64%	3.30%	3.20%
Net interest margin (10)	3.90 %	3.88 %	3.94%	3.68%	3.61%
Net interest margin (excluding purchase accounting) (18)	3.47 %	3.65 %	3.94%	3.68%	3.61%
Efficiency ratio (11)	58.93 %	59.73 %	53.18%	58.87%	68.58%
Efficiency ratio (excluding merger and integration costs) (11)	57.92 %	55.70 %	52.64%	58.87%	68.58%
Dividend payout ratio (12)	27.98 %	17.95 %	11.11%	—%	—%
Average stockholders' equity to average assets	11.69 %	12.49 %	13.89%	11.75%	7.19%
<b>Selected Capital Ratios:</b>					
Total risk-based capital ratio:					
Hanmi Financial	14.91 %	15.89 %	17.48%	20.65%	18.66%
Hanmi Bank	14.86 %	15.18 %	16.79%	19.85%	17.57%
Tier 1 risk-based capital ratio:					
Hanmi Financial	13.65 %	14.63 %	16.26%	19.37%	17.36%
Hanmi Bank	13.60 %	13.93 %	15.53%	18.58%	16.28%
Common equity tier 1 capital ratio:					
Hanmi Financial	13.65 %	— %	—%	—%	—%
Hanmi Bank	13.60 %	— %	—%	—%	—%
Tier 1 leverage ratio:					
Hanmi Financial	11.31 %	10.91 %	13.62%	14.95%	13.34%
Hanmi Bank	11.27 %	10.39 %	13.05%	14.33%	12.50%
<b>Selected Asset Quality Ratios:</b>					
Non-performing Non-PCI loans to loans before allowance (13) (16)	0.60 %	0.92 %	1.16%	1.82%	2.70%
Non-performing assets to assets (14)	0.65 %	0.97 %	0.87%	1.32%	1.91%
Net loan (recoveries) charge-offs to average loans before allowance (15)	(0.06)%	(0.06)%	0.29%	1.70%	3.25%
Allowance for loan losses to loans before allowance (17) (15)	1.35 %	1.88 %	2.58%	3.09%	4.64%
Allowance for loan losses to non-performing Non-PCI loans (17)	196.12 %	204.26 %	222.42%	169.81%	171.71%

- (6) Net income divided by average assets.

- (7) *Net income divided by average stockholders' equity.*
- (8) *Net income divided by average tangible equity. Average tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.*
- (9) *Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*
- (10) *Net interest income before provision for loan losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*
- (11) *Total noninterest expense divided by the sum of net interest income before provision for loan losses and total noninterest income.*
- (12) *Dividends declared per share divided by basic earnings per share.*
- (13) *Nonperforming loans, excluding loans held for sale, consist of nonaccrual loans and loans past due 90 days or more still accruing interest.*
- (14) *Nonperforming assets consist of nonperforming loans and other real estate owned.*
- (15) *Amounts calculated on net income from continuing operations.*
- (16) *PCI loans are excluded in Gross loans.*
- (17) *Allowance for loan losses on PCI loans are excluded.*
- (18) *Net interest income less net accretion of discounts related to purchase accounting before provision for loan losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

#### **Non-GAAP Financial Measures**

##### ***Return on Average Tangible Equity***

Return on average tangible equity is supplemental financial information determined by a method other than in accordance with U.S. generally accepted accounting principles ("GAAP"). This non-GAAP measure is used by management in the analysis of Hanmi Financial's performance. Average tangible equity is calculated by subtracting average other intangible assets, representing core deposit intangibles, from average stockholders' equity. Banking and financial institution regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess management's success in utilizing tangible capital. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(In thousands)</i>				
Average stockholders' equity	\$ 476,401	\$ 425,913	\$ 392,601	\$ 328,013	\$ 200,517
Less average other intangible assets	(1,771)	(895)	(1,259)	(1,427)	(1,891)
<b>Average tangible equity</b>	<b>\$ 474,630</b>	<b>\$ 425,018</b>	<b>\$ 391,342</b>	<b>\$ 326,586</b>	<b>\$ 198,626</b>
Return on average stockholders' equity	11.30%	11.79%	10.13%	27.49%	14.00%
Effect of average other intangible assets	0.04%	0.02%	0.03%	0.12%	0.13%
<b>Return on average tangible equity</b>	<b>11.34%</b>	<b>11.81%</b>	<b>10.17%</b>	<b>27.61%</b>	<b>14.14%</b>

##### ***Tangible Book Value Per Share***

Tangible book value per share is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in the analysis of Hanmi Financial's performance. Tangible book value per share is calculated by subtracting goodwill and other intangible assets from stockholders' equity and dividing the difference by the number of shares of common stock outstanding. Management believes the presentation of this financial

measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess management's success in utilizing tangible capital. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	<i>(In thousands, except per share data)</i>				
Stockholders' equity	\$ 493,918	\$ 453,387	\$ 400,077	\$ 377,253	\$ 285,608
Less other intangible assets	(1,701)	(2,080)	(1,171)	(1,335)	(1,533)
<b>Tangible equity</b>	<b>\$ 492,217</b>	<b>\$ 451,307</b>	<b>\$ 398,906</b>	<b>\$ 375,918</b>	<b>\$ 284,075</b>
Book value per share	15.45	14.21	12.60	11.98	9.07
Effect of other intangible assets	(0.05)	(0.07)	(0.04)	(0.04)	(0.05)
<b>Tangible book value per share</b>	<b>\$ 15.40</b>	<b>\$ 14.14</b>	<b>\$ 12.56</b>	<b>\$ 11.94</b>	<b>\$ 9.02</b>

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

This discussion presents management's analysis of the financial condition and results of operations as of and for the years ended December 31, 2015, 2014 and 2013. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also "Cautionary Note Regarding Forward-Looking Statements."

#### Critical Accounting Policies

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

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

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

##### *Loan Sales*

The guaranteed portions of certain SBA loans are normally sold to secondary market investors. When SBA loans are sold, we generally retain the right to service the loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan



servicing assets. Loan servicing assets are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 6 — Loans” presented elsewhere herein.

We reclassify certain loans to loans held for sale. Any such reclassification takes into consideration a number of factors, including, but not limited to, the following:

- NPL and/or classified status, nonaccrual status, and days delinquent;
- possibility of rehabilitation or workout for the near future and long term earning capability as an asset;
- number of times the loan was modified;
- overall debt coverage ratio;
- whether the debt is on troubled debt restructure status;
- the location of the collateral; and
- the borrower’s overall financial condition.

The fair value of nonperforming loans held for sale is generally based upon the recent appraisals, quotes, bids or sales contract prices which approximate the fair value. All loans held for sale are recorded at the lower of cost or fair value.

#### ***Purchased credit impaired loans***

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

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

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

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

Below is a summary of acquired purchased credit impaired loans as of the acquisition date, August 31, 2014 and December 31, 2015.

**As of August 31, 2014**

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

**As of December 31, 2015**

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

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

**Securities**

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

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

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

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

Management does not believe that there are any securities that are deemed OTTI as of December 31, 2015.

### ***Income Taxes***

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

As of each reporting date, management considers the realization of deferred tax assets based on management’s judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2015, management determined that no valuation allowance for deferred tax assets is required, as management believes it is more likely than not that deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

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

### **Executive Overview**

For the years ended December 31, 2015, 2014 and 2013, we recognized net income of \$53.8 million, \$49.8 million and \$39.9 million, respectively. The increase in net income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 was due mainly to the growth in net interest income from the 20 percent increase in average interest-earning assets, higher levels of SBA loan sales and their related gains, and higher amounts of disposition gains on PCI loans and securities, reduced by increased amounts of noninterest expenses reflecting the CBI acquisition. The increase in net income for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was due mainly to the bargain purchase gain of \$14.6 million from the acquisition of CBI. For the years ended December 31, 2015, 2014 and 2013, our earnings per diluted share were \$1.68, \$1.56 and \$1.26, respectively.

Significant financial highlights include:

Assets were essentially unchanged at \$4.23 billion at December 31, 2015 and 2014 as the liquidity gained from the CBI acquisition was deployed into loans. During 2014, assets increased by \$1.18 billion, or 38.6 percent, compared to \$3.05 billion as of December 31, 2013, primarily due to the acquisition of CBI.

- With new loan growth across the portfolio, loans receivable increased by \$394.8 million, or 14.2 percent, to \$3.18 billion as of December 31, 2015, compared to \$2.79 billion as of December 31, 2014. During 2014, loans receivable increased by \$553.4 million, or 24.8 percent, compared to \$2.24 billion as of December 31, 2013.
- Deposits were \$3.51 billion at December 31, 2015 compared to \$3.56 billion at December 31, 2014 as noninterest-bearing demand deposits increased \$132.5 million, or 13.0 percent, while time deposits declined

\$228.6 million, or 14.1 percent. During 2014, deposits grew by \$1.04 billion, or 41.6 percent, compared to \$2.51 billion as of December 31, 2013.

- Asset quality improved with classified loans (excluding PCI loans) down 17 percent year-over-year; \$39.3 million as of December 31, 2015, compared to \$47.4 million as of December 31, 2014. During 2014, classified loans decreased by \$34.8 million, or 42.4 percent, compared to \$82.2 million as of December 31, 2013.
- Cash dividends declared of \$0.47 per share of common stock were declared for the year ended December 31, 2015, compared to \$0.28 per share of common stock for the year ended December 31, 2014.

## **Results of Operations**

### **Acquisition's Impact on Earnings Performance**

The comparability of financial information was affected by our acquisition of CBI on August 31, 2014 (\$1.27 billion in assets). The transaction was accounted for using the acquisition method of accounting and accordingly, the related operating results have been included in the consolidated financial statements from the respective acquisition date. See "Note 2 — Acquisition."

### **Net Interest Income**

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

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

	For the Year Ended								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
<i>(In thousands)</i>									
<b>Assets</b>									
Interest-earning assets:									
Loans (1)	\$ 2,901,698	\$ 148,797	5.13%	\$ 2,440,682	\$ 122,222	5.01%	\$ 2,156,626	\$ 108,804	5.05%
Securities (2)	788,156	12,791	1.62%	648,937	12,711	1.96%	418,273	8,869	2.12%
FRB and FHLB stock (3)	30,049	2,786	9.27%	27,792	1,767	6.36%	28,290	1,404	4.96%
Federal funds sold	—	—	—%	3	—	—%	1,555	6	0.39%
Interest-bearing deposits in other banks	85,974	221	0.26%	45,727	107	0.23%	83,055	209	0.25%
Total interest-earning assets	<u>3,805,877</u>	<u>164,595</u>	<u>4.32%</u>	<u>3,163,141</u>	<u>136,807</u>	<u>4.33%</u>	<u>2,687,799</u>	<u>119,292</u>	<u>4.44%</u>
Noninterest-earning assets:									
Cash and due from banks	89,368			76,828			67,859		
Allowance for loan losses	(50,862)			(54,817)			(60,119)		
Other assets	232,286			225,599			131,969		
Total noninterest-earning assets	<u>270,792</u>			<u>247,610</u>			<u>139,709</u>		
<b>Total assets</b>	<b><u>\$ 4,076,669</u></b>			<b><u>\$ 3,410,751</u></b>			<b><u>\$ 2,827,508</u></b>		
<b>Liabilities and Stockholders' Equity</b>									
Interest-bearing liabilities:									
Deposits:									
Demand: interest-bearing	\$ 89,747	\$ 114	0.13%	\$ 72,857	\$ 102	0.14%	\$ 56,559	\$ 85	0.15%
Money market and savings	846,254	4,194	0.50%	697,190	4,757	0.68%	626,269	4,639	0.74%
Time deposits	1,500,634	11,102	0.74%	1,203,523	8,701	0.72%	967,975	7,954	0.82%
FHLB advances	38,110	76	0.20%	69,781	151	0.22%	6,573	151	2.30%
Other Borrowings	—	—	—%	315	—	—%	8	—	—%
Rescinded stock obligation	149	—	—%	4,778	87	1.82%	—	—	—%
Subordinated debentures	18,619	623	3.35%	6,236	235	3.77%	21,234	678	3.19%
Total interest-bearing liabilities	<u>2,493,513</u>	<u>16,109</u>	<u>0.65%</u>	<u>2,054,680</u>	<u>14,033</u>	<u>0.68%</u>	<u>1,678,618</u>	<u>13,507</u>	<u>0.80%</u>
Noninterest-bearing liabilities:									
Demand deposits: noninterest-bearing	1,066,251			898,459			740,445		
Other liabilities	40,504			31,699			15,844		
Total noninterest-bearing liabilities	<u>1,106,755</u>			<u>930,158</u>			<u>756,289</u>		
Total liabilities	<u>3,600,268</u>			<u>2,984,838</u>			<u>2,434,907</u>		
Stockholders' equity	476,401			425,913			392,601		
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 4,076,669</u></b>			<b><u>\$ 3,410,751</u></b>			<b><u>\$ 2,827,508</u></b>		
<b>Net interest income</b>		<b><u>\$ 148,486</u></b>			<b><u>\$ 122,774</u></b>			<b><u>\$ 105,785</u></b>	
<b>Cost of deposits</b>			<b><u>0.44%</u></b>			<b><u>0.47%</u></b>			<b><u>0.53%</u></b>
<b>Net interest spread</b>			<b><u>3.67%</u></b>			<b><u>3.65%</u></b>			<b><u>3.64%</u></b>
<b>Net interest margin</b>			<b><u>3.90%</u></b>			<b><u>3.88%</u></b>			<b><u>3.94%</u></b>

(1) Includes loans held for sale

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

(3) 2015 income includes special dividend of \$605,000 from FHLB San Francisco.

Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.47% and 3.65% for the years ended December 31, 2015 and 2014, respectively. The impact of acquisition accounting adjustments on core loan yield and net interest margin are summarized in the following table:

	For the year ended December 31, 2015		For the year ended December 31, 2014	
	Amount	Impact	Amount	Impact
	(In thousands)			
<b>Core loan yield</b>	<b>\$ 137,765</b>	<b>4.75 %</b>	<b>\$ 116,953</b>	<b>4.82 %</b>
Accretion of discount on purchased loans	11,032	0.38 %	5,269	0.19 %
<b>As reported</b>	<b>\$ 148,797</b>	<b>5.13 %</b>	<b>\$ 122,222</b>	<b>5.01 %</b>
<b>Net interest income and net interest margin excluding acquisition accounting (1)</b>	<b>\$ 131,996</b>	<b>3.47 %</b>	<b>\$ 115,238</b>	<b>3.65 %</b>
Accretion of discount on Non-PCI loans	9,416	0.25 %	3,821	0.12 %
Accretion of discount on PCI loans	1,616	0.04 %	1,448	0.04 %
Accretion of time deposits premium	5,634	0.15 %	2,338	0.07 %
Amortization of subordinated debentures discount	(176)	(0.01)%	(71)	—%
Net impact	16,490	0.43 %	7,536	0.23 %
<b>As reported (1)</b>	<b>\$ 148,486</b>	<b>3.90 %</b>	<b>\$ 122,774</b>	<b>3.88 %</b>

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

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

	Year Ended December 31,					
	2015 vs. 2014			2014 vs. 2013		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest and dividend income:						
Loans (1)	\$ 23,584	\$ 2,991	\$ 26,575	\$ 14,331	\$ (913)	\$ 13,418
Securities (2)	2,484	(2,404)	80	3,783	59	3,842
FRB and FHLB stock	154	865	1,019	(25)	388	363
Federal funds sold	—	—	—	(3)	(3)	(6)
Interest-bearing deposits in other banks	99	15	114	(89)	(13)	(102)
<b>Total interest and dividend income (2)</b>	<b>\$ 26,321</b>	<b>\$ 1,467</b>	<b>\$ 27,788</b>	<b>\$ 17,997</b>	<b>\$ (482)</b>	<b>\$ 17,515</b>
Interest expense:						
Demand: interest-bearing	\$ 12	\$ —	\$ 12	\$ 20	\$ (186)	\$ (166)
Money market and savings	28	(591)	(563)	413	(112)	301
Time deposits	2,158	243	2,401	679	(452)	227
FHLB advances	(62)	(13)	(75)	250	(250)	—
Other borrowings	—	—	—	1,159	(639)	520
Rescinded stock obligation	(43)	(44)	(87)	87	—	87
Subordinated debentures	380	8	388	(548)	105	(443)
<b>Total interest expense</b>	<b>\$ 2,473</b>	<b>\$ (397)</b>	<b>\$ 2,076</b>	<b>\$ 2,060</b>	<b>\$ (1,534)</b>	<b>\$ 526</b>
<b>Change in net interest income (2)</b>	<b>\$ 23,848</b>	<b>\$ 1,864</b>	<b>\$ 25,712</b>	<b>\$ 15,937</b>	<b>\$ 1,052</b>	<b>\$ 16,989</b>

(1) Includes loans held for sale

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

For the years ended December 31, 2015, 2014 and 2013, net interest income, before provision for loan losses and on a tax-equivalent basis, was \$148.5 million, \$122.8 million and \$105.8 million, respectively. The increase in net interest income in 2015, as compared to 2014, was due mainly to the 18.9 percent increase in average loans. The increase in net interest income in 2014, as compared to 2013, was due mainly to increases in average loans and securities acquired and increases in low-cost interest-bearing deposits. In addition, the net accretion of discount on loans and interest-bearing liabilities acquired in the CBI acquisition was \$16.5 million and \$7.5 million for the years ended December 31, 2015 and 2014, respectively. The net interest spread and net interest margin for the year ended December 31, 2015 were 3.67 percent and 3.90 percent, respectively, as compared to 3.65 percent and 3.88 percent, respectively, for the year ended December 31, 2014, and 3.64 percent and 3.94 percent, respectively, for the year ended December 31, 2013. Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.47 and 3.65 percent for the year ended December 31, 2015 and 2014, respectively.

Average loans were \$2.90 billion in 2015, as compared with \$2.44 billion in 2014 and \$2.16 billion in 2013, representing an increase of 18.9 percent in 2015 and an increase of 13.2 percent in 2014. Average securities were \$788.2 million in 2015, as compared with \$648.9 million in 2014 and \$418.3 million in 2013, representing an increase of 21.5 percent in 2015 and an increase of 55.1 percent in 2014. Average interest-earning assets increased to \$3.81 billion for the year ended December 31, 2015, as compared with \$3.16 billion in 2014 and \$2.69 billion in 2013, representing an increase of 20.3 percent in 2015. The increase in average interest-earning assets was due mainly to the growth in loans. Average interest-bearing liabilities were \$2.49 billion in 2015, as compared to \$2.05 billion in 2014 and \$1.68 billion in 2013, representing increase of 21.4 percent and increase of 22.4 percent in 2015 and 2014, respectively. The increase in average interest-bearing liabilities in 2015 was due primarily to the growth in deposits and the increase in average interest-bearing liabilities in 2014 was due primarily to increases in deposits assumed from the acquisition of CBI and increases in FHLB advances.

The average yield on loans increased by 12 basis points to 5.13 percent in 2015, after a 4 basis points decrease to 5.01 percent in 2014 from 5.05 percent in 2013. The increase in 2015 reflects the full-year effects of purchase accounting while the decrease for 2014 was attributable to the low interest rate environment and higher level of competition. Absent the effects of purchase accounting, loan yields declined in 2015 and 2014 reflecting the low interest rate environment and higher level of competition. The average yield on interest-earning assets decreased by 1 basis point to 4.32 percent in 2015, after a decrease of 11 basis points to 4.33 percent in 2014 from 4.44 percent in 2013. The decrease in 2014 was attributable to increases in lower yielding securities acquired in the acquisition of CBI partially offset by the increase yield related to the accretion of discount on loans and interest-bearing liabilities related to the CBI acquisition. The average cost on interest-bearing liabilities decreased by 3 basis points to 0.65 percent in 2015, after a decrease of 12 basis points to 0.68 percent in 2014 from 0.80 percent in 2013. The decrease in 2014 was due mainly to \$2.3 million amortization of time deposits premiums from the acquisition of CBI.

#### **Provision for Loan Losses**

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

Net loan recoveries were \$1.9 million, or 0.06 percent of average loans, for the year ended December 31, 2015 compared to \$1.4 million, or 0.06 percent of average loans, for the year ended December 31, 2014. For the year ended December 31, 2013, net loan charge-offs were \$6.3 million, or 0.29 percent of average loans.

Classified loans (excluding PCI loans) decreased by \$8.1 million, or 17.1 percent, to \$39.3 million for the year ended December 31, 2015 from \$47.4 million for the year ended December 31, 2014, and decreased by \$34.5 million, or 42.0 percent, to \$82.2 million for the year ended December 31, 2013.

All other credit metrics also experienced improvements as the quality of the loan portfolio improved. Therefore, a negative loan loss provision of \$11.6 million was recorded for the year ended December 31, 2015, which included a \$4.4 million provision for losses on PCI loans, compared to a negative loan loss provision of \$6.3 million for the year ended December 31, 2014, which included a \$1.0 million provision for losses on PCI loans. See “Nonperforming Assets” and “Allowance for Loan Losses and Allowance for Off-Balance Sheet Items” for further details.

## Noninterest Income

The following table sets forth the various components of non-interest income for the years indicated:

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Service charges on deposit accounts	\$ 12,900	\$ 11,374	\$ 11,307
Trade finance and other service charges and fees	4,623	4,946	4,475
Other operating income	4,552	4,462	3,079
Subtotal service charges, fees and other income	22,075	20,782	18,861
Gain on sale of SBA loans	8,749	3,494	8,000
Disposition gains on PCI loans	10,167	1,432	—
Net gain on sales of securities	6,611	2,011	1,039
Bargain purchase gain, net of deferred taxes	—	14,577	—
<b>Total noninterest income</b>	<b>\$ 47,602</b>	<b>\$ 42,296</b>	<b>\$ 27,900</b>

For the year ended December 31, 2015, noninterest income was \$47.6 million, an increase of \$5.3 million, or 12.5 percent, from \$42.3 million for the year ended December 31, 2014. The increase was primarily attributable to higher gains on dispositions of PCI loans, securities transactions and SBA loan sales, offset by the absence of the 2014 \$14.6 million after-tax bargain purchase gain. Service charges, fees and other income for the year ended December 31, 2015, was up 6.2 percent to \$22.1 million from \$20.8 million for the year ended December 31, 2014. Gains on sales of SBA loans were \$8.7 million, compared to \$3.5 million for the year ended December 31, 2014. The increase in gains on SBA loans primarily relates to an increase in SBA loans sold to \$89.1 million in 2015 from \$42.4 million in 2014. Disposition gains on PCI loans were \$10.2 million in 2015. When a PCI loan is removed from a loan pool and the cash proceeds or assets received from the settlement of the loan are in excess of its carrying amount, we recognize such as disposition gains. PCI loans were \$20.0 million at December 31, 2015, down \$25.5 million or 55.0 percent, from \$44.5 million at December 31, 2014.

For the year ended December 31, 2014, noninterest income was \$42.3 million, an increase of \$14.4 million, or 51.6 percent, from \$27.9 million for the year ended December 31, 2013. This increase was primarily attributable to a \$14.6 million of bargain purchase gain provisionally recorded from the acquisition of CBI. Service charges, fees and other income was up 10.2 percent to \$20.8 million for the year ended December 31, 2014 from \$18.9 million for the year ended December 31, 2013. Gains on sales of SBA loans for the year ended December 31, 2014 were \$3.5 million, compared to \$8.0 million for the year ended December 31, 2013. The decrease in gains on SBA loans primarily relates to a decrease in SBA loans sold to \$42.4 million in 2014 from \$96.8 million in 2013. Disposition gains on PCI loans were \$1.4 million in 2014.



## Noninterest Expense

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Salaries and employee benefits	\$ 62,864	\$ 50,177	\$ 35,129
Occupancy and equipment	17,371	12,295	10,017
Data processing	6,321	6,080	4,582
Professional fees	7,905	7,564	5,335
Supplies and communications	3,582	2,612	2,155
Advertising and promotion	4,201	3,435	3,411
Merger and integration costs	1,971	6,646	730
OREO expense (gain)	307	(49)	(59)
Other operating expenses	10,806	9,911	9,717
<b>Total noninterest expense</b>	<b>\$ 115,328</b>	<b>\$ 98,671</b>	<b>\$ 71,017</b>

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

For the year ended December 31, 2014, noninterest expense was \$98.7 million, an increase of \$27.6 million or 38.9 percent, compared to \$71.0 million for the year ended December 31, 2013. The increase was due primarily to the increases in salaries and employee benefits, merger and integration costs and professional fees. The largest component of noninterest expense for the year ended December 31, 2014 was salaries and employee benefits, which represented 50.9 percent of total noninterest expense for the year ended December 31, 2014. Salaries and employee benefits increased \$15.0 million, or 42.8 percent, to \$50.2 million, compared to \$35.1 million for the year ended December 31, 2013, due mainly to an increase in the average number of employees added from the acquisition of CBI and additional share-based compensation reflecting stock options and restricted stock awards granted. Merger and integration costs relating to CBI acquisition for the year ended December 31, 2014 increased \$5.9 million, or 810.4 percent, to \$6.6 million, compared to \$730,000 for the year ended December 31, 2013. For the year ended December 31, 2014, professional fees increased by \$2.2 million, or 41.8 percent, to \$7.6 million, compared to \$5.3 million for the year ended December 31, 2013, mainly due to costs incurred to strengthen infrastructure to meet heightened control standards.

## Income Taxes

For the years ended December 31, 2015, 2014 and 2013, provision for income taxes were \$38.2 million, \$22.9 million, and \$22.8 million, respectively. The effective tax rate for the years ended December 31, 2015, 2014 and 2013 was 41.5 percent, 31.5 percent and 36.4 percent, respectively. The higher effective tax rate for 2015 reflects a higher level of state taxes. The lower effective tax rate for 2014 reflects the impact of the \$14.6 million after-tax bargain purchase gain recognized in 2014. As of December 31, 2015, 2014 and 2013, the Company's net deferred tax assets were \$52.1 million, \$70.2 million and \$51.9 million, respectively, which were primarily the result of allowance for loan losses and net operating loss carryforwards, partially offset by state taxes.

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

## Financial Condition

### Securities Portfolio

Securities are classified as held to maturity, available for sale, or trading in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as "held to maturity." All other securities are classified either as "available for sale" or "trading." There were no held to maturity or trading securities as of December 31, 2015, and 2014. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and

available for sale and trading securities are stated at fair value. The composition of our securities portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our securities portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2015, our securities portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and U.S. government agency securities. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2015, 2014 and 2013.

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

	December 31, 2015			December 31, 2014			December 31, 2013		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
<i>(In thousands)</i>									
<b>Securities available for sale:</b>									
Mortgage-backed securities (1)(2)	\$ 286,450	\$ 284,381	\$ (2,069)	\$ 571,678	\$ 573,286	\$ 1,608	\$ 222,768	\$ 217,059	\$ (5,709)
Collateralized mortgage obligations (1)	97,904	96,986	(918)	188,704	188,047	(657)	130,636	127,693	(2,943)
U.S. government agency securities	48,478	47,822	(656)	129,857	128,207	(1,650)	90,852	83,536	(7,316)
SBA loan pool securities	63,670	63,266	(404)	109,983	109,447	(536)	13,857	13,937	80
Municipal bonds-tax exempt	162,101	163,902	1,801	4,319	4,390	71	33,361	32,354	(1,007)
Municipal bonds-taxable	13,932	14,033	101	16,615	16,922	307	21,013	20,835	(178)
Corporate bonds	5,017	4,993	(24)	17,018	16,948	(70)	19,998	19,997	(1)
U.S. treasury securities	159	160	1	163	163	—	13,598	12,629	(969)
Other securities	22,916	22,753	(163)	22,916	22,893	(23)	3,030	2,886	(144)
Equity security	—	—	—	450	414	(36)	—	—	—
<b>Total securities available for sale:</b>	<b>\$ 700,627</b>	<b>\$ 698,296</b>	<b>\$ (2,331)</b>	<b>\$ 1,061,703</b>	<b>\$ 1,060,717</b>	<b>\$ (986)</b>	<b>\$ 549,113</b>	<b>\$ 530,926</b>	<b>\$ (18,187)</b>

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

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

As of December 31, 2015, securities available for sale decreased 34.2 percent to \$698.3 million, compared to \$1.06 billion as of December 31, 2014, primarily to fund loan growth. As of December 31, 2015, securities available for sale had a net unrealized loss of \$2.3 million, comprised of \$2.5 million of unrealized gains and \$4.8 million of unrealized losses. As of December 31, 2014, securities available for sale had a net unrealized loss of \$986,000, comprised of \$4.0 million of unrealized gains and \$5.0 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of December 31, 2015:

	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
<i>(In thousands)</i>										
<b>Securities available for sale:</b>										
Mortgage-backed securities	\$ 1	1.66%	\$ 52,103	1.62%	\$ 97,281	2.03%	\$ 137,065	1.60%	\$ 286,450	1.75%
Collateralized mortgage obligations	194	1.44%	15,866	1.20%	59,140	1.81%	22,704	1.41%	97,904	1.62%
U.S. government agency securities	—	—%	6,000	1.35%	39,480	2.07%	2,998	2.29%	48,478	1.99%
SBA loan pool securities	—	—%	—	—%	33,784	1.14%	29,886	1.23%	63,670	1.19%
Municipal bonds-tax exempt (1)	—	—%	721	2.82%	67,324	3.05%	94,056	4.01%	162,101	3.61%
Municipal bonds-taxable	—	—%	2,406	3.23%	11,526	4.07%	—	—%	13,932	3.92%
Corporate bonds	—	—%	5,017	0.79%	—	—%	—	—%	5,017	0.79%
U.S. treasury securities	—	—%	159	1.20%	—	—%	—	—%	159	1.20%
Other securities	—	—%	—	—%	—	—%	22,916	2.11%	22,916	2.11%
<b>Total securities available for sale:</b>	<u>\$ 195</u>	<u>1.44%</u>	<u>\$ 82,272</u>	<u>1.53%</u>	<u>\$ 308,535</u>	<u>2.19%</u>	<u>\$ 309,625</u>	<u>2.33%</u>	<u>\$ 700,627</u>	<u>2.18%</u>

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

#### Loan Portfolio

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

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

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

	As of December 31,		
	2015	2014	2013
Real estate loans:			
Commercial property (1)			
Retail	\$ 740,350	\$ 684,400	\$ 543,853
Hotel/motel	543,425	462,718	323,067
Gas station	323,655	370,416	292,683
Other (2)	978,662	848,906	731,932
Construction	23,387	9,527	—
Residential property	236,035	135,462	79,112
Total real estate loans	<u>2,845,514</u>	<u>2,511,429</u>	<u>1,970,647</u>
Commercial and industrial loans:			
Commercial term	152,773	116,536	124,445
Commercial lines of credit	128,224	93,970	71,073
International loans	31,879	38,974	36,369
Total commercial and industrial loans	<u>312,876</u>	<u>249,480</u>	<u>231,887</u>
Consumer loans (3)	24,926	27,589	32,519
<b>Total gross loans</b>	<b><u>3,183,316</u></b>	<b><u>2,788,498</u></b>	<b><u>2,235,053</u></b>
Allowance for loans losses	(42,935)	(52,666)	(57,555)
<b>Loans receivable, net</b>	<b><u>\$ 3,140,381</u></b>	<b><u>\$ 2,735,832</u></b>	<b><u>\$ 2,177,498</u></b>

(1) Includes owner-occupied property loans of \$1.20 billion and \$1.12 billion as of December 31, 2015 and 2014, respectively.

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

(3) Consumer loans include home equity lines of credit

As of December 31, 2015, 2014 and 2013, loans receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan losses, totaled \$3.14 billion, \$2.74 billion and \$2.18 billion, respectively, representing an increase of \$404.5 million or 14.8 percent in 2015, and \$558.4 million, or 25.6 percent in 2014. The \$404.5 million increase in loans in 2015 compared to 2014 was attributable primarily to a \$9.7 million decrease in the allowance for loan losses and a \$394.8 million, or 14.2 percent increase in loans.

During the year ended December 31, 2015, total loan disbursement consisted of \$726.3 million in commercial real estate loans, \$120.2 million in SBA loans, \$149.2 million in commercial and industrial loans and \$137.3 million in consumer loans. The increase was offset by \$95.3 million of transfers to loans held for sale and \$479.1 million of pay-offs and other net amortizations.

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

	As of December 31,		
	2015	2014	2013
Real estate loans:			
Commercial property			
Retail	23.3 %	24.5 %	24.3 %
Hotel/motel	17.1 %	16.6 %	14.5 %
Gas station	10.2 %	13.3 %	13.1 %
Other	30.7 %	30.4 %	32.7 %
Construction	0.7 %	0.3 %	— %
Residential property	7.4 %	4.9 %	3.5 %
Total real estate loans	89.4 %	90.0 %	88.1 %
Commercial and industrial loans:			
Commercial term	4.8 %	4.2 %	5.6 %
Commercial lines of credit	4.0 %	3.4 %	3.2 %
International loans	1.0 %	1.4 %	1.6 %
Total commercial and industrial loans	9.8 %	9.0 %	10.4 %
Consumer loans	0.8 %	1.0 %	1.5 %
<b>Total gross loans</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

The table below shows the maturity distribution of outstanding loans as of December 31, 2015. 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. The table includes nonaccrual, non-PCI loans of \$19.1 million.

	Within One Year	After One Year but Within Five Years	After Five Years	Total
	<i>(In thousands)</i>			
Real estate loans:				
Commercial property				
Retail	\$ 33,901	\$ 400,044	\$ 306,405	\$ 740,350
Hotel/motel	8,707	215,393	319,325	543,425
Gas station	30,870	122,589	170,196	323,655
Other	64,729	532,260	381,672	978,661
Construction	20,731	2,657	—	23,388
Residential property	3,250	2,513	230,271	236,034
Total real estate loans	162,188	1,275,456	1,407,869	2,845,513
Commercial and industrial loans:				
Commercial term	1,457	70,001	81,315	152,773
Commercial lines of credit	101,387	26,837	—	128,224
International loans	31,878	—	1	31,879
Total commercial and industrial loans	134,722	96,838	81,316	312,876
Consumer loans	2,289	1,654	20,983	24,926
<b>Total gross loans</b>	<b>\$ 299,199</b>	<b>\$ 1,373,948</b>	<b>\$ 1,510,168</b>	<b>\$ 3,183,315</b>
Loans with predetermined interest rates	\$ 171,073	\$ 566,965	\$ 41,921	\$ 779,959
Loans with variable interest rates	\$ 1,182,350	\$ 1,149,346	\$ 71,660	\$ 2,403,356

As of December 31, 2015, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

<b>Industry</b>	<b>Balance as of December 31, 2015</b>	<b>Percentage of Gross Loans Outstanding</b>
	<i>(In thousands)</i>	
Lessor of nonresidential buildings	\$ 892,250	28.0%
Hospitality	\$ 568,070	17.9%
Gas station	\$ 349,547	11.0%

There was no other concentration of loans to any one type of industry exceeding 10 percent of total gross loans outstanding.

#### **Nonperforming Assets**

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

Except for nonperforming loans set forth below, management is not aware of any loans as of December 31, 2015 and December 31, 2014 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 repayment terms, or any known events that would result in the loan being designated as nonperforming at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.

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

	2015	2014	2013
	<i>(In thousands)</i>		
<b>Nonperforming Non-PCI loans:</b>			
Real estate loans:			
Commercial property			
Retail	\$ 946	\$ 2,160	\$ 2,946
Hotel/motel	5,790	3,835	5,200
Gas station	2,774	3,478	2,492
Other	4,068	4,961	4,808
Residential property	1,386	1,588	1,365
Commercial and industrial loans:			
Commercial term	2,193	7,052	7,146
Commercial lines of credit	450	466	423
Consumer loans	1,511	1,742	1,497
Total nonperforming Non-PCI loans	19,118	25,282	25,877
Loans 90 days or more past due and still accruing	—	—	—
<b>Total nonperforming Non-PCI loans (1)</b>	<b>19,118</b>	<b>25,282</b>	<b>25,877</b>
Other real estate owned	8,511	15,790	756
<b>Total nonperforming assets</b>	<b>\$ 27,629</b>	<b>\$ 41,072</b>	<b>\$ 26,633</b>
Nonperforming Non-PCI loans as a percentage of gross loans	0.60 %	0.91 %	1.16 %
Nonperforming assets as a percentage of assets	0.65 %	0.97 %	0.87 %
Troubled debt restructured performing loans	\$ 3,061	\$ 13,817	\$ 19,417

(1) Include troubled debt restructured nonperforming loans of \$6.9 million, \$12.5 million and \$10.5 million as of December 31, 2015, 2014 and 2013, respectively.

Nonaccrual Non-PCI loans totaled \$19.1 million, \$25.3 million and \$25.9 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of \$6.2 million or 24.4 percent, in 2015 and a decrease of \$0.6 million or 2.3 percent, in 2014. There were no PCI loans on nonaccrual as of December 31, 2015. Delinquent Non-PCI loans (defined as 30 days or more past due) were \$15.4 million, \$24.3 million and \$16.3 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of \$8.9 million or 36.7 percent, in 2015 and an increase of \$8.0 million, or 49.3 percent, in 2014. The decrease in 2015 was due primarily to \$14.9 million of pay-offs. As of December 31, 2015, 2014 and 2013, delinquent loans of \$11.3 million, \$11.7 million and \$12.2 million, respectively were included in nonperforming loans. During the year ended December 31, 2015, loans totaling \$20.4 million were placed on nonaccrual status. The additions to nonaccrual loans were offset by \$16.9 million in principal paydowns and payoffs, \$2.7 million in charge-offs and \$5.4 million in upgrades to accrual.

The ratio of nonperforming Non-PCI loans to gross loans decreased to 0.60 percent at December 31, 2015 from 0.91 percent and 1.16 percent at December 31, 2014 and 2013, respectively. Of the \$19.1 million nonperforming Non-PCI loans as of December 31, 2015, \$18.1 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserves of \$1.1 million. The allowance for collateral-dependent loans is calculated as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of December 31, 2015, OREOs consisted of 14 properties with a combined carrying value of \$8.5 million. As of December 31, 2014, there were twenty-five properties with a combined carrying value of \$15.8 million, respectively.

## Impaired Loans

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

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

	As of December 31,					
	2015		2014		2013	
	Recorded Investment	Percentage	Recorded Investment	Percentage	Recorded Investment	Percentage
	<i>(In thousands)</i>					
Real estate loans:						
Commercial property						
Retail	\$ 2,603	7.3%	\$ 4,436	9.7%	\$ 6,244	11.8%
Hotel/motel	6,979	19.5%	5,835	12.7%	6,200	11.7%
Gas station	5,439	15.2%	8,974	19.6%	9,389	17.7%
Other	9,236	25.9%	10,125	22.1%	11,451	21.6%
Residential property	2,900	8.1%	3,127	6.8%	2,678	4.9%
Commercial and industrial loans:						
Commercial term	5,279	14.8%	7,614	16.6%	13,834	26.1%
Commercial lines of credit	383	1.1%	466	1.0%	614	1.2%
International loans	1,215	3.4%	3,546	7.7%	1,087.0	2.0%
Consumer loans	1,667	4.7%	1,742	3.8%	1,569	3.0%
<b>Total Non-PCI loans</b>	<b>\$ 35,701</b>	<b>100.0%</b>	<b>\$ 45,865</b>	<b>100.0%</b>	<b>\$ 53,066</b>	<b>100.0%</b>

Total impaired loans totaled \$35.7 million, \$45.9 million and \$53.1 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of \$10.2 million, or 22.2 percent, in 2015 and \$7.2 million, or 13.6 percent, in 2014. Accordingly, specific reserve allocations associated with impaired loans decreased by \$0.8 million or 15.4 percent to \$4.4 million as of December 31, 2015, as compared to \$5.2 million as of December 31, 2014.

During the year ended December 31, 2015, 2014 and 2013, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled \$4.2 million, \$4.5 million and \$4.5 million, respectively. Of these amounts, actual interest recognized on impaired loans was \$2.7 million, \$3.2 million and \$3.7 million for the year ended December 31, 2015, 2014 and 2013, respectively.



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

	As of December 31,								
	2015			2014			2013		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	<i>(In thousands)</i>								
Real estate loans:									
Commercial property									
Retail	\$ 344	\$ 1,227	\$ 1,571	\$ 2,032	\$ 306	\$ 2,338	\$ 750	\$ 474	\$ 1,224
Hotel/motel	1,244	414	1,658	1,062	1,807	2,869	2,030	1,000	3,030
Gas station	959	—	959	1,075	2,335	3,410	2,020	2,974	4,994
Other	1,525	5,237	6,762	2,898	4,497	7,395	2,237	6,236	8,473
Residential property	689	299	988	742	308	1,050	795	—	795
Commercial and industrial loans:									
Commercial term	1,721	2,872	4,593	4,050	2,208	6,258	2,531	7,306	9,837
Commercial lines of credit	280	—	280	466	2,156	2,622	173	191	364
International loans	—	—	—	—	200	200	—	1,087	1,087
Consumer loans	116	250	366	131	—	131	—	149	149
<b>Total Non-PCI loans</b>	<b>\$ 6,878</b>	<b>\$ 10,299</b>	<b>\$ 17,177</b>	<b>\$ 12,456</b>	<b>\$ 13,817</b>	<b>\$ 26,273</b>	<b>\$ 10,536</b>	<b>\$ 19,417</b>	<b>\$ 29,953</b>

For the year ended December 31, 2015, we restructured monthly payments for 14 loans, with a net carrying value of \$3.2 million at the time of modification, which we subsequently classified as TDRs. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly, and/or allowing for interest only monthly payments for six months or less.

As of December 31, 2014 and 2013, TDRs on accrual status totaled \$13.8 million and \$19.4 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and an \$844,000 and \$1.4 million reserve, relating to these loans was included in the allowance for loan losses. As of December 31, 2014 and 2013, restructured loans on nonaccrual status totaled \$12.5 million and \$10.5 million, respectively, and a \$2.0 million and \$1.4 million reserve relating to these loans was included in the allowance for loan losses.

#### Allowance for Loan Losses and Allowance for Off-Balance Sheet Items

The Bank charges or credits the income statement for provisions to the allowance for loan losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general reserves and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. In the fourth quarter of 2015, based upon an evaluation of the look-back periods, the loss-emergence periods and the qualitative adjustments, the Bank utilized a 20-quarter look-back period with equal weighting to all quarters in order to reflect the lengthening of the business cycle and to capture sufficient loss observations for the estimate of a reliable loss rate. In addition, the Bank determined that there were no indications that the loss migration analysis changed significantly; however, these factors do not materially affect the estimated loss rates. In addition, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. Improving credit metrics include, among other things, net loan recoveries of 0.06 percent of average loans, nonperforming, non-PCI loans to loan of 0.60 percent and classified loans to loans of 1.24 percent. The allowance for loan losses of \$42.9 million, or 1.35 percent of loans at December 31, 2015. The change in methodology did not materially affect the amount of the allowance at December 31, 2015.

In the prior reporting periods, the Bank utilized the following methodologies. In the first quarter of 2014, based upon a similar evaluation, the bank utilized a 16-quarter look-back period, weighing the loss factors 46 percent for the most recent four-quarter period and 31 percent, 15 percent and 8 percent for each of the following four-quarter periods, respectively. In the

second quarter of 2013, based upon a similar evaluation, the Bank utilized a 12-quarter look-back period, weighing the loss factors 50 percent for the most recent four-quarter period and 33 percent and 17 percent for each of the following four-quarter periods, respectively. Prior to the second quarter of 2013, the Bank utilized an 8-quarter look-back period weighting the most recent four-quarter period 60 percent and 40 percent for the following four-quarter period. The change in methodology maintained the Bank's allowance at a level consistent with the prior quarter.

To determine general reserve requirements, existing loans are divided into fourteen general loan pools of risk-rated loans, as well as three homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. As 3 homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed "impaired."

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

To systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

The following table reflects our allocation of allowance for loan losses by loan category as well as the loans receivable for each loan type:

As of December 31,										
	2015			2014			2013			
	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans	
<i>(In thousands)</i>										
Real estate loans:										
Commercial property										
Retail	\$ 5,164	13.8%	\$ 735,501	\$ 9,798	19.0%	\$ 675,072	\$ 9,504	16.5%	\$ 543,619	
Hotel/motel	8,175	21.8%	539,345	9,524	18.4%	454,499	8,580	14.9%	322,927	
Gas station	2,631	7.0%	319,363	5,433	10.5%	362,240	6,921	12.0%	292,557	
Other	9,977	26.6%	973,243	14,668	28.4%	842,126	17,839	31.0%	731,617	
Construction	1,732	4.6%	23,387	1,143	2.2%	9,517	—	—%	—	
Residential property	2,121	5.7%	234,879	628	1.3%	120,932	706	1.3%	79,078	
Total real estate loans	<u>29,800</u>	<u>79.5%</u>	<u>2,825,718</u>	<u>41,194</u>	<u>79.8%</u>	<u>2,464,386</u>	<u>43,550</u>	<u>75.7%</u>	<u>1,969,798</u>	
Commercial and industrial loans:										
Commercial term	4,734	12.6%	152,602	6,232	12.1%	116,073	8,523	14.8%	124,391	
Commercial lines of credit	1,954	5.2%	128,224	2,228	4.3%	93,860	2,342	4.1%	71,042	
International loans	393	1.0%	31,879	683	1.3%	38,929	422	0.7%	36,353	
Total commercial and industrial loans	<u>7,081</u>	<u>18.8%</u>	<u>312,705</u>	<u>9,143</u>	<u>17.7%</u>	<u>248,862</u>	<u>11,287</u>	<u>19.6%</u>	<u>231,786</u>	
Consumer loans	242	0.6%	24,879	220	0.4%	27,512	1,427	2.5%	32,505	
Unallocated	371	1.1%	—	1,083	2.1%	—	1,291	2.2%	—	
<b>Total</b>	<b><u>\$ 37,494</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 3,163,302</u></b>	<b><u>\$ 51,640</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 2,740,760</u></b>	<b><u>\$ 57,555</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 2,234,089</u></b>	

As of December 31,										
	2015			2014			2013			
	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans	
<i>(In thousands)</i>										
Real estate loans:										
Commercial property										
Retail	\$ 269	4.9%	\$ 4,849	\$ 401	39.1%	\$ 8,535	\$ —	—%	\$ —	
Hotel/motel	88	1.6%	4,080	99	9.7%	7,682	—	—%	—	
Gas station	477	8.8%	4,292	302	29.4%	7,745	—	—%	—	
Other	4,412	81.1%	5,419	65	6.3%	5,796	—	—%	—	
Residential property	151	2.8%	1,156	28	2.7%	14,371	—	—%	—	
Total real estate loans	<u>5,397</u>	<u>99.2%</u>	<u>19,796</u>	<u>895</u>	<u>87.2%</u>	<u>44,129</u>	<u>—</u>	<u>—%</u>	<u>—</u>	
Commercial and industrial loans:										
Commercial term	42	0.8%	171	131	12.8%	327	—	—%	—	
Consumer loans	2	—%	47	—	—%	45	—	—%	—	
<b>Total</b>	<b><u>\$ 5,441</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 20,014</u></b>	<b><u>\$ 1,026</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 44,501</u></b>	<b><u>\$ —</u></b>	<b><u>—%</u></b>	<b><u>\$ —</u></b>	

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

As of and for the Year Ended December 31,						
2015						
	Non-PCI Loans	PCI Loans	Total	2014	2013	
<i>(In thousands)</i>						
<b>Allowance for loan losses:</b>						
Balance at beginning of period	\$ 51,640	\$ 1,026	\$ 52,666	\$ 57,555	\$ 63,305	
Actual charge-offs	(3,531)	—	(3,531)	(6,992)	(11,862)	
Recoveries on loans previously charged off	5,423	—	5,423	8,361	5,536	
Net loan recoveries (charge-offs)	1,892	—	1,892	1,369	(6,326)	
(Negative provision) provision charged to operating expense	(16,038)	4,415	(11,623)	(6,258)	576	
<b>Balance at end of period</b>	<b>\$ 37,494</b>	<b>\$ 5,441</b>	<b>\$ 42,935</b>	<b>\$ 52,666</b>	<b>\$ 57,555</b>	
<b>Allowance for off-balance sheet items:</b>						
Balance at beginning of period	\$ 1,366	\$ —	\$ 1,366	\$ 1,248	\$ 1,824	
Provision (negative provision) charged to operating expense	(379)	—	(379)	118	(576)	
<b>Balance at end of period</b>	<b>\$ 987</b>	<b>\$ —</b>	<b>\$ 987</b>	<b>\$ 1,366</b>	<b>\$ 1,248</b>	
<b>Ratios:</b>						
Net loan (recoveries) charge-offs to average gross loans	(0.06)%	—%	(0.06)%	(0.06)%	0.29%	
Net loan (recoveries) charge-offs to gross loans	(0.06)%	—%	(0.06)%	(0.05)%	0.28%	
Allowance for loan losses to average gross loans	1.27 %	18.14%	1.44 %	2.16 %	2.67%	
Allowance for loan losses to gross loans	1.19 %	27.18%	1.35 %	1.89 %	2.58%	
Net loan (recoveries) charge-offs to allowance for loan losses	(5.05)%	—%	(4.41)%	(2.60)%	10.99%	
Allowance for loan losses to nonperforming loans	196.12 %	—%	224.58 %	204.26 %	222.42%	
<b>Balance:</b>						
Average gross loans during period	\$ 2,951,329	\$ 30,002	\$ 2,981,331	\$ 2,440,682	\$ 2,156,626	
Gross loans at end of period	\$ 3,163,301	\$ 20,015	\$ 3,183,316	\$ 2,785,261	\$ 2,234,089	
Nonperforming loans at end of period	\$ 19,118	\$ —	\$ 19,118	\$ 25,282	\$ 25,877	

Allowance for loan losses totaled \$42.9 million, \$52.7 million and \$57.6 million, respectively, as of December 31, 2015, 2014 and 2013, representing a decrease of \$9.7 million, or 18.5 percent, in 2015 and a decrease of \$4.9 million, or 8.5 percent, in 2014. Allowance for loan losses as a percentage of gross loans decreased to 1.35 percent as of December 31, 2015 from 1.89 percent as of December 31, 2014. The decrease in allowance for loan losses as of December 31, 2015 was due primarily to the change in estimated loss factors and improvements in classified loans. Accordingly, non-PCI loan reserves decreased by \$14.1 million to \$37.5 million as of December 31, 2015. However, PCI loan reserves increased by \$4.4 million to \$5.4 million due to deteriorating loans condition determined individually on PCI loans as of December 31, 2015.

An allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2015, 2014 and 2013 totaled \$0.9 million, \$1.4 million and \$1.2 million, respectively, representing a decrease of \$379,000, or 27.8 percent, in 2015 and an increase of \$118,000, or 9.5 percent, in 2014. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of December 31, 2015.

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

	2015			2014			2013		
	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)
<i>(In thousands)</i>									
Real estate loans:									
Commercial property									
Retail	\$ (31)	\$ 747	\$ 716	\$ —	\$ 33	\$ 33	\$ (400)	\$ 191	\$ (209)
Hotel/motel	(413)	1,073	660	(2,345)	990	(1,355)	(465)	—	(465)
Gas station	(121)	—	(121)	(209)	90	(119)	(80)	651	571
Other	—	261	261	(455)	3,235	2,780	(3,668)	1,242	(2,426)
Construction	—	—	—	—	—	—	—	850	850
Residential property	—	—	—	—	—	—	—	—	—
Commercial and industrial loans									
Commercial term	(2,767)	2,581	(186)	(3,384)	2,333	(1,051)	(6,473)	1,953	(4,520)
Commercial lines of credit	—	727	727	(497)	565	68	(509)	473	(36)
International loans	(199)	31	(168)	—	903	903	—	7	7
Consumer loans	—	3	3	(102)	212	110	(267)	169	(98)
<b>Total Non-PCI loans</b>	<b>\$ (3,531)</b>	<b>\$ 5,423</b>	<b>\$ 1,892</b>	<b>\$ (6,992)</b>	<b>\$ 8,361</b>	<b>\$ 1,369</b>	<b>\$ (11,862)</b>	<b>\$ 5,536</b>	<b>\$ (6,326)</b>

For the year ended December 31, 2015, total charge-offs were \$3.5 million, a decrease of \$3.5 million, or 49.5 percent, from \$7.0 million for the same period in 2014, and total recoveries were \$5.4 million, a decrease of \$2.9 million, or 35.1 percent, from \$8.4 million for the same period in 2014. For the year ended December 31, 2015, net recoveries were \$1.9 million, compared to net recoveries of \$1.4 million for the same period in 2014.

## Deposits

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

	As of December 31,					
	2015		2014		2013	
	Balance	Percent	Balance	Percent	Balance	Percent
<i>(In thousands)</i>						
Demand – noninterest-bearing	\$ 1,155,518	32.9%	\$ 1,022,972	28.7%	\$ 819,015	32.5%
Interest-bearing:						
Savings	126,059	3.6%	120,659	3.4%	115,371	4.6%
Money market checking and NOW accounts	840,386	23.9%	796,490	22.4%	574,334	22.9%
Time deposits of \$100,000 or more	881,082	25.1%	910,340	25.6%	506,946	20.2%
Other time deposits	506,931	14.5%	706,285	19.9%	496,659	19.8%
<b>Total deposits</b>	<b>\$ 3,509,976</b>	<b>100.0%</b>	<b>\$ 3,556,746</b>	<b>100.0%</b>	<b>\$ 2,512,325</b>	<b>100.0%</b>

Total deposits were \$3.51 billion, \$3.56 billion and \$2.51 billion as of December 31, 2015, 2014 and 2013, respectively, representing an increase of \$46.8 million, or 1.3 percent, in 2015 and an increase of \$1.04 billion, or 41.6 percent, in 2014. The decrease in total deposits for 2015 was mainly attributable to a \$228.6 million reduction in time deposits offset by a \$132.5 million increase in noninterest-bearing demand deposits.

Core deposits (defined as demand, savings, money market checking and NOW accounts and other time deposits) totaled \$2.61 billion, \$2.65 billion and \$2.0 billion as of December 31, 2015, 2014 and 2013, representing a decrease of \$36.2 million, or 1.4 percent, in 2015 and an increase of \$641.0 million, or 32.0 percent, in 2014. Time deposits of \$100,000 or more totaled \$879.1 million, \$910.3 million and \$506.9 million, respectively, representing a decrease of \$31.2 million, or 3.43 percent, in

2015 and an increase of \$404.4 million, or 79.6 percent, in 2014. Noninterest-bearing demand deposits represented 32.9 percent of total deposits at December 31, 2015, compared to 28.8 percent and 32.5 percent of total deposits at December 31, 2014 and 2013, respectively.

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

	December 31,					
	2015		2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	<i>(In thousands)</i>					
Demand – noninterest-bearing	\$ 1,066,251	—%	\$ 898,459	—%	\$ 740,445	—%
Interest-bearing:						
Savings	121,057	0.35%	116,254	1.42%	114,968	1.58%
Money market checking and NOW accounts	814,945	0.48%	653,793	0.49%	567,860	0.51%
Time deposits of \$100,000 or more	889,235	0.75%	643,017	0.67%	546,588	0.75%
Other time deposits	611,398	0.73%	560,506	0.78%	421,387	0.92%
<b>Total deposits</b>	<b>\$ 3,502,886</b>	<b>0.44%</b>	<b>\$ 2,872,029</b>	<b>0.47%</b>	<b>\$ 2,391,248</b>	<b>0.53%</b>

Average deposits for the years ended December 31, 2015, 2014 and 2013 were \$3.5 billion, \$2.87 billion and \$2.39 billion, respectively. Average deposits increased by 21.9 percent in 2015 and increased by 20.1 percent in 2014.

The following table summarizes the maturity of time deposits of \$100,000 or more at December 31, 2015, 2014 and 2013, respectively.

	As of December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Three months or less	\$ 202,740	\$ 151,892	\$ 152,967
Over three months through six months	163,894	165,250	137,228
Over six months through twelve months	381,275	272,864	161,016
Over twelve months	133,173	320,334	55,735
	<b>\$ 881,082</b>	<b>\$ 910,340</b>	<b>\$ 506,946</b>

#### Federal Home Loan Bank Advances

FHLB advances and other borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2015, advances from the FHLB were \$170.0 million, an increase of \$20.0 million from \$150.0 million at December 31, 2014. At December 31, 2015, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2015 was 0.20 percent. See “Note 10 – FHLB Advances and Other Borrowings” for more details.

#### Interest Rate Risk Management

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

The following table shows the status of our gap position as of December 31, 2015:

	Less Than Three Months	More Than Three Months But Less Than One Year	More Than One Year But Less Than Five Years	More Than Five Years	Non- Interest- Sensitive	Total
<i>(In thousands)</i>						
<b>Assets</b>						
Cash and due from banks	\$ —	\$ —	\$ —	\$ —	\$ 88,371	\$ 88,371
Interest-bearing deposits in other banks	75,993	—	—	—	—	75,993
Securities:						
Fixed rate	14,034	41,411	238,396	284,226	—	578,067
Floating rate	77,926	44,885	—	—	—	122,811
Fair value adjustments	—	—	—	—	(2,582)	(2,582)
Loans:						
Fixed rate	75,880	95,193	566,965	41,921	—	779,959
Floating rate	811,920	357,299	1,149,346	71,660	—	2,390,225
Nonaccrual	—	—	—	—	13,131	13,131
Deferred loan costs, discount, and allowance for loan losses	—	—	—	—	(68,088)	(68,088)
Federal home loan bank and federal reserve bank stock	—	—	—	30,483	—	30,483
Other assets	48,339	—	—	18,646	134,011	200,996
<b>Total assets</b>	<b>\$ 1,104,092</b>	<b>\$ 538,788</b>	<b>\$ 1,954,707</b>	<b>\$ 446,936</b>	<b>\$ 164,843</b>	<b>\$ 4,209,366</b>
<b>Liabilities and Stockholders' Equity</b>						
Liabilities:						
Deposits:						
Demand – noninterest-bearing	\$ —	\$ —	\$ —	\$ —	\$ 1,155,518	\$ 1,155,518
Savings	13,697	33,505	51,941	26,915	—	126,058
Money market checking and NOW accounts	56,519	121,822	357,776	304,271	—	840,388
Time deposits	311,546	846,515	224,979	4,972	—	1,388,012
Federal home loan bank advances	170,000	—	—	—	—	170,000
Other liabilities	18,703	—	—	—	41,924	60,627
Stockholders' equity	—	—	—	—	493,918	493,918
<b>Total liabilities and stockholders' equity</b>	<b>\$ 570,465</b>	<b>\$ 1,001,842</b>	<b>\$ 634,696</b>	<b>\$ 336,158</b>	<b>\$ 1,691,360</b>	<b>\$ 4,234,521</b>
Repricing gap	533,628	(463,055)	1,320,012	110,777	(1,526,517)	
Cumulative repricing gap	533,628	70,573	1,390,585	1,501,362	(25,155)	
Cumulative repricing gap as a percentage of assets	12.68%	1.68%	33.04%	35.67%	(0.60)%	
Cumulative repricing gap as a percentage of interest-earning assets	13.56%	1.79%	35.34%	38.16%	(0.64)%	
Interest-earning assets						<b>\$ 3,934,602</b>

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities (i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same period). Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates, and liabilities are assigned based on their repricing or maturity dates. Core deposits that have no maturity dates (demand deposits, savings, and money market checking and NOW accounts) are assigned to categories based on expected decay rates.

As of December 31, 2015, the cumulative repricing gap for the three-month period was at an asset-sensitive position of 13.56 percent of interest-earning assets, which decreased from 18.29 percent as of December 31, 2014. This decrease was primarily due to shifts in composition of balance sheet after the acquisition of CBI in 2014.

As of December 31, 2015, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position of 1.79 percent of interest-earning assets, which decreased from 9.42 percent as of December 31, 2014. The decrease was primarily due to shifts in composition of balance sheet after the acquisition of CBI in 2014.

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

	Less Than Three Months		Less Than Twelve Months	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	<i>(In thousands)</i>			
Cumulative repricing gap	\$ 533,628	\$ 725,810	\$ 70,573	\$ 374,005
Percentage of assets	12.68%	17.15%	1.68%	8.84%
Percentage of interest-earning assets	13.56%	18.29%	1.79%	9.42%

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

To supplement traditional gap analysis, we perform simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the market value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below). This sensitivity analysis is compared to policy limits, which specify the maximum tolerance level for net interest income exposure over a one-year horizon, given the basis point adjustment in interest rates reflected below.

Change in Interest Rate	Percentage Changes		Change in Amount	
	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
	<i>(In thousands)</i>			
300%	4.57%	(10.78)%	\$ 7,202	\$ (56,013)
200%	2.98%	(7.70)%	\$ 4,696	\$ (39,994)
100%	1.61%	(3.16)%	\$ 2,539	\$ (16,431)
(100)%	(1)	(1)	(1)	(1)

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

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

## Capital Resources and Liquidity

### Capital Resources

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



At December 31, 2015, the Bank's total risk-based capital ratio of 14.86 percent, Tier 1 risk-based capital ratio of 13.60 percent, common equity Tier 1 capital ratio of 13.60 percent and Tier 1 leverage capital ratio of 11.27 percent, placed the Bank in the "well capitalized" category, which is defined as institutions with total risk-based capital ratio equal to or greater than 10.00 percent, Tier 1 risk-based capital ratio equal to or greater than 8.00 percent, common equity Tier 1 capital ratio of 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

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

#### Off-Balance Sheet Arrangements

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

#### Contractual Obligations

Our contractual obligations, excluding accrued interest payments, as of December 31, 2015 are as follows:

	<b>Less Than One Year</b>	<b>More Than One Year and Less Than Three Years</b>	<b>More Than Three Years and Less Than Five Years</b>	<b>More Than Five Years</b>	<b>Total</b>
	<i>(In thousands)</i>				
Time deposits	\$ 1,155,784	\$ 196,775	\$ 30,322	\$ 1,783	\$ 1,384,664
Federal Home Loan Bank advances	170,000	—	—	—	170,000
Commitments to extend credit	199,046	35,673	13,662	14,299	262,680
Standby letter of credit	5,230	1,605	4	—	6,839
Operating lease obligations	5,864	5,998	2,946	908	15,716
<b>Total</b>	<b>\$ 1,535,924</b>	<b>\$ 240,051</b>	<b>\$ 46,934</b>	<b>\$ 16,990</b>	<b>\$ 1,839,899</b>

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

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

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

#### Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed as a part of this Report are set forth on pages 62 through 114.

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

None.

#### Item 9A. Controls and Procedures

##### Disclosure Controls and Procedures

As of December 31, 2015, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer). The purpose of the disclosure controls and procedures is to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that such information is

accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

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

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

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

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

Management assessed the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2015. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Hanmi Financial's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2015, Hanmi Financial maintained effective internal control over financial reporting.

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

During the quarter ended December 31, 2015, there has been no change in Hanmi Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial's internal control over financial reporting.

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

KPMG LLP, the independent registered public accounting firm that audited and reported on the Consolidated Financial Statements of Hanmi Financial and its subsidiaries, has issued an audit report on Hanmi Financial's internal control over financial reporting as of December 31, 2015.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ **KPMG LLP**

Los Angeles, California

February 29, 2016

**Item 9B. Other Information**

None.

## Part III

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

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement") entitled "Election of Directors" and "Corporate Governance Principles and Board Matters."

### **Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the sections of the 2016 Proxy Statement entitled "Election of Directors, "Director Compensation," "Compensation Discussion and Analysis" and "Compensation Committee Interlocks and Insider Participation."

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

The information required by this Item is incorporated herein by reference to the section of the 2016 Proxy Statement entitled "Security Ownership of Certain Beneficial Owners."

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

The information required by this Item is incorporated herein by reference to the sections of the 2016 Proxy Statement entitled "Certain Relationships and Related Transactions; Director Independence."

### **Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated herein by reference to the section of the 2016 Proxy Statement entitled "Ratification of the Selection of the Independent Registered Public Accounting Firm."

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

- (1) The financial statements are listed in the Index to consolidated financial statements on page 62 of this Report.
- (2) All financial statement schedules have been omitted, as the required information is not applicable, not material or has been included in the notes to consolidated financial statements.
- (3) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 113 – 114.

**Hanmi Financial Corporation and Subsidiaries**

**Index to Consolidated Financial Statements**

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<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<a href="#"><u>63</u></a>
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u></a>	<a href="#"><u>64</u></a>
<a href="#"><u>Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013</u></a>	<a href="#"><u>65</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013</u></a>	<a href="#"><u>66</u></a>
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

February 29, 2016



**Hanmi Financial Corporation and Subsidiaries**

**Consolidated Balance Sheets**

*(In thousands except share data)*

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Assets</b>		
Cash and due from banks	\$ 164,364	\$ 158,320
Securities available for sale, at fair value (amortized cost of \$700,627 as of December 31, 2015 and \$1,061,703 as of December 31, 2014)	698,296	1,060,717
Loans held for sale, at the lower of cost or fair value	2,874	5,451
Loans receivable, net of allowance for loan losses of \$42,935 as of December 31, 2015 and \$52,666 as of December 31, 2014	3,140,381	2,735,832
Accrued interest receivable	9,501	9,749
Premises and equipment, net	29,834	30,912
Other real estate owned ("OREO"), net	8,511	15,790
Customers' liability on acceptances	3,586	1,847
Servicing assets	11,744	13,773
Other intangible assets, net	1,701	2,080
Federal Home Loan Bank stock ("FHLB"), at cost	16,385	17,580
Federal Reserve Bank ("FRB") stock, at cost	14,098	12,273
Deferred tax assets	52,095	70,150
Current tax assets	5,079	14,221
Bank-owned life insurance	48,340	48,866
Prepaid expenses and other assets	27,732	34,882
<b>Total assets</b>	<b>\$ 4,234,521</b>	<b>\$ 4,232,443</b>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,155,518	\$ 1,022,972
Interest-bearing	2,354,458	2,533,774
Total deposits	<u>3,509,976</u>	<u>3,556,746</u>
Accrued interest payable	3,177	3,450
Bank's liability on acceptances	3,586	1,847
FHLB advances	170,000	150,000
Servicing liabilities	4,784	5,971
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	1,289	2,074
Rescinded stock obligation	—	933
Subordinated debentures	18,703	18,544
Accrued expenses and other liabilities	29,088	39,491
<b>Total liabilities</b>	<b><u>3,740,603</u></b>	<b><u>3,779,056</u></b>
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015 and issued 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014	257	257
Additional paid-in capital	557,761	554,904
Accumulated other comprehensive (loss) income, net of tax benefit of \$2,007 as of December 31, 2015 and tax benefit of \$1,432 as of December 31, 2014	(315)	463
Retained earnings (accumulated deficit)	6,422	(32,379)
Less: treasury stock, at cost; 592,163 shares as of December 31, 2015 and 577,894 shares as of December 31, 2014	<u>(70,207)</u>	<u>(69,858)</u>
<b>Total stockholders' equity</b>	<b><u>493,918</u></b>	<b><u>453,387</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 4,234,521</u></b>	<b><u>\$ 4,232,443</u></b>

See Accompanying Notes to Consolidated Financial Statements.

**Hanmi Financial Corporation and Subsidiaries**

**Consolidated Statements of Income**

*(In thousands, except share and per share data)*

	Year Ended December 31,		
	2015	2014	2013
Interest and Dividend Income:			
Interest and fees on loans	\$ 148,797	\$ 122,222	\$ 108,804
Interest on securities	12,422	12,638	8,717
Dividends on FRB and FHLB stock	2,786	1,767	1,404
Interest on deposits in other banks	221	107	209
Interest on federal funds sold	—	—	6
Total interest and dividend income	<u>164,226</u>	<u>136,734</u>	<u>119,140</u>
Interest Expense:			
Interest on deposits	15,410	13,560	12,678
Interest on subordinated debentures	623	235	678
Interest on FHLB advances	76	151	151
Interest on rescinded stock obligation	—	87	—
Total interest expense	<u>16,109</u>	<u>14,033</u>	<u>13,507</u>
Net interest income before provision for loan losses	148,117	122,701	105,633
(Negative provision) provision for loan losses	(11,614)	(6,258)	576
Net interest income after provision for loan losses	<u>159,731</u>	<u>128,959</u>	<u>105,057</u>
Noninterest Income:			
Bargain purchase gain, net of deferred taxes	—	14,577	—
Service charges on deposit accounts	12,900	11,374	11,307
Trade finance and other service charges and fees	4,623	4,946	4,475
Gain on sale of Small Business Administration ("SBA") loans	8,749	3,494	8,000
Net gain on sales of securities	6,611	2,011	1,039
Disposition gains on Purchased Credit Impaired ("PCI") loans	10,167	1,432	—
Other operating income	4,552	4,462	3,079
Total noninterest income	<u>47,602</u>	<u>42,296</u>	<u>27,900</u>
Noninterest Expense:			
Salaries and employee benefits	62,864	50,177	35,129
Occupancy and equipment	17,371	12,295	10,017
Data processing	6,321	6,080	4,582
Professional fees	7,905	7,564	5,335
Supplies and communications	3,582	2,612	2,155
Advertising and promotion	4,201	3,435	3,411
Merger and integration costs	1,971	6,646	730
OREO expense (gain)	307	(49)	(59)
Other operating expenses	10,806	9,911	9,141
Total noninterest expense	<u>115,328</u>	<u>98,671</u>	<u>70,441</u>
Income from continuing operations before provision for income taxes	92,005	72,584	62,516
Provision for income taxes	38,182	22,379	22,732
<b>Income from continuing operations, net of taxes</b>	<b>\$ 53,823</b>	<b>\$ 50,205</b>	<b>\$ 39,784</b>
Discontinued operations:			
Income from operations of discontinued subsidiaries (including gain on disposal of \$51 in the second quarter of 2014)	\$ —	\$ 37	\$ 115
Income tax expense	—	481	42
(Loss) income from discontinued operations	<u>—</u>	<u>(444)</u>	<u>73</u>
<b>Net income</b>	<b>\$ 53,823</b>	<b>\$ 49,761</b>	<b>\$ 39,857</b>
Basic earnings per share:			
Income from continuing operations, net of taxes	\$ 1.69	\$ 1.58	\$ 1.26
Loss from discontinued operations, net of taxes	—	(0.01)	—
Basic earnings per share	<u>\$ 1.69</u>	<u>\$ 1.57</u>	<u>\$ 1.26</u>
Diluted earnings per share:			
Income from continuing operations, net of taxes	\$ 1.68	\$ 1.57	\$ 1.26
Loss from discontinued operations, net of taxes	—	(0.01)	—
Diluted earnings per share	<u>\$ 1.68</u>	<u>\$ 1.56</u>	<u>\$ 1.26</u>
Weighted-average shares outstanding:			
Basic	31,788,215	31,696,100	31,598,913
Diluted	31,876,820	31,978,064	31,696,520

See Accompanying Notes to Consolidated Financial Statements.



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

	Year Ended December 31,		
	2015	2014	2013
Net Income	\$ 53,823	\$ 49,761	\$ 39,857
Other comprehensive (loss) income, net of tax:			
Unrealized gain (loss) on securities			
Unrealized holding gain (loss) arising during period	5,265	19,213	(24,496)
Less: reclassification adjustment for net gain included in net income	(6,611)	(2,011)	(1,039)
Unrealized loss on interest-only strip of servicing assets	(7)	—	—
Income tax benefit (expense) related to items of other comprehensive income	575	(7,359)	10,737
Other comprehensive (loss) income	(778)	9,843	(14,798)
<b>Comprehensive Income</b>	<b>\$ 53,045</b>	<b>\$ 59,604</b>	<b>\$ 25,059</b>

See Accompanying Notes to Consolidated Financial Statements.

**Hanmi Financial Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
*(In thousands, except share data)*

	Common Stock - Number of Shares			Stockholders' Equity						
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Retained (Deficit) Earnings	Treasury Stock, at Cost	Total Stockholders' Equity	
<b>Balance at January 1, 2013</b>	<b>32,074,434</b>	<b>(577,894)</b>	<b>31,496,540</b>	<b>\$ 257</b>	<b>\$ 550,066</b>	<b>\$ 5,418</b>	<b>\$ (108,630)</b>	<b>\$ (69,858)</b>	<b>\$ 377,253</b>	
Stock options exercised	46,113	—	46,113	—	205	—	—	—	205	
Stock warrants exercised	106,315	—	106,315	—	1,294	—	—	—	1,294	
Restricted stock awards, net of forfeitures	112,582	—	112,582	—	—	—	—	—	—	
Share-based compensation expense	—	—	—	—	705	—	—	—	705	
Cash dividends declared	—	—	—	—	—	—	(4,439)	—	(4,439)	
Comprehensive income:										
Net income	—	—	—	—	—	—	39,857	—	39,857	
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(14,798)	—	—	(14,798)	
<b>Balance at December 31, 2013</b>	<b>32,339,444</b>	<b>(577,894)</b>	<b>31,761,550</b>	<b>\$ 257</b>	<b>\$ 552,270</b>	<b>\$ (9,380)</b>	<b>\$ (73,212)</b>	<b>\$ (69,858)</b>	<b>\$ 400,077</b>	
Stock options exercised	37,569	—	37,569	—	467	—	—	—	467	
Stock warrants exercised	429	—	429	—	2	—	—	—	2	
Restricted stock awards, net of forfeitures	110,655	—	110,655	—	—	—	—	—	—	
Share-based compensation expense	—	—	—	—	2,165	—	—	—	2,165	
Cash dividends declared	—	—	—	—	—	—	(8,928)	—	(8,928)	
Comprehensive income:										
Net income	—	—	—	—	—	—	49,761	—	49,761	
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	9,843	—	—	9,843	
<b>Balance at December 31, 2014</b>	<b>32,488,097</b>	<b>(577,894)</b>	<b>31,910,203</b>	<b>\$ 257</b>	<b>\$ 554,904</b>	<b>\$ 463</b>	<b>\$ (32,379)</b>	<b>\$ (69,858)</b>	<b>\$ 453,387</b>	
Stock options exercised	46,516	—	46,516	—	616	—	—	—	616	
Restricted stock awards, net of forfeitures	31,909	—	31,909	—	—	—	—	—	—	
Restricted stock surrendered due to employee tax liability	—	(14,269)	(14,269)	—	—	—	—	(349)	(349)	
Share-based compensation expense	—	—	—	—	2,241	—	—	—	2,241	
Cash dividends declared	—	—	—	—	—	—	(15,022)	—	(15,022)	
Comprehensive income:										
Net income	—	—	—	—	—	—	53,823	—	53,823	
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(778)	—	—	(778)	
<b>Balance at December 31, 2015</b>	<b>32,566,522</b>	<b>(592,163)</b>	<b>31,974,359</b>	<b>\$ 257</b>	<b>\$ 557,761</b>	<b>\$ (315)</b>	<b>\$ 6,422</b>	<b>\$ (70,207)</b>	<b>\$ 493,918</b>	

See Accompanying Notes to Consolidated Financial Statements

**Hanmi Financial Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**

*(In thousands)*

	Year Ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
Net income	\$ 53,823	\$ 49,761	\$ 39,857
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,846	8,701	6,669
Share-based compensation expense	2,241	2,165	705
(Negative provision) provision for loan losses	(11,614)	(6,258)	576
Gain on sales of securities	(6,611)	(2,011)	(1,039)
Gain on sales of premises and equipment	(137)	—	(13)
Gain on sales of loans	(8,749)	(3,494)	(7,443)
Disposition gains on PCI loans	(10,167)	(1,432)	—
Bargain purchase gain on acquisition	—	(14,577)	—
Loss (gain) on sales of other real estate owned	—	2	(71)
Loss on sales of subsidiaries	—	444	—
Valuation adjustment on other real estate owned	(27)	—	10
Origination of loans held for sale	(86,657)	(47,985)	(83,027)
Proceeds from sales of SBA loans guaranteed portion	98,083	46,829	105,006
Change in restricted cash	—	—	5,350
Change in accrued interest receivable	248	740	526
Change in FDIC loss sharing liability	(785)	13,487	—
Change in bank-owned life insurance	(797)	(879)	(1,171)
Change in prepaid expenses	3,145	(1,257)	669
Change in other assets	575	(7,456)	(4,854)
Change in deferred tax assets	18,055	(13,676)	8,418
Change in current tax assets	9,142	(2,268)	(2,923)
Change in accrued interest payable	(273)	(401)	(8,409)
Change in stock warrants payable	—	—	83
Change in other liabilities	(13,047)	5,032	1,799
<b>Net cash provided by operating activities</b>	<b>64,294</b>	<b>25,467</b>	<b>60,718</b>
<b>Cash flows from investing activities:</b>			
Proceeds from redemption of FHLB and FRB stock	1,195	—	5,743
Proceeds from matured or called securities available for sale	135,413	101,713	65,574
Proceeds from sales of securities available for sale	454,201	169,533	78,473
Proceeds from sales of other real estate owned	7,532	20,200	784
Proceeds from sales of loans held for sale	360	—	5,380
Proceeds from insurance settlement on bank-owned life insurance	1,323	—	526
Cash acquired in acquisition, net of cash consideration paid	—	118,533	—
Net proceeds from sales of subsidiaries	—	398	—
Change in loans receivable	(169,816)	(153,138)	(207,999)
Purchases of term federal fund	—	—	—
Purchases of securities available for sale	(232,035)	(124,442)	(250,852)
Purchases of premises and equipment	(1,146)	(1,150)	(1,018)
Purchases of loans receivable	(215,469)	(111,846)	—
Purchases of FRB stock	(1,825)	(3,404)	(977)
<b>Net cash provided by (used in) investing activities</b>	<b>(20,267)</b>	<b>16,397</b>	<b>(304,366)</b>
<b>Cash flows from financing activities:</b>			
Change in deposits	(46,770)	(54,576)	116,362
Change in short-term FHLB advances	20,000	14,865	125,000
Redemption of FHLB advances	—	(2,411)	(389)
Redemption of subordinated debentures	—	—	(82,406)
Redemption of rescinded stock obligation	(933)	(14,552)	—
Proceeds from exercise of stock options	616	467	525
Cash paid for repurchases of vested shares due to employee tax liability	(349)	—	305
Cash dividends paid	(10,547)	(6,694)	(4,439)
<b>Net cash (used in) provided by financing activities</b>	<b>(37,983)</b>	<b>(62,901)</b>	<b>154,958</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6,044</b>	<b>(21,037)</b>	<b>(88,690)</b>
Cash and cash equivalents at beginning of year	158,320	179,357	268,047
<b>Cash and cash equivalents at end of period</b>	<b>\$ 164,364</b>	<b>\$ 158,320</b>	<b>\$ 179,357</b>

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**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

Interest	\$	16,382	\$	14,434	\$	21,916
Income taxes	\$	7,928	\$	37,015	\$	15,110

Non-cash activities:

Transfer of loans receivable to other real estate owned	\$	318	\$	9,480	\$	1,612
Transfer of loans receivable to loans held for sale	\$	360	\$	—	\$	8,010
Transfer of loans held for sale to loans receivable	\$	—	\$	—	\$	2,534
Note receivable from sale of insurance subsidiaries	\$	—	\$	1,394	\$	—
Conversion of stock warrants into common stock	\$	—	\$	2	\$	987
Income tax (expense) benefit related to items of other comprehensive income	\$	575	\$	(7,359)	\$	10,737
Change in unrealized (gain) loss in accumulated other comprehensive income	\$	(5,258)	\$	(19,213)	\$	24,496
Cash dividend declared	\$	(4,476)	\$	(2,234)	\$	—

See Accompanying Notes to Consolidated Financial Statements

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

### ***Summary of Operations***

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) was formed as a holding company of Hanmi Bank (the “Bank”) and registered with the Securities and Exchange Commission under the Act on March 17, 2001. Subsequent to its formation, each of the Bank’s shares was exchanged for one share of Hanmi Financial with an equal value. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp, Inc., a Texas corporation (“CBI”) See “Note 2 — Acquisition.” During the second quarter of 2014, we sold two subsidiaries, Chun-Ha Insurance Services, Inc., a California corporation (“Chun-Ha”), and All World Insurance Services, Inc., a California corporation (“All World”). See “Note 4 — Sale of Insurance Subsidiaries and Discontinued Operations.”

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Texas, Illinois, Virginia, New Jersey, and New York. The Bank’s full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank’s client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2015, the Bank maintained a network of 42 full-service branch offices in California, Texas, Illinois, Virginia, New Jersey and New York, and loan production offices in California, Colorado, Texas, Virginia, and Washington State.

### ***Basis of Presentation***

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

### ***Principles of Consolidation***

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

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

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

### ***Reclassifications***

We reclassified changes in off-balance sheet reserves to noninterest operating expenses from (negative provision) provision for loan losses on the prior year’s presentation to conform to the current year’s presentation.

### ***Cash and Cash Equivalents***

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



## **Securities**

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

- (i) Securities that we have the positive intent and ability to hold to maturity are classified as “held to maturity” and reported at amortized cost;
- (ii) Securities that are bought and held principally for the purpose of selling them in the near future are classified as “trading securities” and reported at fair value. Unrealized gains and losses are recognized in earnings; and
- (iii) Securities not classified as held to maturity or trading securities are classified as “available for sale” and reported at fair value. Unrealized gains and losses are reported as a separate component of stockholders’ equity as accumulated other comprehensive income, net of income taxes.

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

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

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

## **Loans Receivable**

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

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

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

*Purchased credit impaired loans.* Purchased credit impaired (“PCI”) loans are accounted for in accordance with ASC Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. A purchased loan is deemed to be

credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that we would be unable to collect all contractually required payments. We apply PCI loan accounting when (i) we acquire loans deemed to be impaired, and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition.

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

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

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

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

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

Non-PCI loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual.

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

#### ***Loans Held for Sale***

Loans originated, or transferred from loans receivable, and intended for sale in the secondary market are carried at the lower of aggregate cost or fair market value. Fair market value, if lower than cost, is determined based on valuations obtained from market participants or the value of underlying collateral, calculated individually. A valuation allowance is established if

the market value of such loans is lower than their cost and net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans.

#### *Allowance for Loan Losses on Non-PCI Loans*

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

The Bank charges or credits the income statement for provisions to the allowance for loan losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general reserves and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses on loans and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. In the fourth quarter of 2015, based upon an evaluation of the look-back periods, the loss-emergence periods and the qualitative adjustments, the Bank utilized a 20-quarter look-back period with equal weighting to all quarters in order to reflect the lengthening of the business cycle and to capture sufficient loss observations for the estimate of a reliable loss rate. In addition, the Bank determined that there were no indications that the loss migration analysis changed significantly; however, these factors do not materially affect the estimated loss rates. In addition, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. Improving credit metrics include, among other things, net loan recoveries of 0.06 percent of average loans, nonperforming, non-PCI loans to loan of 0.60 percent and classified loans to loans of 1.24 percent. The allowance for loan losses was \$42.9 million, or 1.35 percent of loans at December 31, 2015. The change in methodology did not materially affect the amount of the allowance at December 31, 2015.

In the first quarter of 2014, based upon a similar evaluation, the Bank utilized a 16-quarter look-back period, weighting the loss factors 46 percent for the most recent four-quarter period and 31 percent, 15 percent, and 8 percent for each of the following four-quarter periods, respectively. In the second quarter of 2013, based upon a similar evaluation, the Bank utilized a 12-quarter look-back period, weighting the loss factors 50 percent for the most recent four-quarter period and 33 percent and 17 percent for each of the following four-quarter periods, respectively. Prior to the second quarter of 2013, the Bank utilized an 8-quarter look-back period weighting the most recent four-quarter period 60 percent and 40 percent for the following four-quarter period. The change in methodology maintained the Bank's allowance at a level consistent with the prior quarter.

To determine general reserve requirements, existing loans are divided into fourteen general loan pools of risk-rated loans as well as three homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. As three homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed "impaired."

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

To systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

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

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

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

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

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

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

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

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

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

#### ***Impaired Loans***

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

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

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

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for

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

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

#### ***Troubled Debt Restructuring***

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

#### ***Premises and Equipment***

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

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

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

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

#### ***Other Real Estate Owned***

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

#### ***Servicing Assets and Servicing liabilities***

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

The servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, using a discount rate and a constant prepayment

rate. Management periodically evaluates the servicing assets and servicing liabilities for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

Interest-only strips are recorded based on the present value of the excess of total servicing fee over the contractually specified servicing fee for the estimated life of the loan, calculated using the same assumptions as noted above. Such interest-only strips are accounted for at their estimated fair value, with unrealized gains or losses recorded as adjustments to accumulated other comprehensive income (loss).

#### ***Other Intangible Assets***

Other intangible assets consist of acquired intangible assets arising from acquisitions, including core deposit intangibles, trade names, client/insured relationships and carrier relationships. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives.

As required by FASB ASC 350, other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

#### ***Federal Home Loan Bank Stock***

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

#### ***Federal Reserve Bank Stock***

The Bank is a member of the Federal Reserve Bank (“FRB”) of San Francisco and is required to maintain stock in the FRB based on a specified ratio relative to the Bank’s capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. FRB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

#### ***Bank-Owned Life Insurance***

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

#### ***Affordable Housing Investments***

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

#### ***Income Tax***

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

### ***Share-Based Compensation***

We adopted FASB ASC 718, "*Compensation-Stock Compensation*," on January 1, 2006 using the "modified prospective" method. Under this method, awards that are granted, modified or settled after December 31, 2005 are measured and accounted for in accordance with FASB ASC 718. Also under this method, expense is recognized for services attributed to the current period for unvested awards that were granted prior to January 1, 2006, based upon the fair value determined at the grant date under SFAS No. 123, "*Accounting for Stock-Based Compensation*."

FASB ASC 718 requires that cash flows resulting from the realization of excess tax benefits recognized on awards that were fully vested at the time of adoption of FASB ASC 718 be classified as a financing cash inflow and an operating cash outflow on the Consolidated Statements of Cash Flows. Before the adoption of FASB ASC 718, we presented all tax benefits realized from the exercise of stock options as an operating cash inflow.

In addition, FASB ASC 718 requires that any unearned compensation related to awards granted prior to the adoption of FASB ASC 718 be eliminated against the appropriate equity accounts. As a result, the presentation of stockholders' equity was revised to reflect the transfer of the balance previously reported in unearned compensation to additional paid-in capital.

### ***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.

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

### ***Treasury Stock***

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

### ***Business Combinations***

Business combinations completed after January 1, 2009, are accounted for under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

### ***Recently Issued Accounting Standards***

**FASB ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*** ASU 2016-01 amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company is currently evaluating the impact on its Consolidated Financial Statements.

**FASB ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments***, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance is intended to reduce complexity in financial reporting and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance requires to disclose the nature and amount of measurement period adjustments. In addition, companies should present separately on the face of the income statement or disclose in the notes the portion of the adjustment recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The adoption of FASB ASU 2015-16 is not expected to have significant impact on our financial condition or result of operations.

**FASB ASU 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*** which will eliminate the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Investments eligible for the practical expedient, but for which it has not been applied, will continue to be included in the fair value hierarchy. The effective date for public business entities is fiscal years beginning after December 31, 2015 and early adoption is permitted. Reporting entities are required to adopt the ASU retrospectively. The adoption of FASB ASU 2015-07 is not expected to have a significant impact on our financial condition or result of operations.

**FASB ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis***, which improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The Company may either apply the amendments retrospectively or use a modified retrospective approach. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

**FASB ASU 2014-17, *Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)*** which allows an acquired entity to elect to apply pushdown accounting in its separate financial statements on a change-in-control event. The acquired entity elects whether to apply pushdown accounting individually for each change-in-control event, and may apply pushdown accounting during the reporting period in which the change-in-control event occurs. Effective November 18, 2014, an acquired entity may apply ASU 2014-17 to future change-in-control events. The Company did not make an election to apply FASB ASU 2014-17 for the acquisition of CBI, which has no impact on our financial condition or result of operations.

**FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)***. The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 establishes a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements.

**FASB ASU 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*** was issued to change the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. ASU 2014-8 requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on its operations and financial results. ASU 2014-8 is effective prospectively for new disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods, for public business entities and not-for-profit entities that have issued (or are a conduit obligor for) securities that are traded, listed, or quoted on an exchange or an over-the-counter market. For other entities, the ASU is effective for disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods thereafter. The adoption of the ASU did not have a significant impact on our financial condition or result of operations.

**FASB ASU 2014-4, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310-40)***, was issued to define the term in substance a repossession or foreclosure and physical possession in accounting literature and when a creditor should derecognize the loan receivable and recognize the real estate property. The amendments in this update are intended to reduce diversity in practice by clarifying when in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendment is effective for public business entities for annual periods, and interim periods within



those annual periods, beginning after December 15, 2014. The adoption of FASB ASU 2014-4 did not have a significant impact on our financial condition or result of operations.

**FASB ASU 2014-1, *Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the Emerging Issues Task Force)*** was issued to permit a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments are expected to enable more entities to record the amortization of the investment in income tax expense together with the tax credits and other tax benefits generated from the partnership. The ASU is effective retrospectively for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective retrospectively for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted the ASU effective April 1, 2014. See “Note 3— Accounting for Investment in Qualified Affordable Housing Projects.” for further details.

## **Note 2 — Acquisition**

### **Acquisition of Central Bancorp, Inc.**

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

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

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

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

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

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

	<i>(In thousands)</i>	
Undiscounted contractual cash flows	\$	93,623
Nonaccretible discount		(17,421)
Undiscounted cash flow to be collected		<u>76,202</u>
Estimated fair value of PCI loans		<u>65,346</u>
<b>Accretible yield</b>	<b>\$</b>	<b><u>10,856</u></b>

The core deposit intangible (“CDI”) of \$2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately 10 years on an accelerated basis and reviewed for impairment as circumstances warrant. The CDI amortization expense for the years ended December 31, 2015 and 2014 was \$379,000 and \$133,000, respectively.

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

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

#### Unaudited Pro Forma Results of Operations

The following table presents the unaudited pro forma results of operations for the periods presented as if the CBI acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of Hanmi Financial and CBI and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had the CBI acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	<b>Year Ended December 31, 2014</b>	
	<i>(In thousands)</i>	
Pro forma revenues (net interest income plus noninterest income)	\$	225,120
Pro forma net income from continuing operations	\$	56,448
Pro forma earnings per share from continuing operations:		
Basic	\$	1.78
Diluted	\$	1.77

#### Note 3 — Accounting for Investments in Qualified Affordable Housing Projects

The Bank invests in qualified affordable housing projects (low income housing) and previously accounted for them under the equity method of accounting. The Bank recognized its share of partnership losses in other operating expenses with the tax benefits recognized in the income tax provision. In January 2014, the FASB issued ASU 2014-1, *Accounting for Investments in Qualified Affordable Housing Projects*, which amends ASC 323 to provide the ability to elect the proportional amortization method with the amortization expense and tax benefits recognized through the income tax provision. This ASU is effective for the annual period beginning after December 15, 2014, with early adoption being permitted. The Bank elected to early adopt the provisions of the ASU in the second quarter of 2014 and elected the proportional amortization method as retrospective transition. This accounting change in the amortization methodology resulted in changes to account for amortization recognized

in prior periods, which impacted the balance of tax credit investments and related tax accounts. The investment amortization expense is presented as a component of the income tax provision.

The cumulative effect of the retrospective application of this accounting principle was a \$1.1 million charge to stockholders' equity as of January 1, 2012. Net income decreased \$49,000 and \$50,000 for years ended December 31, 2014 and 2013, respectively, due to the change in accounting principle.

The Bank determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recognized as of December 31, 2015 or December 31, 2014. The investment in low income housing was \$18.9 million and \$21.3 million as of December 31, 2015 and 2014, respectively. The Bank's unfunded commitments related to low income housing investments were \$5.7 million and \$11.9 million as of December 31, 2015 and December 31, 2014, respectively. As a component of income tax expense, the Bank recognized amortizations of \$2.3 million and \$1.6 million during the years ended December 31, 2015 and 2014, respectively, and tax credits and other benefits received from the tax expenses were \$3.3 million and \$2.3 million for the years ended December 31, 2015 and 2014, respectively.

#### Note 4 — Sale of Insurance Subsidiaries and Discontinued Operations

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

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

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

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

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

	Year Ended December 31,	
	2014	2013
	<i>(In thousands)</i>	
Noninterest (loss) income	\$ (14)	\$ 115
Gain on disposal	51	—
Income before taxes	37	115
Provision for income taxes	481	42
<b>Net (loss) income from discontinued operations</b>	<b>\$ (444)</b>	<b>\$ 73</b>
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 5,944</b>
<b>Net assets of discontinued operations</b>	<b>\$ —</b>	<b>\$ 2,469</b>

#### Note 5 — Securities

The following is a summary of securities available for sale as of December 31, 2015 and 2014:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	<i>(In thousands)</i>			
<b>December 31, 2015</b>				
Mortgage-backed securities (1) (2)	\$ 286,450	\$ 392	\$ 2,461	\$ 284,381
Collateralized mortgage obligations (1)	97,904	79	997	96,986
U.S. government agency securities	48,478	—	656	47,822
SBA loan pool securities	63,670	7	411	63,266
Municipal bonds-tax exempt	162,101	1,820	19	163,902
Municipal bonds-taxable	13,932	189	88	14,033
Corporate bonds	5,017	—	24	4,993
U.S. treasury securities	159	1	—	160
Other securities	22,916	—	163	22,753
<b>Total securities available for sale</b>	<b>\$ 700,627</b>	<b>\$ 2,488</b>	<b>\$ 4,819</b>	<b>\$ 698,296</b>
<b>December 31, 2014</b>				
Mortgage-backed securities (1) (2)	\$ 571,678	\$ 2,811	\$ 1,203	\$ 573,286
Collateralized mortgage obligations (1)	188,704	417	1,074	188,047
U.S. government agency securities	129,857	172	1,822	128,207
SBA loan pool securities	109,983	52	588	109,447
Municipal bonds-tax exempt	4,319	71	—	4,390
Municipal bonds-taxable	16,615	398	91	16,922
Corporate bonds	17,018	2	72	16,948
U.S. treasury securities	163	—	—	163
Other securities	22,916	57	80	22,893
Equity securities	450	—	36	414
<b>Total securities available for sale</b>	<b>\$ 1,061,703</b>	<b>\$ 3,980</b>	<b>\$ 4,966</b>	<b>\$ 1,060,717</b>

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

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

The amortized cost and estimated fair value of securities as of December 31, 2015, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2064,

expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	<i>(In thousands)</i>	
Over one year through five years	\$ 14,303	\$ 14,222
Over five years through ten years	152,114	152,032
Over ten years	149,856	150,675
Mortgage-backed securities	286,450	284,381
Collateralized mortgage obligations	97,904	96,986
<b>Total</b>	<b>\$ 700,627</b>	<b>\$ 698,296</b>

FASB ASC 320, "Investments – Debt and Equity Securities," requires us to periodically evaluate our investments for other-than-temporary impairment ("OTTI"). There was no OTTI charge during the year ended December 31, 2015.

Gross unrealized losses on securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2015 and 2014:

	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
	<i>(In thousands, except number of securities)</i>								
<b>December 31, 2015</b>									
Mortgage-backed securities	\$ 1,734	\$ 193,931	52	\$ 727	\$ 21,659	9	\$ 2,461	\$ 215,590	61
Collateralized mortgage obligations	335	48,970	18	662	32,964	13	997	81,934	31
U.S. government agency securities	201	23,289	8	455	24,533	8	656	47,822	16
SBA loan pool securities	161	50,499	12	250	7,036	3	411	57,535	15
Municipal bonds-tax exempt	19	8,922	6	—	—	—	19	8,922	6
Municipal bonds-taxable	88	7,106	4	—	—	—	88	7,106	4
Corporate bonds	24	4,994	1	—	—	—	24	4,994	1
Other securities	66	21,820	3	97	928	3	163	22,748	6
<b>Total</b>	<b>\$ 2,628</b>	<b>\$ 359,531</b>	<b>104</b>	<b>\$ 2,191</b>	<b>\$ 87,120</b>	<b>36</b>	<b>\$ 4,819</b>	<b>\$ 446,651</b>	<b>140</b>
<b>December 31, 2014</b>									
Mortgage-backed securities	\$ 288	\$ 102,704	21	\$ 915	\$ 50,625	19	\$ 1,203	\$ 153,329	40
Collateralized mortgage obligations	350	78,191	21	724	33,308	13	1,074	111,499	34
U.S. government agency securities	—	5,000	1	1,822	73,142	26	1,822	78,142	27
SBA loan pool securities	155	85,062	15	433	11,975	4	588	97,037	19
Municipal bonds-tax exempt	—	—	—	91	5,538	5	91	5,538	5
Corporate bonds	4	5,021	1	68	7,925	2	72	12,946	3
Other securities	—	—	—	80	1,945	4	80	1,945	4
Equity securities	36	214	1	—	—	—	36	214	1
<b>Total</b>	<b>\$ 833</b>	<b>\$ 276,192</b>	<b>60</b>	<b>\$ 4,133</b>	<b>\$ 184,458</b>	<b>73</b>	<b>\$ 4,966</b>	<b>\$ 460,650</b>	<b>133</b>

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2015 and December 31, 2014 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of December 31, 2015 and December 31, 2014. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

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

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2015 and December 31, 2014 were not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2015 and December 31, 2014 were warranted.

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Gross realized gains on sales of securities	\$ 6,776	\$ 2,012	\$ 1,602
Gross realized losses on sales of securities	(165)	(1)	(563)
<b>Net realized gains on sales of securities</b>	<b>\$ 6,611</b>	<b>\$ 2,011</b>	<b>\$ 1,039</b>
Proceeds from sales of securities	\$ 456,098	\$ 169,533	\$ 78,473

For the year ended December 31, 2015, there was a \$6.6 million net gain in earnings resulting from the redemption and sale of securities that had previously been recognized as net unrealized gains of \$1.9 million in comprehensive income. For the year ended December 31, 2014, there was a \$2.0 million net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized losses of \$498,000 in comprehensive income.

Securities available for sale with market values of \$72.0 million and \$76.2 million as of December 31, 2015 and 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

#### Note 6 — Loans

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

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

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

### Loans Receivable

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

	December 31, 2015			December 31, 2014
	Non-PCI Loans	PCI Loans	Total	
	<i>(In thousands)</i>			
Real estate loans:				
Commercial property (1)				
Retail	\$ 735,501	\$ 4,849	\$ 740,350	\$ 684,400
Hotel/motel	539,345	4,080	543,425	462,718
Gas station	319,363	4,292	323,655	370,416
Other (2)	973,243	5,418	978,661	848,906
Construction	23,387	—	23,387	9,527
Residential property	234,879	1,157	236,036	135,462
Total real estate loans	2,825,718	19,796	2,845,514	2,511,429
Commercial and industrial loans:				
Commercial term	152,602	171	152,773	116,536
Commercial lines of credit	128,224	—	128,224	93,970
International loans	31,879	—	31,879	38,974
Total commercial and industrial loans	312,705	171	312,876	249,480
Consumer loans (3)	24,879	47	24,926	27,589
<b>Total gross loans</b>	<b>3,163,302</b>	<b>20,014</b>	<b>3,183,316</b>	<b>2,788,498</b>
Allowance for loans losses	(37,494)	(5,441)	(42,935)	(52,666)
<b>Loans receivable, net</b>	<b>\$ 3,125,808</b>	<b>\$ 14,573</b>	<b>\$ 3,140,381</b>	<b>\$ 2,735,832</b>

(1) Includes owner-occupied property loans of \$1.20 billion and \$1.12 billion as of December 31, 2015 and 2014, respectively.

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

(3) Consumer loans include home equity lines of credit

Accrued interest on loans receivable was \$7.9 million and \$6.4 million at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, loans receivable totaling \$557.7 million and \$840.0 million, respectively, were pledged to secure advances from the FHLB and the FRB's discount window.



The following table details the information on the sales and reclassifications of loans receivable to loans held for sale (excluding PCI loans) by portfolio segment for the years ended December 31, 2015 and 2014:

	Real Estate	Commercial and Industrial	Total Non-PCI
	<i>(In thousands)</i>		
<b>December 31, 2015</b>			
Balance at beginning of period	\$ 3,323	\$ 2,128	\$ 5,451
Origination of loans held for sale	56,247	30,410	86,657
Reclassification from loans receivable to loans held for sale	360	—	360
Sales of loans held for sale	(59,030)	(30,441)	(89,471)
Principal payoffs and amortization	(60)	(63)	(123)
<b>Balance at end of period</b>	<b>\$ 840</b>	<b>\$ 2,034</b>	<b>\$ 2,874</b>
<b>December 31, 2014</b>			
Balance at beginning of period	\$ —	\$ —	\$ —
Origination of loans held for sale	38,379	9,606	47,985
Sales of loans held for sale	(34,994)	(7,418)	(42,412)
Principal payoffs and amortization	(62)	(60)	(122)
<b>Balance at end of period</b>	<b>\$ 3,323</b>	<b>\$ 2,128</b>	<b>\$ 5,451</b>

For the year ended December 31, 2015, there was \$360,000 reclassification of loans receivable as loans held for sale, and loans held for sale of \$89.5 million were sold. For the year ended December 31, 2014, there was no reclassification of loans receivable as loans held for sale, and loans held for sale of \$42.4 million were sold.

#### Allowance for Loan Losses and Allowance for Off-Balance Sheet Items

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

	As of and for the Year Ended December 31,				
	2015			2014	2013
	Non-PCI Loans	PCI Loans	Total		
<i>(In thousands)</i>					
<b>Allowance for loan losses:</b>					
Balance at beginning of period	\$ 51,640	\$ 1,026	\$ 52,666	\$ 57,555	\$ 63,305
Charge-offs	(3,531)	—	(3,531)	(6,992)	(11,862)
Recoveries on loans previously charged off	5,423	—	5,423	8,361	5,536
Net loan recoveries (charge-offs)	1,892	—	1,892	1,369	(6,326)
(Negative provision) provision charged to operating expense	(16,038)	4,415	(11,623)	(6,258)	576
<b>Balance at end of period</b>	<b>\$ 37,494</b>	<b>\$ 5,441</b>	<b>\$ 42,935</b>	<b>\$ 52,666</b>	<b>\$ 57,555</b>
<b>Allowance for off-balance sheet items:</b>					
Balance at beginning of period	\$ 1,366	\$ —	\$ 1,366	\$ 1,248	\$ 1,824
Provision (negative provision) charged to operating expense	(380)	—	(380)	118	(576)
<b>Balance at end of period</b>	<b>\$ 986</b>	<b>\$ —</b>	<b>\$ 986</b>	<b>\$ 1,366</b>	<b>\$ 1,248</b>

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of December 31, 2015 and 2014, the allowance for off-balance sheet items amounted \$1.0 million and \$1.4 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in other operating expenses.

The following table details the information on the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	<i>(In thousands)</i>				
<b>December 31, 2015</b>					
<b>Allowance for loan losses on Non-PCI loans:</b>					
Beginning balance	\$ 41,194	\$ 9,142	\$ 220	\$ 1,084	\$ 51,640
Charge-offs	(565)	(2,966)	—	—	(3,531)
Recoveries on loans previously charged off	2,080	3,339	4	—	5,423
(Negative provision) provision	(12,909)	(2,434)	18	(713)	(16,038)
<b>Ending balance</b>	<b>\$ 29,800</b>	<b>\$ 7,081</b>	<b>\$ 242</b>	<b>\$ 371</b>	<b>\$ 37,494</b>
Ending balance: individually evaluated for impairment	\$ 3,858	\$ 587	\$ —	\$ —	\$ 4,445
Ending balance: collectively evaluated for impairment	\$ 25,942	\$ 6,494	\$ 242	\$ 371	\$ 33,049
<b>Non-PCI loans receivable:</b>					
<b>Ending balance</b>	<b>\$ 2,825,718</b>	<b>\$ 312,705</b>	<b>\$ 24,879</b>	<b>\$ —</b>	<b>\$ 3,163,302</b>
Ending balance: individually evaluated for impairment	\$ 27,341	\$ 6,853	\$ 1,665	\$ —	\$ 35,859
Ending balance: collectively evaluated for impairment	\$ 2,798,377	\$ 305,852	\$ 23,214	\$ —	\$ 3,127,443
<b>Allowance for loan losses on PCI loans:</b>					
Beginning balance	\$ 895	\$ 131	\$ —	\$ —	\$ 1,026
Provision	4,502	(89)	2	—	4,415
<b>Ending balance: acquired with deteriorated credit quality</b>	<b>\$ 5,397</b>	<b>\$ 42</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 5,441</b>
<b>PCI loans receivable:</b>					
<b>Ending balance: acquired with deteriorated credit quality</b>	<b>\$ 19,796</b>	<b>\$ 171</b>	<b>\$ 47</b>	<b>\$ —</b>	<b>\$ 20,014</b>
<b>December 31, 2014</b>					
<b>Allowance for loan losses on Non-PCI loans:</b>					
Beginning balance	\$ 43,550	\$ 11,287	\$ 1,427	\$ 1,291	\$ 57,555
Charge-offs	(3,009)	(3,881)	(102)	—	(6,992)
Recoveries on loans previously charged off	4,348	3,801	212	—	8,361
Provision (negative provision)	(3,695)	(2,065)	(1,317)	(207)	(7,284)
<b>Ending balance</b>	<b>\$ 41,194</b>	<b>\$ 9,142</b>	<b>\$ 220</b>	<b>\$ 1,084</b>	<b>\$ 51,640</b>
Ending balance: individually evaluated for impairment	\$ 2,517	\$ 2,729	\$ —	\$ —	\$ 5,246
Ending balance: collectively evaluated for impairment	\$ 38,677	\$ 6,413	\$ 220	\$ 1,084	\$ 46,394
<b>Non-PCI loans receivable:</b>					
<b>Ending balance</b>	<b>\$ 2,464,386</b>	<b>\$ 248,862</b>	<b>\$ 27,512</b>	<b>\$ —</b>	<b>\$ 2,740,760</b>
Ending balance: individually evaluated for impairment	\$ 32,497	\$ 11,626	\$ 1,742	\$ —	\$ 45,865
Ending balance: collectively evaluated for impairment	\$ 2,431,889	\$ 237,236	\$ 25,770	\$ —	\$ 2,694,895

### **Loan Quality Indicators**

As part of the on-going monitoring of the quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade (from 0 to (8)) for each and every loan in our loan portfolio. A third-party loan review is required 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.

As of December 31, 2015 and 2014, pass/pass-watch, special mention and classified (substandard and doubtful) loans (excluding PCI loans), disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
	<i>(In thousands)</i>			
<b>December 31, 2015</b>				
Real estate loans:				
Commercial property				
Retail	\$ 722,483	\$ 9,519	\$ 3,499	\$ 735,501
Hotel/motel	517,462	9,604	12,279	539,345
Gas station	309,598	5,897	3,868	319,363
Other	953,839	8,662	10,742	973,243
Construction	23,387	—	—	23,387
Residential property	232,862	58	1,959	234,879
Commercial and industrial loans:				
Commercial term	145,773	2,370	4,459	152,602
Commercial lines of credit	127,579	195	450	128,224
International loans	29,719	2,160	—	31,879
Consumer loans	22,707	91	2,081	24,879
<b>Total Non-PCI loans</b>	<b>\$ 3,085,409</b>	<b>\$ 38,556</b>	<b>\$ 39,337</b>	<b>\$ 3,163,302</b>
<b>December 31, 2014</b>				
Real estate loans:				
Commercial property				
Retail	\$ 654,360	\$ 18,013	\$ 2,699	\$ 675,072
Hotel/motel	397,437	46,365	10,697	454,499
Gas station	345,775	8,899	7,566	362,240
Other	822,037	9,543	10,546	842,126
Construction	9,517	—	—	9,517
Residential property	118,688	66	2,178	120,932
Commercial and industrial loans:				
Commercial term	106,326	1,225	8,522	116,073
Commercial lines of credit	92,312	993	555	93,860
International loans	36,121	252	2,556	38,929
Consumer loans	25,313	131	2,068	27,512
<b>Total Non-PCI loans</b>	<b>\$ 2,607,886</b>	<b>\$ 85,487</b>	<b>\$ 47,387</b>	<b>\$ 2,740,760</b>

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Accruing 90 Days or More Past Due
(In thousands)							
<b>December 31, 2015</b>							
Real estate loans:							
Commercial property							
Retail	\$ 441	\$ 343	\$ 399	\$ 1,183	\$ 734,318	\$ 735,501	\$ —
Hotel/motel	1,250	49	3,840	5,139	534,206	539,345	—
Gas station	959	406	1,517	2,882	316,481	319,363	—
Other	1,144	661	1,636	3,441	969,802	973,243	—
Construction	—	—	—	—	23,387	23,387	—
Residential property	—	—	396	396	234,483	234,879	—
Commercial and industrial loans:							
Commercial term	420	253	458	1,131	151,471	152,602	—
Commercial lines of credit	58	—	392	450	127,774	128,224	—
International loans	—	497	—	497	31,382	31,879	—
Consumer loans	250	5	—	255	24,624	24,879	—
<b>Total Non-PCI loans</b>	<b>\$ 4,522</b>	<b>\$ 2,214</b>	<b>\$ 8,638</b>	<b>\$ 15,374</b>	<b>\$ 3,147,928</b>	<b>\$ 3,163,302</b>	<b>\$ —</b>
<b>December 31, 2014</b>							
Real estate loans:							
Commercial property							
Retail	\$ 1,554	\$ 281	\$ 1,920	\$ 3,755	\$ 671,317	\$ 675,072	\$ —
Hotel/motel	1,531	2,340	433	4,304	450,195	454,499	—
Gas station	2,991	1,113	353	4,457	357,783	362,240	—
Other	1,674	2,156	1,142	4,972	837,154	842,126	—
Construction	—	—	—	—	9,517	9,517	—
Residential property	167	—	687	854	120,078	120,932	—
Commercial and industrial loans:							
Commercial term	1,107	490	2,847	4,444	111,629	116,073	—
Commercial lines of credit	—	—	227	227	93,633	93,860	—
International loans	200	—	—	200	38,729	38,929	—
Consumer loans	489	349	248	1,086	26,426	27,512	—
<b>Total Non-PCI loans</b>	<b>\$ 9,713</b>	<b>\$ 6,729</b>	<b>\$ 7,857</b>	<b>\$ 24,299</b>	<b>\$ 2,716,461</b>	<b>\$ 2,740,760</b>	<b>\$ —</b>

### Impaired Loans

Loans are considered impaired when nonaccrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as TDR loans to offer terms not typically granted by the Bank; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower's financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for

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

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

The following table provides information on impaired loans (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance	Average Recorded Investment	Interest Income Recognized
	<i>(In thousands)</i>						
<b>As of or for The Year Ended December 31, 2015</b>							
Real estate loans:							
Commercial property							
Retail	\$ 2,597	\$ 2,892	\$ 2,435	\$ 162	\$ 27	\$ 3,878	\$ 277
Hotel/motel	7,168	7,538	2,873	4,295	3,068	6,628	572
Gas station	5,393	5,815	4,400	993	112	7,116	436
Other	9,288	10,810	7,219	2,069	647	10,218	795
Residential property	2,895	3,081	2,608	287	4	2,839	120
Commercial and industrial loans:							
Commercial term	5,257	5,621	1,858	3,399	457	6,637	368
Commercial lines of credit	381	493	280	101	100	1,515	42
International loans	1,215	1,215	647	568	30	1,257	—
Consumer loans	1,665	1,898	1,665	—	—	1,753	73
<b>Total Non-PCI loans</b>	<b>\$ 35,859</b>	<b>\$ 39,363</b>	<b>\$ 23,985</b>	<b>\$ 11,874</b>	<b>\$ 4,445</b>	<b>\$ 41,841</b>	<b>\$ 2,683</b>
<b>As of or for The Year Ended December 31, 2014</b>							
Real estate loans:							
Commercial property							
Retail	\$ 4,436	\$ 4,546	\$ 1,938	\$ 2,498	\$ 220	\$ 5,373	\$ 251
Hotel/motel	5,835	6,426	4,581	1,254	1,828	4,583	398
Gas station	8,974	9,594	8,526	448	150	11,281	787
Other	10,125	11,591	8,890	1,235	319	10,579	885
Residential property	3,127	3,268	3,127	—	—	2,924	115
Commercial and industrial loans:							
Commercial term	7,614	8,133	2,999	4,615	2,443	9,458	566
Commercial lines of credit	466	575	466	—	—	1,205	66
International loans	3,546	3,546	2,628	918	286	1,736	33
Consumer loans	1,742	1,907	1,742	—	—	1,651	59
<b>Total Non-PCI loans</b>	<b>\$ 45,865</b>	<b>\$ 49,586</b>	<b>\$ 34,897</b>	<b>\$ 10,968</b>	<b>\$ 5,246</b>	<b>\$ 48,790</b>	<b>\$ 3,160</b>
<b>As of or for The Year Ended December 31, 2013</b>							
Real estate loans:							
Commercial property							
Retail	\$ 6,244	\$ 6,332	\$ 3,767	\$ 2,477	\$ 305	\$ 4,342	\$ 166
Hotel/motel	6,200	6,940	4,668	1,532	1,183	5,125	530
Gas station	9,389	9,884	8,592	797	209	8,939	756
Other	11,451	12,882	9,555	1,896	351	10,014	1,047
Residential property	2,678	2,773	2,678	—	—	2,941	117
Commercial and industrial loans:							
Commercial term	13,834	14,308	2,929	10,905	3,806	13,083	968
Commercial lines of credit	614	686	173	441	252	1,008	54
International loans	1,087	1,087	286	801	78	1,284	—
Consumer loans	1,569	1,671	644	925	284	1,612	71
<b>Total Non-PCI loans</b>	<b>\$ 53,066</b>	<b>\$ 56,563</b>	<b>\$ 33,292</b>	<b>\$ 19,774</b>	<b>\$ 6,468</b>	<b>\$ 48,348</b>	<b>\$ 3,709</b>



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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$ 4,168	\$ 4,468	\$ 4,451
Less: Interest income recognized on impaired loans	(2,683)	(3,160)	(3,708)
<b>Interest foregone on impaired loans</b>	<b>\$ 1,485</b>	<b>\$ 1,308</b>	<b>\$ 743</b>

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

#### Nonaccrual Loans

Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual loans may be restored to accrual status when principal and interest payments become current and full repayment is expected.

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

	As of December 31,	
	2015	2014
	<i>(In thousands)</i>	
Real estate loans:		
Commercial property		
Retail	\$ 946	\$ 2,160
Hotel/motel	5,790	3,835
Gas station	2,774	3,478
Other	4,068	4,961
Residential property	1,386	1,588
Commercial and industrial loans:		
Commercial term	2,193	7,052
Commercial lines of credit	450	466
Consumer loans	1,511	1,742
<b>Total nonaccrual Non-PCI loans</b>	<b>\$ 19,118</b>	<b>\$ 25,282</b>

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

	As of December 31,	
	2015	2014
	<i>(In thousands)</i>	
Nonaccrual Non-PCI loans	\$ 19,118	\$ 25,282
Loans 90 days or more past due and still accruing	—	—
Total nonperforming Non-PCI loans	19,118	25,282
Other real estate owned	8,511	15,790
<b>Total nonperforming assets</b>	<b>\$ 27,629</b>	<b>\$ 41,072</b>

As of December 31, 2015, OREO consisted of fourteen properties with a combined carrying value of \$8.5 million, including a \$7.4 million OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2014, OREO consisted of twenty-seven properties with a combined carrying value of \$15.8 million, including a \$15.3 million OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

#### **Troubled Debt Restructuring**

In April 2011, the FASB issued ASU 2011-2, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring” which clarifies the guidance for evaluating whether a restructuring constitutes a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the purposes of measuring impairment of loans that are newly considered impaired, the guidance should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011.

As a result of the amendments in ASU 2011-2, we reassessed all restructurings that occurred on or after the beginning of the annual period and identified certain receivables as TDRs. Upon identifying those receivables as TDRs, we considered them impaired and applied the impairment measurement guidance prospectively for those receivables newly identified as impaired.

The following table details TDRs (excluding PCI loans), disaggregated by concession type and by loan type, as of December 31, 2015, 2014 and 2013:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
<i>(In thousands)</i>										
<b>December 31, 2015</b>										
Real estate loans:										
Commercial property										
Retail	\$ —	\$ —	\$ —	\$ 344	\$ 344	\$ —	\$ —	\$ 1,227	\$ —	\$ 1,227
Hotel/motel	1,216	28	—	—	1,244	414	—	—	—	414
Gas station	959	—	—	—	959	—	—	—	—	—
Other	—	1,301	216	8	1,525	3,537	—	322	1,378	5,237
Residential property	689	—	—	—	689	—	—	—	299	299
Commercial and industrial loans:										
Commercial term	45	—	997	679	1,721	40	214	1,673	945	2,872
Commercial lines of credit	222	—	—	58	280	—	—	—	—	—
International loans	—	—	—	—	—	—	—	—	—	—
Consumer loans	—	—	116	—	116	250	—	—	—	250
<b>Total Non-PCI loans</b>	<b>\$ 3,131</b>	<b>\$ 1,329</b>	<b>\$ 1,329</b>	<b>\$ 1,089</b>	<b>\$ 6,878</b>	<b>\$ 4,241</b>	<b>\$ 214</b>	<b>\$ 3,222</b>	<b>\$ 2,622</b>	<b>\$ 10,299</b>
<b>December 31, 2014</b>										
Real estate loans:										
Commercial property										
Retail	\$ —	\$ —	\$ —	\$ 2,032	\$ 2,032	\$ 306	\$ —	\$ —	\$ —	\$ 306
Hotel/motel	1,115	(53)	—	—	1,062	1,807	—	—	—	1,807
Gas station	1,075	—	—	—	1,075	2,335	—	—	—	2,335
Other	943	1,498	433	24	2,898	2,343	—	782	1,372	4,497
Residential property	742	—	—	—	742	—	—	—	308	308
Commercial and industrial loans:										
Commercial term	14	(1)	2,556	1,481	4,050	57	226	567	1,358	2,208
Commercial lines of credit	227	—	126	113	466	2,156	—	—	—	2,156
International loans	—	—	—	—	—	—	—	200	—	200
Consumer loans	—	—	131	—	131	—	—	—	—	—
<b>Total Non-PCI loans</b>	<b>\$ 4,116</b>	<b>\$ 1,444</b>	<b>\$ 3,246</b>	<b>\$ 3,650</b>	<b>\$ 12,456</b>	<b>\$ 9,004</b>	<b>\$ 226</b>	<b>\$ 1,549</b>	<b>\$ 3,038</b>	<b>\$ 13,817</b>
<b>December 31, 2013</b>										
Real estate loans:										
Commercial property										
Retail	\$ —	\$ —	\$ —	\$ 750	\$ 750	\$ —	\$ —	\$ —	\$ 474	\$ 474
Hotel/motel	1,272	758	—	—	2,030	1,000	—	—	—	1,000
Gas station	1,291	—	729	—	2,020	365	—	—	2,609	2,974
Other	403	1,279	555	—	2,237	2,956	—	1,253	2,027	6,236
Residential property	795	—	—	—	795	—	—	—	—	—
Commercial and industrial loans:										
Commercial term	25	206	1,449	851	2,531	1,203	—	2,286	3,817	7,306
Commercial lines of credit	—	—	—	173	173	—	—	191	—	191
International loans	—	—	—	—	—	—	—	1,087	—	1,087
Consumer loans	—	—	—	—	—	—	—	149	—	149
<b>Total Non-PCI loans</b>	<b>\$ 3,786</b>	<b>\$ 2,243</b>	<b>\$ 2,733</b>	<b>\$ 1,774</b>	<b>\$ 10,536</b>	<b>\$ 5,524</b>	<b>\$ —</b>	<b>\$ 4,966</b>	<b>\$ 8,927</b>	<b>\$ 19,417</b>

As of December 31, 2015, 2014 and 2013, total TDRs, excluding loans held for sale, were \$17.2 million, \$26.3 million and \$30.0 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are

considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At December 31, 2015, 2014 and 2013, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and we determined impairment reserves of \$1.0 million, \$2.9 million and \$2.8 million, respectively, related to these loans which were included in the allowance for loan losses.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the years ended December 31, 2015, 2014 and 2013:

	December 31, 2015			December 31, 2014			December 31, 2013		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<i>(In thousands, except number of loans)</i>									
Real estate loans:									
Commercial property									
Retail (1)	1	\$ 1,230	\$ 1,227	2	\$ 2,205	\$ 2,032	—	\$ —	\$ —
Hotel/motel (2)	—	—	—	1	832	821	1	1,000	1,000
Gas station (3)	—	—	—	1	2,040	1,979	3	903	819
Other (4)	2	725	724	3	1,422	1,352	4	1,853	1,796
Residential property (5)	—	—	—	1	317	308	—	—	—
Commercial and industrial loans:									
Commercial term (6)	10	973	801	5	721	629	20	4,068	3,534
Commercial lines of credit (7)	—	—	—	3	2,366	2,509	2	220	191
International loans (8)	—	—	—	1	480	200	2	1,584	1,087
Consumer loans (9)	1	250	250	—	—	—	1	149	149
<b>Total Non-PCI loans</b>	<b>14</b>	<b>\$ 3,178</b>	<b>\$ 3,002</b>	<b>17</b>	<b>\$ 10,383</b>	<b>\$ 9,830</b>	<b>33</b>	<b>\$ 9,777</b>	<b>\$ 8,576</b>

- (1) Includes a modification of \$1.2 million through a reduction of principal or accrued interest payment for the year ended December 31, 2015 and a modification of \$2.0 million through payment deferrals for the year ended December 31, 2014.
- (2) Includes a modification of \$821,000 through a payment deferral for the year ended December 31, 2014 and a modification of \$1.0 million through payment deferral for the year ended December 31, 2013.
- (3) Includes a modification of \$2.0 million through a payment deferral for the year ended December 31, 2014 and modifications of \$90,000 through payment deferral and \$729,000 through reductions of principal or accrued interest for the year ended December 31, 2013.
- (4) Includes a modification of \$725,000 through payment deferrals for the year ended December 31, 2015 and modifications of \$943,000 through a payment deferral, \$385,000 through a reduction of principal or accrued interest and \$24,000 through an extension of maturity for the year ended December 31, 2014, modifications of \$365,000 through a payment deferral, \$785,000 through a reduction of principal or accrued interest and \$645,000 through an extension of maturity for the year ended December 31, 2013.
- (5) Includes a modification of \$308,000 through an extension of maturity for the year ended December 31, 2014.
- (6) Includes modifications of \$34,000 through payment deferral, \$60,000 through reductions of principal or accrued interest and \$707,000 through extensions of maturity for the year ended December 31, 2015, modifications of \$184,000

through reductions of principal or accrued interest and \$445,000 through extensions of maturity for the year ended December 31, 2014, modifications of \$386,000 through payment deferrals, \$733,000 through a reduction of principal or accrued interest and \$2.5 million through extensions of maturity for the year ended December 31, 2013.

- (7) Includes modifications of \$2.4 million through payment deferrals and \$126,000 through a reduction of principal or accrued interest for the year ended December 31, 2014, and a modification of \$191,000 through a reduction of principal or accrued interest for the year ended December 31, 2013.
- (8) Includes a modification of \$200,000 through a reduction of principal or accrued interest for the year ended December 31, 2014, and a modification of \$1.1 million through a reduction of principal or accrued interest for the year ended December 31, 2013.
- (9) Includes a modification of \$250,000 through a payment deferral for the year ended December 31, 2015 and a modification of \$149,000 through a reduction of principal or accrued interest for the year ended December 31, 2013.

During the year ended December 31, 2015, we restructured monthly payments on 14 loans, with a net carrying value of \$3.0 million as of December 31, 2015, through temporary payment structure modifications or re-amortization. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers' past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for years ended December 31, 2015, 2014 and 2013, respectively:

	For the Year Ended					
	December 31, 2015		December 31, 2014		December 31, 2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	<i>(In thousands, except number of loans)</i>					
Real estate loans:						
Commercial property						
Retail	—	\$ —	1	\$ 1,856	—	\$ —
Gas station	—	—	—	—	1	90
Other	1	412	3	1,352	1	125
Commercial and industrial loans:						
Commercial term	1	178	—	—	2	123
Commercial lines of credit	—	—	2	353	—	—
<b>Total Non-PCI loans</b>	<b>2</b>	<b>\$ 590</b>	<b>6</b>	<b>\$ 3,561</b>	<b>4</b>	<b>\$ 338</b>

#### Purchased Credit Impaired Loans

As part of the acquisition of CBI, the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table summarizes the changes in carrying value of PCI loans during the year ended December 31, 2015 :

	For the Year Ended December 31, 2015		For the Year Ended December 31, 2014	
	Carrying Amount	Accretible Yield	Carrying Amount	Accretible Yield
	<i>(In thousands)</i>		<i>(In thousands)</i>	
<b>Beginning Balance</b>	\$ 43,475	\$ (11,025)	\$ —	\$ —
Additions from CBI acquisition at August 31, 2014	—	—	65,346	(10,856)
Accretion	2,956	2,956	1,448	1,448
Payments received	(31,215)	—	(17,803)	—
Disposal/transfers to OREO	3,772	—	(4,490)	—
Change in expected cash flows, net	—	2,125	—	(1,617)
Provision for credit losses	(4,415)	—	(1,026)	—
<b>Ending Balance</b>	<b>\$ 14,573</b>	<b>\$ (5,944)</b>	<b>\$ 43,475</b>	<b>\$ (11,025)</b>

As of December 31, 2015 and 2014, pass/pass-watch, special mention and classified (substandard and doubtful) PCI loans, disaggregated by loan class, were as follows:

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

	December 31, 2014					
	Pass/Pass-Watch	Special Mention	Classified	Total	Allowance Amount	Total PCI Loans
	<i>(In thousands)</i>					
Real estate loans:						
Commercial property						
Retail	\$ 1,207	\$ 219	\$ 7,109	\$ 8,535	\$ 401	\$ 8,134
Hotel/motel	—	—	7,682	7,682	99	7,583
Gas station	—	1,242	6,503	7,745	302	7,443
Other	—	—	5,796	5,796	65	5,731
Residential property	—	—	14,371	14,371	28	14,343
Commercial and industrial loans:						
Commercial term	—	—	327	327	131	196
Consumer loans	—	—	45	45	—	45
<b>Total PCI loans</b>	<b>\$ 1,207</b>	<b>\$ 1,461</b>	<b>\$ 41,833</b>	<b>\$ 44,501</b>	<b>\$ 1,026</b>	<b>\$ 43,475</b>

Loans accounted for as PCI are generally considered accruing and performing loans as the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of December 31, 2015, we had no PCI loans on nonaccrual status and included in the delinquency table below.

Below is a summary of a acquired purchased credit impaired loans as of the CBI acquisition date, August 31, 2014 and December 31, 2015.

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

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

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Allowance Amount	Total PCI Loans
<i>(In thousands)</i>								
<b>December 31, 2015</b>								
Real estate loans:								
Commercial property								
Retail	\$ —	\$ 267	\$ 1,109	\$ 1,376	\$ 3,473	\$ 4,849	\$ 269	\$ 4,580
Hotel/motel	—	9	154	163	3,917	4,080	88	3,992
Gas station	—	—	457	457	3,835	4,292	477	3,815
Other	4	—	4,996	5,000	418	5,418	4,412	1,006
Residential property	—	—	158	158	999	1,157	151	1,006
Commercial and industrial loans:								
Commercial term	—	—	4	4	167	171	42	129
Consumer loans	—	—	47	47	—	47	2	45
<b>Total PCI loans</b>	<b>\$ 4</b>	<b>\$ 276</b>	<b>\$ 6,925</b>	<b>\$ 7,205</b>	<b>\$ 12,809</b>	<b>\$ 20,014</b>	<b>\$ 5,441</b>	<b>\$ 14,573</b>

### Servicing Assets & Liabilities

The changes in servicing assets and liabilities for the years ended December 31, 2015 and 2014 were as follows:

	As of December 31,	
	2015	2014
<i>(In thousands)</i>		
<b>Servicing assets:</b>		
<b>Balance at beginning of period</b>	<b>\$ 13,773</b>	<b>\$ 6,833</b>
Additions from CBI acquisition	—	7,497
Addition related to sale of SBA loans	2,573	1,332
Impairment provision	(330)	
Amortization	(4,272)	(1,889)
<b>Balance at end of period</b>	<b>\$ 11,744</b>	<b>\$ 13,773</b>
<b>Servicing liabilities:</b>		
<b>Balance at beginning of period</b>	<b>\$ 5,971</b>	<b>\$ 106</b>
Additions from CBI acquisition	—	6,039
Amortization	(1,187)	(174)
<b>Balance at end of period</b>	<b>\$ 4,784</b>	<b>\$ 5,971</b>

At December 31, 2015 and 2014, we serviced the loans sold to unaffiliated parties in the amounts of \$474.0 million and \$500.9 million, respectively. These represented loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans being serviced were SBA loans.

### FDIC Loss Sharing Asset & Liability

The FDIC loss sharing asset and liability related to the assumption of Single Family and Commercial Shared-Loss Agreement (“SLAs”) between CBI and the FDIC is arising from the CBI’s acquisition of Mutual Bank. The loss sharing asset was measured at its fair value as of August 31, 2014 in conjunction with the acquisition of CBI. During the third quarter of 2014, the Bank submitted losses in excess of the stated reimbursement threshold of \$611.0 million, increasing the reimbursable percentage to 95 from 80. The three-year recovery period on the Commercial Share-Loss Portfolio commenced on October 1, 2014. During this period, 95 percent of any recoveries of previously charged-off and reimbursed Commercial SLA loans need



to be reimbursed to the FDIC, less any reasonable recovery costs incurred. As of December 31, 2015, the FDIC loss sharing liability was \$1.3 million which consisted of \$2.3 million of FDIC recoveries partially offset by \$1.0 million of reimbursable expenses. Of the \$1.3 million net payable to FDIC, \$1.3 million is payable under the Non-Single Family SLA and none is due from the FDIC for losses covered under the Single Family SLA.

**Note 7 — Premises and Equipment**

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

	As of December 31,	
	2015	2014
	<i>(In thousands)</i>	
Land	\$ 9,810	\$ 9,860
Building and improvements	19,455	19,598
Furniture and equipment	19,711	17,902
Leasehold improvements	11,296	11,403
Software	—	862
	<u>60,272</u>	<u>59,625</u>
Accumulated depreciation and amortization	(30,075)	(28,713)
Impairment reserve	(363)	—
<b>Total premises and equipment, net</b>	<b><u>\$ 29,834</u></b>	<b><u>\$ 30,912</u></b>

Depreciation and amortization expenses related to premises and equipment totaled \$3.1 million, \$2.2 million and \$1.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Note 8 — Intangible Assets**

The core deposit intangible ("CDI") of \$2.2 million was recognized for the core deposits acquired from CBI merger at August 31, 2014. Company's intangible assets were as follows for the periods indicated:

	Amortization Period	December 31, 2015			December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>(In thousands)</i>							
Intangible assets:							
Core deposit intangible	10 years	\$ 2,213	\$ (512)	\$ 1,701	\$ 2,213	\$ (133)	\$ 2,080
<b>Total intangible assets</b>		<b>\$ 2,213</b>	<b>\$ (512)</b>	<b>\$ 1,701</b>	<b>\$ 2,213</b>	<b>\$ (133)</b>	<b>\$ 2,080</b>

CDI amortization expense for the year ended December 31, 2015 was \$379,000 and estimated future amortization expense related to CDI for each of the next five years is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
	<i>(In thousands)</i>
	2016 \$ 326
	2017 281
	2018 241
	2019 208
	2020 178
Thereafter	467
<b>Total</b>	<b>\$ 1,701</b>

As of December 31, 2015 and 2014, management was not aware of any circumstances that would indicate impairment of other intangible assets. There was no impairment charges related to other intangible asset recorded through earnings in 2015 or 2014.

**Note 9 — Deposits**

At December 31, 2015, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	Time Deposits of \$250,000 or More	Other Time Deposits	Total
	<i>(In thousands)</i>		
2016	\$ 336,282	\$ 822,159	\$ 1,158,441
2017	37,701	101,726	139,427
2018	10,924	47,109	58,033
2019	2,812	9,413	12,225
2020	788	17,316	18,104
Thereafter	280	1,503	1,783
<b>Total</b>	<b>\$ 388,787</b>	<b>\$ 999,226</b>	<b>\$ 1,388,013</b>

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Savings	\$ 419	\$ 1,646	\$ 1,812
Money market checking and NOW accounts	3,890	3,213	2,912
Time deposits of \$100,000 or more	6,639	4,321	4,094
Other time deposits	4,462	4,380	3,860
Total interest expense on deposits	<b>\$ 15,410</b>	<b>\$ 13,560</b>	<b>\$ 12,678</b>

Accrued interest payable on deposits totaled \$3.2 million and \$3.5 million at December 31, 2015 and 2014, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2015 and 2014 were \$1.8 million and \$1.0 million, respectively.

#### Note 10 — FHLB Advances and Other Borrowings

FHLB advances and other borrowings consisted of the following:

	As of December 31,	
	2015	2014
	<i>(In thousands)</i>	
FHLB advances	\$ 170,000	\$ 150,000
Total FHLB advances	<b>\$ 170,000</b>	<b>\$ 150,000</b>

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

Year of Maturity	Amount	Weighted-Average Interest Rate
	<i>(In thousands)</i>	
2015	\$ 170,000	0.27 %
Total	<b>\$ 170,000</b>	<b>0.27 %</b>

The following is financial data pertaining to FHLB advances:

	As of December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Weighted-average interest rate at end of year	0.27 %	0.27 %	0.16 %
Weighted-average interest rate during the year	0.20 %	0.21 %	2.28 %
Average balance of FHLB advances	\$ 38,110	\$ 69,781	\$ 6,573
Maximum amount outstanding at any month-end	\$ 180,000	\$ 150,000	\$ 127,546

We have pledged loans receivable with market values of \$518.8 million as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is \$457.2 million, of which \$287.2 million remained available as of December 31, 2015. At December 31, 2015, we had \$31.8 million available for use through the Fed Discount Window, as we pledged loans receivable with carrying values of \$47.4 million, and there were no borrowings.

At December 31, 2015, advances from the FHLB were \$170.0 million, an increase of \$20.0 million from \$150.0 million at December 31, 2014, and the FHLB advances were all overnight borrowings at December 31, 2015. For the years ended December 31, 2015, 2014 and 2013 interest expense on FHLB advances were \$76,000, \$151,000 and \$151,000, respectively, and the weighted-average interest rates were 0.20 percent, 0.21 percent and 2.28 percent, respectively.

## Note 11 — Subordinated Debentures and Rescinded Stock Obligation

### Subordinated Debentures

During the third quarter of 2014, the Company assumed CBI's Junior Subordinated Deferrable Interest Debentures ("Subordinated Debentures") with an unpaid principal balance of \$26.8 million and an estimated fair value of \$18.5 million. The \$8.3 million discount will be amortized to interest expense over the remaining term. In December 2005, a trust was formed by CBI and issued \$26.0 million Trust Preferred Securities ("TPS") at 6.26 percent fixed rate for the first five years and a variable rate at the 3 month LIBOR plus 140 basis thereafter and invested the proceeds in Subordinated Debentures. The Subordinated Debentures will mature on December 31, 2035, however, the Bank may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. The discount amortization was \$176,000 and \$71,000 for the years ended December 31, 2015 and 2014, respectively.

### Rescinded Stock Obligation

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

## Note 12 — Income Taxes

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

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Unrecognized tax benefits at beginning of year	\$ 1,765	\$ 1,254	\$ 1,254
Gross increases for tax positions of prior years	—	676	—
Gross decreases for tax positions of prior years	—	(165)	—
Lapse of statute of limitations	(831)	—	—
<b>Unrecognized tax benefits at end of year</b>	<b>\$ 934</b>	<b>\$ 1,765</b>	<b>\$ 1,254</b>

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was \$0.9 million, \$1.5 million and \$1.0 million as of December 31, 2015, 2014 and 2013, respectively.

For the year ended December 31, 2015, unrecognized tax benefits decreased by \$831,000 in connection with the tax position taken on expense related to Section 195 and FRB Stock dividend. For the year ended December 31, 2014, unrecognized tax benefits increased by \$676,000 related to California Enterprise Zone interest deduction, offset by \$165,000 decrease in connection with the tax position related to non-qualified stock option. For the year ended December 31, 2013, there was no addition in unrecognized tax benefit except increase in accrued interest.

In 2015, 2014 and 2013, the Company accrued interest of \$20,000, \$52,000 and \$45,000 for uncertain tax benefits, respectively. As of December 31, 2015, 2014 and 2013, the total amounts of accrued interest related to uncertain tax positions, net of federal tax benefit, were \$67,000, \$366,000 and \$403,000, respectively. We account for interest and penalties related to uncertain tax positions as part of our provision for federal and state income taxes. Accrued interest and penalties are included within the related tax liability line on the Consolidated Balance Sheets.

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

As of December 31, 2015, the Company was subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2015. As of December 31, 2015, the Company was subjected to audit or examination by Internal Revenue Service for the 2013 tax year and California FTB for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements due to the result of the audits.

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Current expense:			
Federal	\$ 14,755	\$ 21,037	\$ 12,711
State	5,084	5,753	463
Total current expense	19,839	26,790	13,174
Deferred expense (benefit):			
Federal	13,663	(3,597)	8,197
State	4,680	(333)	1,403
Total deferred expense	18,343	(3,930)	9,600
<b>Provision for income taxes</b>	<b>\$ 38,182</b>	<b>\$ 22,860</b>	<b>\$ 22,774</b>

Deferred tax assets and liabilities were as follows:

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Deferred tax assets:			
Loan loss provision	\$ 27,695	\$ 47,829	\$ 27,607
Depreciation	—	3,855	1,180
Purchase accounting	6,955	—	—
Net operating loss carryforward	30,155	33,659	31,140
Unrealized loss on securities available for sale	859	287	7,641
Indemnified assets	236	—	—
Tax credit	4,319	6,777	5,661
Other	5,417	5,563	2,831
Total deferred tax assets	75,636	97,970	76,060
Deferred tax liabilities:			
Mark to market	(11,346)	(7,040)	(10,112)
Depreciation	(727)	—	—
Purchase accounting	—	(3,981)	(3,083)
State taxes	(10,198)	(11,316)	(8,832)
Indemnified assets	—	(3,263)	—
Other	(1,270)	(2,220)	(2,145)
Total deferred tax liabilities	(23,541)	(27,820)	(24,172)
<b>Net deferred tax assets</b>	<b>\$ 52,095</b>	<b>\$ 70,150</b>	<b>\$ 51,888</b>

As of December 31, 2015 the Company's net deferred tax assets, which were primarily the result of net operating loss carryforwards, and the allowance for loan losses, decreased by \$18.1 million primarily due to the reduction in the allowance for loan losses and an increase in unrealized gain on securities available for sale. As of December 31, 2014, the Company's net deferred tax assets increased by \$18.3 million from 2013 due mainly to the acquisition of CBI.

As of each reporting date, management considers the realization of deferred tax assets based on management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of

various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2015, management determined that no valuation allowance for deferred tax assets was required, as management believes it was more likely than not that deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

As of December 31, 2015, the Company had net operating loss carryforwards of \$15.6 million and \$248.2 million for federal and state income tax purposes, respectively, which are available to offset future taxable income, if any, through 2033.

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

	Year Ended December 31,		
	2015	2014	2013
Federal statutory income tax rate	35.00 %	35.00 %	35.00 %
State taxes, net of federal tax benefits	8.32 %	5.86 %	4.40 %
Tax-exempt municipal securities	(0.26)%	(0.07)%	(0.16)%
Tax credit - federal	(2.51)%	(2.27)%	(1.88)%
Bargain purchase gain	— %	(7.03)%	— %
Other	0.95 %	(0.01)%	(0.99)%
Valuation allowance	— %	— %	— %
<b>Effective tax rate</b>	<b>41.50 %</b>	<b>31.48 %</b>	<b>36.37 %</b>

### Note 13 — Stockholders' Equity

#### Stock Warrants

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

### Note 14 — Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the year ended December 31, 2015 and 2014 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
<i>(In thousands)</i>				
<b>For the year ended December 31, 2015</b>				
Balance at beginning of period	\$ (985)	\$ 16	\$ 1,432	\$ 463
Other comprehensive income (loss) before reclassification	5,265	(7)	575	5,833
Reclassification from accumulated other comprehensive income	(6,611)	—	—	(6,611)
Period change	(1,346)	(7)	575	(778)
<b>Balance at end of period</b>	<b>\$ (2,331)</b>	<b>\$ 9</b>	<b>\$ 2,007</b>	<b>\$ (315)</b>
<b>For the year ended December 31, 2014</b>				
Balance at beginning of period	\$ (18,187)	\$ 16	\$ 8,791	\$ (9,380)
Other comprehensive (loss) income before reclassification	19,213	—	(7,359)	11,854
Reclassification from accumulated other comprehensive income	(2,011)	—	—	(2,011)
Period change	17,202	—	(7,359)	9,843
<b>Balance at end of period</b>	<b>\$ (985)</b>	<b>\$ 16</b>	<b>\$ 1,432</b>	<b>\$ 463</b>
<b>For the year ended December 31, 2013</b>				
Balance at beginning of period	\$ 7,348	\$ 16	\$ (1,946)	\$ 5,418
Other comprehensive (loss) income before reclassification	(24,496)	—	10,737	(13,759)
Reclassification from accumulated other comprehensive income	(1,039)	—	—	(1,039)
Period change	(25,535)	—	10,737	(14,798)
<b>Balance at end of period</b>	<b>\$ (18,187)</b>	<b>\$ 16</b>	<b>\$ 8,791</b>	<b>\$ (9,380)</b>

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

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

For the year ended December 31, 2013, there was a \$1.0 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The \$1.0 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. The securities were previously recorded as net unrealized gains of \$3.3 million in accumulated other comprehensive income.

## Note 15 — Regulatory Matters

### Risk-Based Capital

Federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent.

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

In order for banks to be considered “well capitalized,” federal bank regulatory agencies require them to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 5.0 percent.

The capital ratios of Hanmi Financial and the Bank as of December 31, 2015 and 2014 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as “Well Capitalized”	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(In thousands)</i>						
<b>December 31, 2015</b>						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 499,076	14.91%	\$ 267,760	8.00%	N/A	N/A
Hanmi Bank	\$ 496,710	14.86%	\$ 267,377	8.00%	\$ 334,222	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 456,941	13.65%	\$ 200,820	6.00%	N/A	N/A
Hanmi Bank	\$ 454,634	13.60%	\$ 200,533	6.00%	\$ 267,377	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 456,941	13.65%	\$ 150,615	4.50%	N/A	N/A
Hanmi Bank	\$ 454,634	13.60%	\$ 150,400	4.50%	\$ 217,244	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 456,941	11.31%	\$ 161,620	4.00%	N/A	N/A
Hanmi Bank	\$ 454,634	11.27%	\$ 161,399	4.00%	\$ 201,749	5.00%
<b>December 31, 2014</b>						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 493,598	15.89%	\$ 248,501	8.00%	N/A	N/A
Hanmi Bank	\$ 470,934	15.18%	\$ 248,157	8.00%	\$ 310,196	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 454,582	14.63%	\$ 124,250	4.00%	N/A	N/A
Hanmi Bank	\$ 431,971	13.93%	\$ 124,078	4.00%	\$ 186,118	6.00%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 454,582	10.91%	\$ 166,600	4.00%	N/A	N/A
Hanmi Bank	\$ 431,971	10.39%	\$ 166,332	4.00%	\$ 207,915	5.00%

#### Regulatory Capital Rule Adjustments

In July 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The rules also revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Additionally, the rules implement a new capital conservation buffer. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The rules became effective January 1, 2015 for smaller, non-complex banking organizations with full implementation of the capital



conservation buffer and certain deductions and adjustments to regulatory capital through January 1, 2019. The Company will continue to evaluate the new changes, and expects that the Company and the Bank will meet the capital requirements.

## Note 16 — Fair Value Measurements

### Fair Value Measurements

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

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

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

SBA loans held for sale - SBA loans held for sale are carried at the lower of cost or fair value. As of December 31, 2015 and December 31, 2014, we had \$2.9 million million and \$5.5 million SBA loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower

than fair value. At December 31, 2015, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

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

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

Nonperforming loans held for sale – We reclassify certain nonperforming loans as held for sale when we decide to sell those loans. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of December 31, 2015 and 2014, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

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

As of December 31, 2015 and 2014, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs with No Active Market with Identical Characteristics	Significant Unobservable Inputs	Balance
<i>(In thousands)</i>				
<b>December 31, 2015</b>				
<b>Assets:</b>				
Securities available for sale:				
Mortgage-backed securities	\$ —	\$ 284,381	\$ —	\$ 284,381
Collateralized mortgage obligations	—	96,986	—	96,986
U.S. government agency securities	—	47,822	—	47,822
SBA loan pools securities	—	63,266	—	63,266
Municipal bonds-tax exempt	—	163,902	—	163,902
Municipal bonds-taxable	—	14,033	—	14,033
Corporate bonds	—	4,993	—	4,993
U.S. treasury securities	160	—	—	160
Other securities	22,753	—	—	22,753
Total securities available for sale	<u>\$ 22,913</u>	<u>\$ 675,383</u>	<u>\$ —</u>	<u>\$ 698,296</u>

**December 31, 2014**

**Assets:**

Securities available for sale:

Mortgage-backed securities	\$ —	\$ 573,286	\$ —	\$ 573,286
Collateralized mortgage obligations	—	188,047	—	188,047
U.S. government agency securities (1)	—	128,207	—	128,207
SBA loan pools securities	—	109,447	—	109,447
Municipal bonds-tax exempt	—	3,681	709	4,390
Municipal bonds-taxable	—	16,922	—	16,922
Corporate bonds	—	16,948	—	16,948
U.S. treasury securities	163	—	—	163
Other securities (2)	22,893	—	—	22,893
Equity securities	—	—	414	414
Total securities available for sale	<u>\$ 23,056</u>	<u>\$ 1,036,538</u>	<u>\$ 1,123</u>	<u>\$ 1,060,717</u>

(1) U.S. government agency securities of \$128.2 million were reclassified as level 2 rather than level 1 as originally classified due to significant other observable inputs other than quoted prices for identical assets in active markets.

(2) Other securities of \$22.9 million were reclassified as level 1 rather than level 2 as originally classified due to the availability of quoted prices in active markets of the holdings.

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2015:

	Beginning Balance as of January 1, 2015	Purchases, Issuances and Settlement	Realized Gains or (Losses) in Earnings	Unrealized Gains or (Losses) in Other Comprehensive Income	Ending Balance as of December 31, 2015
<i>(In thousands)</i>					
<b>Assets:</b>					
Municipal bonds-tax exempt <sup>(1)</sup>	\$ 709	\$ (709)	\$ —	\$ —	\$ —
Equity securities <sup>(2)</sup>	\$ 414	\$ (339)	\$ (75)	\$ —	\$ —

<sup>(1)</sup> A zero coupon tax credit municipal bond matured during the first quarter of 2015.

<sup>(2)</sup> Reflects two equity securities that were not actively traded. During the second quarter of 2015, one equity security with a book value of \$200,000 with a fair value of \$200,000 as of December 31, 2014 was sold at \$75,000 loss and the other equity security with a book value of \$250,000 with a fair value of \$214,000 as of December 31, 2014 was reclassified to other assets.

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

As of December 31, 2015 and 2014, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs With No Active Market With Identical Characteristics	Significant Unobservable Inputs	Loss During the Years Ended
<i>(In thousands)</i>				
<b>December 31, 2015</b>				
<b>Assets:</b>				
Impaired loans (excluding PCI loans) <sup>(1)</sup>	\$ —	\$ 29,595	\$ 1,044	\$ 2,756
OREO <sup>(2)</sup>	\$ —	\$ 8,511	\$ —	\$ —
<b>December 31, 2014</b>				
<b>Assets:</b>				
Impaired loans <sup>(3)</sup>	\$ —	\$ 32,171	\$ 781	\$ 2,774
OREO <sup>(4)</sup>	\$ —	\$ 15,790	\$ —	\$ —

<sup>(1)</sup> Includes real estate loans of \$27.9 million, commercial and industrial loans of \$1.0 million, and consumer loans of \$1.7 million.

<sup>(2)</sup> Includes properties from the foreclosure of commercial property loans of \$6.6 million and residential property loans of \$1.9 million.

<sup>(3)</sup> Includes real estate loans of \$30.0 million, commercial and industrial loans of \$1.2 million, and consumer loans of \$1.2 million.

<sup>(4)</sup> Includes properties from the foreclosure of commercial property loans of \$13.2 million and residential property loans of \$2.6 million.

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

methodologies for estimating the fair value of financial assets and financial liabilities that are measured on a recurring basis or non-recurring basis are discussed above.

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

The estimated fair values of financial instruments were as follows:

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

December 31, 2014

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
<i>(In thousands)</i>				
<b>Financial assets:</b>				
Cash and due from banks	\$ 158,320	\$ 158,320	\$ —	\$ —
Securities available for sale <sup>(1)</sup>	1,060,717	23,056	1,036,538	1,123
Loans receivable, net of allowance for loan losses	2,735,832	—	—	2,738,401
Loans held for sale	5,451	—	5,451	—
Accrued interest receivable	9,749	9,749	—	—
Servicing assets	13,773	—	—	13,773
FHLB stock	17,580	—	17,580	—
FRB stock	12,273	—	12,273	—
<b>Financial liabilities:</b>				
Noninterest-bearing deposits	1,022,972	—	1,022,972	—
Interest-bearing deposits	2,533,774	—	—	2,528,304
Servicing liabilities	5,971	—	—	5,971
Borrowings	168,544	—	—	168,544
Accrued interest payable	3,450	3,450	—	—
<b>Off-balance sheet items:</b>				
Commitments to extend credit	309,584	—	—	309,584
Standby letters of credit	8,982	—	—	8,982

<sup>(1)</sup> Level 1 and Level 2 previously reported as \$128.4 million and \$931.2 million, respectively. U.S. government agency securities of \$128.2 million were reclassified as Level 2 rather than Level 1 as originally classified due to significant other observable inputs other than quoted prices for identical assets in active markets. Other securities of \$22.9 million were reclassified as Level 1 rather than Level 2 as originally classified due to the availability of quoted prices in active markets of the holdings.

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

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

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

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

The fair value of PCI loans receivable was estimated based on discounted expected cash flows. Increases in expected cash flows and improvements in the timing of cash flows over those previously estimated increase the amount of accretable yield and are recognized as an increase in yield and interest income prospectively. Decreases in the amount and delays in the

timing of expected cash flows compared to those previously estimated decrease the amount of accretible yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses (Level 3).

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

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

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

Servicing assets or servicing liabilities – Servicing assets or servicing liabilities are carried at its implied fair value. The fair values of the servicing assets or servicing liabilities are estimated by discounting future cash flows using market-based discount rates and prepayments speeds. The discount rate is based on the current U.S. Treasury yield curve, as published by the Department of the Treasury, plus a spread for the marketplace risk associated with these assets. (Level 3)

FHLB and FRB stock - The carrying amounts of FHLB and FRB stock approximate fair value, as such stock may be resold to the issuer at carrying value (Level 2). Subsequent to the issuance of the Company's consolidated financial statements, the Company determined that investments in FHLB and FRB stock of \$17.6 million and \$12.3 million, respectively, should be classified as Level 2 rather than Level 1 as originally classified as ownership of these investments is restricted to member banks, the securities are non-marketable equity investments and purchases and sales of these securities are at par with the issuer. Accordingly, the Company has revised the classification of these investments from Level 1 to Level 2 in the table of fair value measurements as of December 31, 2014.

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

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

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

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

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

#### **Note 17 — Share-based Compensation**

At December 31, 2015, we had three incentive plans, the Year 2000 Stock Option Plan (the “2000 Plan”), the 2007 Equity Compensation Plan (the “2007 Plan”) which replaced the 2000 Plan and the 2013 Equity Compensation Plan (the “2013 Plan” and with the 2000 Plan and 2007 Plan, the “Plans”) which replaced the 2007 Plan.

The 2013 Plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award, together with any other right or interest to a participant under the plan. Plan participant includes executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its related entities.

Although no future stock options may be granted under the 2007 Plan and 2000 Plan, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2013 Plan.

Under the 2013 Plan, we may grant equity incentive awards for up to 1,500,000 shares of common stock. As of December 31, 2015, 931,342 shares were still available for issuance under the 2013 Plan.

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

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
Share-based compensation expense	\$ 2,241	\$ 2,165	\$ 705
Related tax benefits	\$ 755	\$ 516	\$ 32

As of December 31, 2015, unrecognized share-based compensation expense was as follows

	Unrecognized Expense	Average Expected Recognition Period
	<i>(In thousands)</i>	
Stock option awards	\$ 525	1.2 years
Restricted stock awards	1,999	1.7 years
<b>Total unrecognized share-based compensation expense</b>	<b>\$ 2,524</b>	<b>1.6 years</b>

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

#### Stock Options

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

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

Weighted-average assumption	Year Ended December 31,		
	2015	2014	2013
Dividend yield	1.80 %	1.27 %	1.61 %
Expected volatility	25.00 %	35.18 %	43.67 %
Expected term	3 years	3 years	3 years
Risk-free interest rate	1.11 %	0.86 %	0.79 %

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



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

	Year Ended December 31,					
	2015		2014		2013	
	<i>(In thousands, except per share data)</i>					
Grant date fair value of options granted	\$	78	\$	583	\$	1,053
Fair value of options vested	\$	2,668	\$	2,141	\$	920
Total intrinsic value of options exercised (1)	\$	488	\$	353	\$	485
Cash received from options exercised	\$	616	\$	467	\$	525
Weighted-average estimated fair value per share of options granted	\$	3.62	\$	4.79	\$	4.48

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

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

	Year Ended December 31,					
	2015		2014		2013	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Options outstanding at beginning of period	603,872	\$ 23.78	546,595	\$ 28.09	342,950	\$ 37.44
Options granted	28,000	\$ 23.47	158,000	\$ 21.30	305,000	\$ 16.43
Options exercised	(46,516)	\$ 13.24	(37,569)	\$ 12.42	(46,113)	\$ 11
Options forfeited	(71,608)	\$ 20.59	(30,917)	\$ 14.64	(36,566)	\$ 12.50
Options expired	(3,600)	\$ 136.79	(32,237)	\$ 106.70	(18,676)	\$ 81.20
<b>Options outstanding at end of period</b>	<b>510,148</b>	<b>\$ 24.38</b>	<b>603,872</b>	<b>\$ 23.78</b>	<b>546,595</b>	<b>\$ 28.09</b>
Options exercisable at end of period	333,460	\$ 27.16	224,766	\$ 33.35	154,970	\$ 59.77

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

	Year Ended December 31,					
	2015		2014		2013	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Non-vested options outstanding at beginning of period	379,106	\$ 18.11	391,625	\$ 15.56	183,188	\$ 12.37
Options granted	28,000	\$ 23.47	158,000	\$ 21.30	305,000	\$ 16.43
Options vested	(158,810)	\$ 16.80	(139,602)	\$ 15.34	(59,997)	\$ 12.14
Options forfeited	(71,608)	\$ 20.59	(30,917)	\$ 14.64	(36,566)	\$ 12.50
<b>Non-vested options outstanding at end of period</b>	<b>176,688</b>	<b>\$ 19.13</b>	<b>379,106</b>	<b>\$ 18.11</b>	<b>391,625</b>	<b>\$ 15.56</b>

As of December 31, 2015, stock options outstanding under the Plans were as follows:

	Options Outstanding				Options Exercisable			
	Number of Shares	Intrinsic Value (1)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Number of Shares	Intrinsic Value (1)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life
	<i>(In thousands except share and per share data)</i>							
\$10.80 to \$49.99	482,898	\$ 3,219	\$ 17.06	7.7 years	306,210	\$ 2,398	\$ 15.87	7.4 years
\$50.00 to \$99.99	—	—	—	0.0 years	—	—	—	0.0 years
\$100.00 to \$149.99	16,000	—	143.63	0.3 years	16,000	—	143.63	0.3 years
\$150.00 to \$173.04	11,250	—	168.86	0.8 years	11,250	—	168.86	0.8 years
	<b>510,148</b>	<b>\$ 3,219</b>	<b>\$ 24.38</b>	<b>7.3 years</b>	<b>333,460</b>	<b>\$ 2,398</b>	<b>\$ 27.16</b>	<b>6.9 years</b>

(1) Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was \$23.72 as of December 31, 2015, and the exercise price, multiplied by the number of options.

#### Restricted Stock Awards

Restricted stock awards under the Plans become fully vested after three to five years of continued employment from the date of grant. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock are treated as cancelled shares.

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

	2015		2014		2013	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	173,222	\$ 19.58	116,082	\$ 16.43	10,500	\$ 10.83
Restricted stock granted	58,092	\$ 22.53	119,988	\$ 21.56	116,332	\$ 16.55
Restricted stock vested	(68,017)	\$ 19.16	(53,515)	\$ 17.61	(7,000)	\$ 10.75
Restricted stock forfeited	(26,183)	\$ 21.16	(9,333)	\$ 17.05	(3,750)	\$ 15.30
<b>Restricted stock at end of period</b>	<b>137,114</b>	<b>\$ 20.74</b>	<b>173,222</b>	<b>\$ 19.58</b>	<b>116,082</b>	<b>\$ 16.43</b>

#### Note 18 — Earnings per Share

Earnings per share ("EPS") is calculated on both a basic and a diluted basis. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of 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.

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

by the weighted-average number of common shares. For diluted EPS, weighted-average number of common shares include the diluted effect of stock options.

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

	<b>Year Ended December 31, 2015</b>	
	<i>(in thousands, except for share and per share data)</i>	
Basic EPS		
Net Income	\$	53,823
Less: income allocated to unvested restricted shares		145
Income allocated to common shares		53,678
Weighted-average shares for basic EPS		31,788,215
<b>Basic EPS</b>	<b>\$</b>	<b>1.69</b>
Diluted EPS		
Income allocated to common shares	\$	53,678
Weighted-average shares for diluted EPS		31,876,820
<b>Diluted EPS</b>	<b>\$</b>	<b>1.68</b>

	<b>Net Income</b>	<b>Weighted-Average Shares</b>	<b>Per Share Amount</b>
	<i>(Numerator)</i>	<i>(Denominator)</i>	
	<i>(In thousands, except share and per share data)</i>		
<b>Year Ended December 31, 2014</b>			
Basic EPS			
Income from continuing operations, net of taxes	\$ 50,205	31,696,100	\$ 1.58
Income from discontinued operations, net of taxes	(444)	31,696,100	(0.01)
<b>Basic EPS</b>	<b>\$ 49,761</b>	<b>31,696,100</b>	<b>\$ 1.57</b>
Effect of dilutive securities - options, warrants and unvested restricted stock	—	281,964	\$ (0.01)
Diluted EPS			
Income from continuing operations, net of taxes	\$ 50,205	31,978,064	\$ 1.57
Income from discontinued operations, net of taxes	(444)	31,978,064	(0.01)
<b>Diluted EPS</b>	<b>\$ 49,761</b>	<b>31,978,064</b>	<b>\$ 1.56</b>
<b>Year Ended December 31, 2013</b>			
Basic EPS			
Income from continuing operations, net of taxes	\$ 39,784	31,598,913	\$ 1.26
Income from discontinued operations, net of taxes	73	31,598,913	—
<b>Basic EPS</b>	<b>\$ 39,857</b>	<b>31,598,913</b>	<b>\$ 1.26</b>
Effect of dilutive securities - options, warrants and unvested restricted stock	—	97,607	—
Diluted EPS			
Income from continuing operations, net of taxes	\$ 39,784	31,696,520	\$ 1.26
Income from discontinued operations, net of taxes	73	31,696,520	—
<b>Diluted EPS</b>	<b>\$ 39,857</b>	<b>31,696,520</b>	<b>\$ 1.26</b>

For the years ended December 31, 2015, 2014 and 2013, there were 30,250, 85,850 and 60,400 options, warrants and shares of unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

## Note 19 — Employee Benefits

### 401(k) Plan

We have a Section 401(k) plan for the benefit of substantially all of our employees. We match 75 percent of participant contributions to the 401(k) plan up to 8 percent of each 401(k) plan participant's annual compensation. Contributions to the 401(k) plan were \$1.6 million, \$1.3 million and \$1.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### Bank-Owned Life Insurance

In 2001 and 2004, we purchased single premium life insurance policies called bank-owned life insurance covering certain officers. As of December 31, 2015, cash surrender value of BOLI was \$48.3 million, of which \$18.3 million was acquired in the acquisition of CBI. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier.

### Deferred Compensation Plan

Effective November 1, 2006, the Board of Directors approved the Hanmi Financial Corporation Deferred Compensation Plan (the "DCP"). The DCP is unfunded, and a non-qualified deferred compensation program for directors and certain key employees whereby they may defer a portion of annual compensation for payment upon retirement of the amount deferred plus a guaranteed return. The liabilities for the deferred compensation plan and interest thereon were zero both as of December 31, 2015 and 2014.

## Note 20 — Commitments and Contingencies

We lease our premises under non-cancelable operating leases. At December 31, 2015, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

Year Ended December 31,	Amount
2016	\$ 5,864
2017	3,711
2018	2,287
2019	1,593
2020	1,353
Thereafter	954
<b>Total</b>	<b>\$ 15,762</b>

For the years ended December 31, 2015, 2014 and 2013, rental expenses recorded under such leases amounted to \$7.6 million, \$6.1 million and \$5.6 million, respectively.

### Litigation

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

## Note 21 — Off-Balance Sheet Commitments

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

The Bank's exposure to loan losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, was based on management's credit evaluation of the counterparty.

Collateral held varies but may include accounts receivable, inventory, premises and equipment, and income-producing or borrower-occupied properties. The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<i>(In thousands)</i>	
Commitments to extend credit	\$ 262,680	\$ 309,584
Standby letters of credit	6,839	8,982
Commercial letters of credit	4,018	7,046
<b>Total undisbursed loan commitments</b>	<b>\$ 273,537</b>	<b>\$ 325,612</b>

## Note 22 — Liquidity

### Hanmi Financial

Management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through December 31, 2016.

### Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originating from its branch platform. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of December 31, 2015, the Bank had \$99,000 of brokered deposits assumed from the acquisition of CBI.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30 percent of its assets. As of December 31, 2015, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$457.2 million and \$287.2 million, respectively, compared to \$649.5 million and \$499.5 million, respectively, as of December 31, 2014. The Bank's FHLB borrowings as of December 31, 2015 and December 31, 2014 totaled \$170.0 million and \$150 million, respectively, which represented 4.02 percent and 3.54 percent of assets as of December 31, 2015 and December 31, 2014, respectively.

The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and 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 \$31.8 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of \$47.4 million, and had no borrowings as of December 31, 2015. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for repurchase agreements up to \$100.0 million. The Bank established unsecured federal funds lines of credit totaling \$95.0 million from three financial institutions in June 2014 primarily to support short-term liquidity.

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

## Note 23 — Segment Reporting

Through our branch network and lending units, we provide a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; and commercial and industrial, real estate and consumer

lending. While our chief decision makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, we consider all of our operations to be aggregated in one reportable operating segment.

**Note 24 — Condensed Financial Information of Parent Company**

**Balance Sheets**

		<b>Year Ended December 31,</b>	
		<b>2015</b>	<b>2014</b>
		<i>(In thousands)</i>	
<b>Assets</b>			
Cash		\$ 15,660	\$ 18,688
Investment in consolidated subsidiaries		491,610	450,572
Other assets		5,525	4,248
<b>Total assets</b>		<b>\$ 512,795</b>	<b>\$ 473,508</b>
<b>Liabilities and Stockholders' Equity</b>			
Liabilities:			
Subordinated debentures		\$ 18,703	\$ 18,544
Other liabilities		174	1,577
Total liabilities		18,877	20,121
Stockholders' equity		493,918	453,387
<b>Total liabilities and stockholders' equity</b>		<b>\$ 512,795</b>	<b>\$ 473,508</b>

**Statements of Income**

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(In thousands)</i>		
Equity in earnings of subsidiaries	\$ 56,840	\$ 39,576	\$ 42,937
Other income (expenses), net	(3,017)	10,185	(3,080)
<b>Net income</b>	<b>\$ 53,823</b>	<b>\$ 49,761</b>	<b>\$ 39,857</b>

**Statements of Cash Flows**

	Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands)</i>		
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 53,823	\$ 49,761	\$ 39,857
Adjustments to reconcile net income to net cash used in operating activities:			
(Income) losses from subsidiaries	(56,840)	(39,576)	(42,937)
Amortization of subordinated debentures	159	71	—
Share-based compensation expense	2,241	2,165	705
Changes in fair value of stock warrants	—	—	82
Bargain purchase gain	—	(14,577)	—
Gain on sale of securities	—	—	(218)
Change in other assets	(1,277)	(2,320)	(923)
Change in other liabilities	(1,403)	15,715	(8,897)
<b>Net cash provided by (used in) operating activities</b>	<b>(3,297)</b>	<b>11,239</b>	<b>(12,331)</b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of security available for sale	—	—	436
Cash acquired in acquisition, net of cash consideration paid	—	116,967	—
Proceeds from Hanmi Bank	12,782	76,231	86,845
Payments to Hanmi Bank	(349)	(193,179)	—
<b>Net cash provided by investing activities</b>	<b>12,433</b>	<b>19</b>	<b>87,281</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from exercise of stock options and stock warrants	616	467	830
Redemption of subordinated debentures	—	—	(82,406)
Cash dividend paid	(12,780)	(6,694)	(4,439)
<b>Net cash (used in) provided by financing activities</b>	<b>(12,164)</b>	<b>(6,227)</b>	<b>(86,015)</b>
<b>Net increase (decrease) in cash</b>	<b>(3,028)</b>	<b>5,031</b>	<b>(11,065)</b>
Cash at beginning of year	18,688	13,657	24,722
<b>Cash at end of year</b>	<b>\$ 15,660</b>	<b>\$ 18,688</b>	<b>\$ 13,657</b>

**Note 25 — Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data is shown in the following tables:

	Quarter Ended			
	March 31	June 30	September 30	December 31
	<i>(In thousands, except per share data)</i>			
<b>2015:</b>				
Interest and dividend income	\$ 41,437	\$ 41,050	\$ 40,025	\$ 41,714
Interest expense	3,981	3,958	4,040	4,130
Net interest income before provision for loan losses	37,456	37,092	35,985	37,584
(Negative) provision for loan losses	(1,672)	(2,403)	(3,704)	(3,835)
Non-interest income	10,850	11,135	13,561	12,056
Non-interest expense	31,391	27,028	28,723	28,186
Income before provision for income taxes	18,587	23,602	24,527	25,289
Provision for income taxes	7,534	9,619	10,569	10,460
<b>Net income from continuing operations, net of taxes</b>	<b>\$ 11,053</b>	<b>\$ 13,983</b>	<b>\$ 13,958</b>	<b>\$ 14,829</b>
Income (loss) from discontinued operations	—	—	—	—
<b>Net income</b>	<b>\$ 11,053</b>	<b>\$ 13,983</b>	<b>\$ 13,958</b>	<b>\$ 14,829</b>
Basic earnings per share:				
Income from continuing operations, net of taxes	\$ 0.35	\$ 0.44	\$ 0.44	\$ 0.46
Loss from discontinued operations, net of taxes	—	—	—	—
Basic earnings per share	\$ 0.35	\$ 0.44	\$ 0.44	\$ 0.46
Diluted earnings per share:				
Income from continuing operations, net of taxes	\$ 0.35	\$ 0.44	\$ 0.44	\$ 0.46
Loss from discontinued operations, net of taxes	—	—	—	—
Diluted earnings per share	\$ 0.35	\$ 0.44	\$ 0.44	\$ 0.46
<b>2014:</b>				
Interest and dividend income	\$ 30,367	\$ 30,343	\$ 34,562	\$ 41,462
Interest expense	3,269	3,183	3,475	4,106
Net interest income before provision for loan losses	27,098	27,160	31,087	37,356
Provision for loan losses	(3,608)	(3,902)	(60)	1,312
Non-interest income	6,214	5,487	21,611	8,984
Non-interest expense	18,108	18,174	25,590	36,799
Income before provision for income taxes	18,812	18,375	27,168	8,229
Provision for income taxes	7,844	6,866	5,368	2,301
<b>Net income from continuing operations, net of taxes</b>	<b>\$ 10,968</b>	<b>\$ 11,509</b>	<b>\$ 21,800</b>	<b>\$ 5,928</b>
Loss (income) from discontinued operations	23	(467)	—	—
<b>Net income</b>	<b>\$ 10,991</b>	<b>\$ 11,042</b>	<b>\$ 21,800</b>	<b>\$ 5,928</b>
Basic earnings per share:				
Income from continuing operations, net of taxes	\$ 0.34	\$ 0.36	\$ 0.69	\$ 0.19
Income from discontinued operations, net of taxes	—	(0.01)	—	—
Basic earnings per share	\$ 0.34	\$ 0.35	\$ 0.69	\$ 0.19
Diluted earnings per share:				
Income from continuing operations, net of taxes	\$ 0.34	\$ 0.36	\$ 0.68	\$ 0.19
(Loss) income from discontinued operations, net of taxes	—	(0.01)	—	—
Diluted earnings per share	\$ 0.34	\$ 0.35	\$ 0.68	\$ 0.19



Hanmi's acquisition of Central Bancorp, Inc. ("CBI"), the parent company of United Central Bank, was completed on August 31, 2014. The combined companies began operating as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations conducted under the Hanmi Bank brand effective as of September 1, 2014. The 2014 financial results reflect eight months of stand-alone operations of Hanmi and four months of combined operations. Hanmi's accounting for this business combination is complete and has been recorded based on finalized amounts. The accounting is updated during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date. Adjustments to the provisional amounts during the measurement period are recognized as retrospective adjustments as of the date of the acquisition. During the fourth quarter of 2014 Hanmi updated the valuation of assets and liabilities acquired in the transaction. As a result, the provisional values of certain assets and liabilities reported in the third quarter of 2014 have been updated to reflect the changes in estimated values. The results as of and for the quarters ended September 30, 2014, included herein, have been adjusted retrospectively to reflect measurement period adjustments to the provisional acquisition accounting values as of the acquisition date. The changes in provisional values resulted in a retrospective adjustment of \$8.0 million to the bargain purchase gain that was provisionally reported for the third quarter of 2014 for a total bargain purchase gain of \$14.6 million. This retrospective adjustment revises the reported third quarter net income to \$21.8 million from \$13.3 million as previously reported.

**Note 26 — Subsequent Events**

Management has evaluated subsequent events through the date of issuance of the financial data included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Annual Report on Form 10-K or would be required to be recognized in the Consolidated Financial Statements as of December 31, 2015.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 29, 2016

### Hanmi Financial Corporation

By:

/s/ C. G. Kum

C. G. Kum

*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of February 29, 2016.

/s/ C. G. Kum

C. G. Kum

*President and Chief Executive Officer*

*(Principal Executive Officer)*

/s/ Romolo C. Santarosa

Romolo C. Santarosa

*Senior Executive Vice President and Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

/s/ Joseph K. Rho

Joseph K. Rho

*Chairman of the Board*

/s/ John J. Ahn

John J. Ahn

*Director*

/s/ Christie K. Chu

Christie K. Chu

*Director*

/s/ Harry H. Chung

Harry H. Chung

*Director*

/s/ John A. Hall

John A. Hall

*Director*

/s/ Paul (Seon-Hong) Kim

Paul (Seon-Hong) Kim

*Director*

/s/ Joon Hyung Lee

Joon Hyung Lee

*Director*

/s/ David L. Rosenblum

David L. Rosenblum

*Director*

/s/ Michael M. Yang

Michael M. Yang

*Director*

## Hanmi Financial Corporation and Subsidiaries

### Exhibit Index

<u>Exhibit Number</u>	<u>Document</u>
2.1	Agreement and Plan of Merger by and among Hanmi Financial Corporation, Central Bancorp, Inc. and Harmony Merger Sub Inc., dated as of December 15, 2013 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 16, 2013).
3.1	Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.2	Certificate of Second Amendment of Certificate of Incorporation of Hanmi Financial Corporation, dated June, 23, 2004 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated May 28, 2009 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated July 28, 2010 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.5	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 19, 2011).
3.6	Amended and Restated Bylaws of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
3.7	Certificate of Amendment to Bylaws of Hanmi Financial Corporation, dated November 21, 2007 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
3.8	Certificate of Amendment to Bylaws of Hanmi Financial Corporation, dated October 14, 2009 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
4.1	Specimen stock certificate representing Hanmi Financial Corporation Common Stock (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
10.1	Central Bancorp Statutory Trust I Junior Subordinated Indenture dated as of December 27, 2005, entered into between Central Bancorp, Inc. and JPMorgan Chase Bank, National Association as Trustee
10.2	Amended and Restated Declaration of Trust of Central Bancorp Statutory Trust I dated as of December 27, 2005 among Central Bancorp, Inc., JPMorgan Chase Bank, National Association, and the Administrative Trustees Named Therein
10.3	Central Bancorp Statutory Trust I Trust Preferred Securities Guarantee Agreement dated as of December 27, 2005, entered into between Central Bancorp, Inc., as Guarantor, and JPMorgan Chase Bank, National Association, as Guarantee Trustee
10.4	Employment Agreement by and between Hanmi Financial Corporation and Hanmi Bank, on the One Hand, and C. G. Kum, on the Other Hand, dated as of May 24, 2013 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on June 12, 2013). †
10.5	Hanmi Financial Corporation 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on June 26, 2007). †

- 10.6 Hanmi Financial Corporation Year 2000 Stock Option Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Forms S-8, filed with the SEC on August 18,2000).†
- 10.7 Form of Notice of Stock Option Grant and Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009). †
- 10.8 Hanmi Financial Corporation Form of Severance and Release Agreement (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009). †
- 10.9 Form of Notice of Grant and Restricted Stock Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009). †
- 10.10 Form of Indemnity Agreement(Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report of Form 10-K for the year ended December 31,2010 filed with the SEC on March 16,2011)
- 10.11 Hanmi Financial Corporation Amended and Restated 2013 Equity Compensation Plan (Previously filed and incorporated by reference herein from Exhibit 4.2 attached to Hanmi Financial Corporation's Registration Statement on Form S-8, filed with the SEC on October 23, 2013).†
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document \*
- 101.SCH XBRL Taxonomy Extension Schema Document \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document \*

† Constitutes a management contract or compensatory plan or arrangement.

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

Central Bancorp, Inc.  
as Company

INDENTURE  
Dated as of December 27, 2005

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION  
As Trustee

JUNIOR SUBORDINATED DEBT SECURITIES

Due March 15, 2036

(8) Central Bancorp, Inc.  
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THIS INDENTURE, dated as of December 27, 2005, between Central Bancorp, Inc., a bank holding company incorporated in Texas (hereinafter sometimes called the "Company"), and JPMorgan Chase Bank, National Association as trustee (hereinafter sometimes called the "Trustee").

WITNESSETH:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its Junior Subordinated Debt Securities due March 15, 2036 (the "Debt Securities") under this Indenture and to provide, among other things, for the execution and authentication, delivery and administration thereof, the Company has duly authorized the execution of this Indenture.

NOW, THEREFORE, in consideration of the premises, and the purchase of the Debt Securities by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Debt Securities as follows:

ARTICLE I  
DEFINITIONS

SECTION 1.01. Definitions.

The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. All accounting terms used herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles and the term "generally accepted accounting principles" means such accounting principles as are generally accepted in the United States at the time of any computation. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Additional Interest" shall have the meaning set forth in Section 3.06.

"Additional Provisions" shall have the meaning set forth in Section 15.01.

"Authenticating Agent" means any agent or agents of the Trustee which at the time shall be appointed and acting pursuant to Section 6.12.

"Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" means the board of directors or the executive committee or any other duly authorized designated officers of the Company.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means any day other than a Saturday, Sunday or any other day on which banking institutions in Wilmington, Delaware, New York City or the city of either the Principal Office of the Trustee or the principal office of the Company are permitted or required by any applicable law or executive order to close.

"Calculation Agent" means the Person identified as "Trustee" in the first paragraph hereof with respect to the Debt Securities and the Institutional Trustee with respect to the Trust Securities.

"Capital Securities" means undivided beneficial interests in the assets of the Trust which are designated as "TP Securities" and rank pari passu with Common Securities issued by the Trust; provided, however, that if an Event of Default (as defined in the Declaration) has occurred and is continuing, the rights of holders of such Common Securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights of holders of such Capital Securities.

"Capital Securities Guarantee" means the guarantee agreement that the Company will enter into with JPMorgan Chase Bank, National Association or other Persons that operates directly or indirectly for the benefit of holders of Capital Securities of the Trust.

"Capital Treatment Event" means, if the Company is organized and existing under the laws of the United States or any state thereof or the District of Columbia, the receipt by the Company and the Trust of an Opinion of Counsel experienced in such matters to the effect that, as a result of (a) any amendment to, or change in, the laws, rules or regulations of the United States or any political subdivision thereof or therein, or any rules, guidelines or policies of any applicable regulatory authority for the Company or (b) any official or administrative pronouncement or action or decision interpreting or applying such laws, rules or regulations, which amendment or change is effective or which pronouncement, action or decision is announced on or after the date of original issuance of the Debt Securities, there is more than an insubstantial risk that, within 90 days of the receipt of such opinion, the aggregate Liquidation Amount of the Capital Securities will not be eligible to be treated by the Company as "Tier 1 Capital" (or the then equivalent thereof) for purposes of the capital adequacy guidelines of the Federal Reserve (or any successor regulatory authority with jurisdiction over bank or financial holding companies), as then in effect and applicable to the Company (or if the Company is not a bank holding company, such guidelines applied to the Company as if the Company were subject to such guidelines); provided, however, that the inability of the Company to treat all or any portion of the aggregate Liquidation Amount of the Capital Securities as Tier 1 Capital shall not constitute the basis for a Capital Treatment Event, if such inability results from the Company having cumulative preferred stock, minority interests in consolidated subsidiaries, or any other class of security or interest which the Federal Reserve or OTS, as applicable, may now or hereafter accord Tier 1 Capital treatment in excess of the amount which may now or hereafter qualify for treatment as Tier 1 Capital under applicable capital adequacy guidelines; provided further, however, that the distribution of the Debt Securities in connection with the liquidation of the Trust by the Company shall not in and of itself constitute a Capital Treatment Event unless such liquidation shall have occurred in connection with a Tax Event or an Investment Company Event.

"Certificate" means a certificate signed by any one of the principal executive officer, the principal financial officer or the principal accounting officer of the Company.

"Common Securities" means undivided beneficial interests in the assets of the Trust which are designated as "Common Securities" and rank pari passu with Capital Securities issued by the Trust; provided, however, that if an Event of Default (as defined in the Declaration) has occurred and is continuing, the rights of holders of such Common Securities to payment in respect of distributions and

payments upon liquidation, redemption and otherwise are subordinated to the rights of holders of such Capital Securities.

"Company" means Central Bancorp, Inc., a bank holding company incorporated in Texas, and, subject to the provisions of Article XI, shall include its successors and assigns.

"Debt Security" or "Debt Securities" has the meaning stated in the first recital of this Indenture.

"Debt Security Register" has the meaning specified in Section 2.05.

"Declaration" means the Amended and Restated Declaration of Trust of the Trust dated as of December 27, 2005, as amended or supplemented from time to time.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" has the meaning set forth in Section 2.08.

"Deferred Interest" has the meaning set forth in Section 2.11.

"Event of Default" means any event specified in Section 5.01, which has continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

"Extension Period" has the meaning set forth in Section 2.11.

"Federal Reserve" means the Board of Governors of the Federal Reserve System.

"Fixed Rate" means a per annum rate of interest, equal to 6.255% commencing December 27, 2005.

"Fixed Rate Period" has the meaning assigned to it in Section 2.10(a).

"Indenture" means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented, or both.

"Initial Purchaser" means the initial purchaser of the Capital Securities.

"Institutional Trustee" has the meaning set forth in the Declaration.

"Interest Payment Date" means March 15, June 15, September 15 and December 15 of each year, commencing on March 15, 2006, during the term of this Indenture.

"Interest Payment Period" means the period from and including an Interest Payment Date, or in the case of the first Interest Payment Period, the original date of issuance of the Debt Securities, to, but excluding, the next succeeding Interest Payment Date or, in the case of the last Interest Payment Period, the Redemption Date, Special Redemption Date or Maturity Date, as the case may be.

"Interest Rate" means the Fixed Rate and Variable Rate, as applicable.

"Investment Company Event" means the receipt by the Company and the Trust of an Opinion of Counsel experienced in such matters to the effect that, as a result of a change in law or regulation or written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the Trust is or, within 90 days of the date of such opinion will be, considered an "investment company" that is required to be registered under the Investment Company Act of 1940, as amended, which change or prospective change becomes effective or would become effective, as the case may be, on or after the date of the original issuance of the Debt Securities.

"LIBOR" means the London Interbank Offered Rate for U.S. Dollar deposits in Europe as determined by the Calculation Agent according to Section 2.1 O(b).

"LIBOR Banking Day" has the meaning set forth in Section 2.1O(b)(1).

"LIBOR Business Day" has the meaning set forth in Section 2.1O(b)(1).

"LIBOR Determination Date" has the meaning set forth in Section 2.1 O(b).

"Liquidation Amount" means the liquidation amount of \$1,000 per Trust Security.

"Maturity Date" means March 15, 2036.

"Notice" has the meaning set forth in Section 2.11.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the Vice Chairman, the President or any Vice President, and by the Chief Financial Officer, the Treasurer, an Assistant Treasurer, the Comptroller, an Assistant Comptroller, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee. Each such certificate shall include the statements provided for in Section 14.06 if and to the extent required by the provisions of such Section.

"Opinion of Counsel" means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, or may be other counsel reasonably satisfactory to the Trustee. Each such opinion shall include the statements provided for in Section 14.06 if and to the extent required by the provisions of such Section.

"OTS" means the Office of Thrift Supervision and any successor federal agency that is primarily responsible for regulating the activities of savings and loan holding companies.

"Outstanding" means, when used with reference to Debt Securities, subject to the provisions of Section 7.04, as of any particular time, all Debt Securities authenticated and delivered by the Trustee or the Authenticating Agent under this Indenture, except

(a) Debt Securities theretofore canceled by the Trustee or the Authenticating Agent or delivered to the Trustee for cancellation;

(b) Debt Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent); provided, that, if such Debt Securities, or portions thereof, are to be redeemed prior to maturity thereof, notice of such redemption shall have been given as provided in Articles X and XIV or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Debt Securities paid pursuant to Section 2.06 or in lieu of or in substitution for which other Debt Securities shall have been authenticated and delivered pursuant to the terms of Section 2.06 unless proof satisfactory to the Company and the Trustee is presented that any such Debt Securities are held by bona fide holders in due course.

"Paying Agent" has the meaning set forth in Section 3.04(e).

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Debt Security means every previous Debt Security evidencing all or a portion of the same debt as that evidenced by such particular Debt Security; and, for the purposes of this definition, any Debt Security authenticated and delivered under Section 2.06 in lieu of a lost, destroyed or stolen Debt Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Debt Security.

"Principal Office of the Trustee" means the office of the Trustee, at which at any particular time its corporate trust business shall be principally administered, which at all times shall be located within the United States and at the time of the execution of this Indenture shall be 600 Travis Street, 50th Floor, Houston, Texas 77002.

"Redemption Date" has the meaning set forth in Section 10.01.

"Redemption Price" means 100% of the principal amount of the Debt Securities being redeemed plus accrued and unpaid interest on such Debt Securities to the Redemption Date.

"Responsible Officer" means, with respect to the Trustee, any officer within the Principal Office of the Trustee with direct responsibility for the administration of the Indenture, including any vice-president, any assistant vice-president, any secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer or other officer of the Principal Office of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Securityholder," "holder of Debt Securities" or other similar terms, means any Person in whose name at the time a particular Debt Security is registered on the Debt Security Register.

"Senior Indebtedness" means, with respect to the Company, (i) the principal, premium, if any, and interest in respect of (A) indebtedness of the Company for money borrowed, similar obligations arising from off-balance sheet guarantees and direct credit substitutes and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the Company; (ii) all capital lease obligations of the Company; (iii) all obligations of the Company issued or assumed as the deferred purchase price of property, all conditional sale obligations of the Company and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business, such trade accounts payable being pari passu in right of payment to the Debt Securities); (iv) all obligations of the Company for the reimbursement of any letter of credit, any banker's acceptance, all obligations associated with derivative products such as interest rate and foreign exchange contracts and commodity contracts, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons for the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all

obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), whether incurred on or prior to the date of this Indenture or thereafter incurred, unless, it is provided in the instrument creating or evidencing the same or pursuant to which the same is outstanding, that such obligations are not superior or are pari passu in right of payment to the Debt Securities; provided, however, that Senior Indebtedness shall not include (1) any indebtedness, liabilities or obligations of the Company, or any Subsidiary of the Company, under debt securities (or guarantees in respect of debt securities) initially issued after the date of this Indenture to any trust, or a trustee of a trust, partnership or other entity affiliated with the Company that is, directly or indirectly, a finance subsidiary (as such term is defined in Rule 3a-5 under the Investment Company Act of 1940) or other financing vehicle of the Company or any Subsidiary of the Company in connection with the issuance by that entity of preferred securities or other securities in transactions substantially similar in structure to the transactions contemplated hereunder and in the Declaration; (2) Debt Securities issued pursuant to this Indenture and guarantees in respect of such Debt Securities; (3) obligations with respect to which (a) in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are pari passu, junior or otherwise not superior in right of payment to the Debt Securities.

"Special Event" means any of a Tax Event, an Investment Company Event or a Capital Treatment Event.

"Special Redemption Date" has the meaning set forth in Section 10.02.

"Special Redemption Price" means, with respect to the redemption of any Debt Security following a Special Event, an amount in cash equal to 103.525% of the principal amount of Debt Securities to be redeemed prior to March 15, 2007 and thereafter equal to the percentage of the principal amount of the Debt Securities that is specified below for the Special Redemption Date plus, in each case, unpaid interest accrued thereon to the Special Redemption Date:

<u>Special Redemption During the 12-Month Period Beginning March 15</u>	<u>Percentage of Principal Amount</u>
2007	103.140%
2008	102.355%
2009	101.570%
2010	100.785%
2011 and thereafter	100.000%

"Subsidiary" means, with respect to any Person, (i) any corporation, at least a majority of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture or similar entity, at least a majority of the outstanding partnership or similar interests of which shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner. For the purposes of this definition, "voting stock" means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.



"Tax Event" means the receipt by the Company and the Trust of an Opinion of Counsel experienced in such matters to the effect that, as a result of any amendment to or change (including any announced prospective change) in the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement (including any private letter ruling, technical advice memorandum, regulatory procedure, notice or announcement (an "Administrative Action")) or judicial decision interpreting or applying such laws or regulations, regardless of whether such Administrative Action or judicial decision is issued to or in connection with a proceeding involving the Company or the Trust and whether or not subject to review or appeal, which amendment, clarification, change, Administrative Action or decision is enacted, promulgated or announced, in each case on or after the date of original issuance of the Debt Securities, there is more than an insubstantial risk that: (i) the Trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Debt Securities; (ii) interest payable by the Company on the Debt Securities is not, or within 90 days of the date of such opinion, will not be, deductible by the Company, in whole or in part, for United States federal income tax purposes; or (iii) the Trust is, or will be within 90 days of the date of such opinion, subject to or otherwise required to pay, or required to withhold from distributions to holders of Trust Securities, more than a de minimis amount of other taxes (including withholding taxes), duties, assessments or other governmental charges.

"Trust" means Central Bancorp Statutory Trust I, the Delaware statutory trust, or any other similar trust created for the purpose of issuing Capital Securities in connection with the issuance of Debt Securities under this Indenture, of which the Company is the sponsor.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended from time-to-time, or any successor legislation.

"Trust Securities" means Common Securities and Capital Securities of Central Bancorp Statutory Trust I.

"Trustee" means the Person identified as "Trustee" in the first paragraph hereof, and, subject to the provisions of Article VI hereof, shall also include its successors and assigns as Trustee hereunder.

"United States" means the United States of America and the District of Columbia. "U.S. Person" has the meaning given to United States Person as set forth in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended.

"Variable Rate" means a per annum rate of interest, equal to LIBOR plus 1.40%, as determined on the LIBOR Determination Date preceding each Interest Payment Date, reset quarterly, commencing upon expiration of the Fixed Rate Period.

## ARTICLE II DEBT SECURITIES

### SECTION 2.01. Authentication and Dating.

Upon the execution and delivery of this Indenture, or from time to time thereafter, Debt Securities in an aggregate principal amount not in excess of \$26,805,000 may be executed and delivered by the Company to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Debt Securities to or upon the written order of the Company, signed by its Chairman of the Board of Directors, Vice Chairman, President or Chief Financial Officer or one of its Vice Presidents, without any further action by the Company hereunder. In authenticating such Debt Securities, and accepting the additional responsibilities under this Indenture in relation to such Debt Securities, the Trustee shall be entitled to receive,

and (subject to Section 6.01) shall be fully protected in relying upon a copy of any Board Resolution or Board Resolutions relating thereto and, if applicable, an appropriate record of any action taken pursuant to such resolution, in each case certified by the Secretary or an Assistant Secretary or other officers with appropriate delegated authority of the Company as the case may be.

The Trustee shall have the right to decline to authenticate and deliver any Debt Securities under this Section if the Trustee, being advised by counsel, determines that such action may not lawfully be taken or if a Responsible Officer of the Trustee in good faith shall determine that such action would expose the Trustee to personal liability to existing Securityholders. The Trustee shall also be entitled to receive an opinion of counsel to the effect that (1) all conditions precedent to the execution, delivery and authentication of the Securities have been complied with; (2) the Securities are not required to be registered under the Securities Act; and (3) the Indenture is not required to be qualified under the Trust Indenture Act.

The definitive Debt Securities shall be typed, printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Debt Securities, as evidenced by their execution of such Debt Securities.

SECTION 2.02. Form of Trustee's Certificate of Authentication.

The Trustee's certificate of authentication on all Debt Securities shall be in substantially the following form:

This is one of the Debt Securities referred to in the within-mentioned Indenture.

JPMorgan Chase Bank, National Association, not in its individual capacity but solely as Trustee

By \_\_\_\_\_  
Authorized Signatory

SECTION 2.03. Form and Denomination of Debt Securities.

The Debt Securities shall be substantially in the form of Exhibit A hereto. The Debt Securities shall be in registered, certificated form without coupons and in minimum denominations of \$100,000 and any multiple of \$1,000 in excess thereof. The Debt Securities shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers executing the same may determine with the approval of the Trustee as evidenced by the execution and authentication thereof.

SECTION 2.04. Execution of Debt Securities.

The Debt Securities shall be signed in the name and on behalf of the Company by the manual or facsimile signature of any of its Chairman of the Board of Directors, Vice Chairman, President or Chief Financial Officer or one of its Executive Vice Presidents, Senior Vice Presidents or Vice Presidents, under its corporate seal (if legally required), which may be affixed thereto or printed, engraved or otherwise reproduced thereon, by facsimile or otherwise, and which need not be attested. Only such Debt Securities as shall bear thereon a certificate of authentication substantially in the form herein before recited, executed by the Trustee or the Authenticating Agent by the manual signature of an authorized officer, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee or the Authenticating Agent upon any Debt Security executed by the Company shall be conclusive evidence

that the Debt Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Company who shall have signed any of the Debt Securities shall cease to be such officer before the Debt Securities so signed shall have been authenticated and delivered by the Trustee or the Authenticating Agent, or disposed of by the Company, such Debt Securities nevertheless may be authenticated and delivered or disposed of as though the Person who signed such Debt Securities had not ceased to be such officer of the Company; and any Debt Security may be signed on behalf of the Company by such Persons as, at the actual date of the execution of such Debt Security, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such an officer.

Every Debt Security shall be dated the date of its authentication.

#### SECTION 2.05. Exchange and Registration of Transfer of Debt Securities.

The Company shall cause to be kept, at the office or agency maintained for the purpose of registration of transfer and for exchange as provided in Section 3.02, a register (the "Debt Security Register") for the Debt Securities issued hereunder in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration and transfer of all Debt Securities as provided in this Article II. Such register shall be in written form or in any other form capable of being converted into written form within a reasonable time.

Debt Securities to be exchanged may be surrendered at the Principal Office of the Trustee or at any office or agency to be maintained by the Company for such purpose as provided in Section 3.02, and the Company shall execute, the Company or the Trustee shall register and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in exchange therefor the Debt Security or Debt Securities which the Securityholder making the exchange shall be entitled to receive. Upon due presentment for registration of transfer of any Debt Security at the Principal Office of the Trustee or at any office or agency of the Company maintained for such purpose as provided in Section 3.02, the Company shall execute, the Company or the Trustee shall register and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in the name of the transferee or transferees a new Debt Security for a like aggregate principal amount. Registration or registration of transfer of any Debt Security by the Trustee or by any agent of the Company appointed pursuant to Section 3.02, and delivery of such Debt Security, shall be deemed to complete the registration or registration of transfer of such Debt Security.

All Debt Securities presented for registration of transfer or for exchange or payment shall (if so required by the Company or the Trustee or the Authenticating Agent) be duly endorsed by, or be accompanied by, a written instrument or instruments of transfer in form satisfactory to the Company and either the Trustee or the Authenticating Agent duly executed by, the holder or such holder's attorney duly authorized in writing.

Neither the Trustee nor the Debt Security Registrar shall be responsible for ascertaining whether any transfer hereunder complies with the registration provisions of or any exemptions from the Securities Act (under and as defined in the Declaration), applicable state securities laws or the applicable laws of any other jurisdiction, ERISA, the United States Internal Revenue Code of 1986, as amended, or the Investment Company Act (under and as defined in the Declaration).

No service charge shall be made for any exchange or registration of transfer of Debt Securities, but the Company or the Trustee may require payment of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in connection therewith.

The Company or the Trustee shall not be required to exchange or register a transfer of any Debt Security for a period of 15 days immediately preceding the date of selection of Debt Securities for redemption.

Notwithstanding the foregoing, Debt Securities may not be transferred except in compliance with the restricted securities legend set forth below, unless otherwise determined by the Company in accordance with applicable law, which legend shall be placed on each Debt Security:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE COMPANY, (B) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO A "NON U.S. PERSON" IN AN "OFFSHORE TRANSACTION" PURSUANT TO REGULATIONS UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT TO AN "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (a) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT IN ACCORDANCE WITH THE INDENTURE, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES, REPRESENTS AND WARRANTS THAT IT WILL NOT ENGAGE IN HEDGING TRANSACTIONS INVOLVING THIS SECURITY UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("BRISA"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S

INVESTMENT IN THE ENTITY AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF THIS SECURITY IS NOT PROHIBITED BY SECTION 406 OF BRISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF BRISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER OF THIS SECURITY WILL DELIVER TO THE COMPANY AND TRUSTEE SUCH CERTIFICATES AND OTHER INFORMATION AS MAY BE REQUIRED BY THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING A PRINCIPAL AMOUNT OF NOT LESS THAN \$100,000 AND MULTIPLES OF \$1,000 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING A PRINCIPAL AMOUNT OF LESS THAN \$100,000 SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER. ANY SUCH PURPORTED TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THIS SECURITY FOR ANY PURPOSE, INCLUDING, BUT NOT LIMITED TO, THE RECEIPT OF DISTRIBUTIONS ON THIS SECURITY, AND SUCH PURPORTED TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THIS SECURITY.

THIS OBLIGATION IS NOT A DEPOSIT AND IS NOT INSURED BY THE UNITED STATES OR ANY AGENCY OR FUND OF THE UNITED STATES, INCLUDING THE FEDERAL DEPOSIT INSURANCE CORPORATION. THIS OBLIGATION IS SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND THE CLAIMS OF GENERAL AND SECURED CREDITORS OF THE COMPANY, IS INELIGIBLE AS COLLATERAL FOR A LOAN BY THE COMPANY OR ANY OF ITS SUBSIDIARIES AND IS NOT SECURED.

SECTION 2.06. Mutilated, Destroyed, Lost or Stolen Debt Securities.

In case any Debt Security shall become mutilated or be destroyed, lost or stolen, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, a new Debt Security bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Debt Security, or in lieu of and in substitution for the Debt Security so destroyed, lost or stolen. In every case the applicant for a substituted Debt Security shall furnish to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and the Trustee

evidence to their satisfaction of the destruction, loss or theft of such Debt Security and of the ownership thereof.

The Trustee may authenticate any such substituted Debt Security and deliver the same upon the written request or authorization of any officer of the Company. Upon the issuance of any substituted Debt Security, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. In case any Debt Security which has matured or is about to mature or has been called for redemption in full shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Debt Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Debt Security) if the applicant for such payment shall furnish to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless and, in case of destruction, loss or theft, evidence satisfactory to the Company and to the Trustee of the destruction, loss or theft of such Security and of the ownership thereof.

Every substituted Debt Security issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any such Debt Security is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Debt Security shall be found at any time, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Debt Securities duly issued hereunder. All Debt Securities shall be held and owned upon the express condition that, to the extent permitted by applicable law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Debt Securities and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

#### SECTION 2.07. Temporary Debt Securities.

Pending the preparation of definitive Debt Securities, the Company may execute and the Trustee shall authenticate and make available for delivery temporary Debt Securities that are typed, printed or lithographed. Temporary Debt Securities shall be issuable in any authorized denomination, and substantially in the form of the definitive Debt Securities but with such omissions, insertions and variations as may be appropriate for temporary Debt Securities, all as may be determined by the Company. Every such temporary Debt Security shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Debt Securities. Without unreasonable delay, the Company will execute and deliver to the Trustee or the Authenticating Agent definitive Debt Securities and thereupon any or all temporary Debt Securities may be surrendered in exchange therefor, at the Principal Office of the Trustee or at any office or agency maintained by the Company for such purpose as provided in Section 3.02, and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in exchange for such temporary Debt Securities a like aggregate principal amount of such definitive Debt Securities. Such exchange shall be made by the Company at its own expense and without any charge therefor except that in case of any such exchange involving a registration of transfer the Company may require payment of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. Until so exchanged, the temporary Debt Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Debt Securities authenticated and delivered hereunder.

#### SECTION 2.08. Payment of Interest.

During the Fixed Rate Period, each Debt Security will bear interest at the Fixed Rate. Thereafter each Debt Security will bear interest at the then applicable Variable Rate from and including each Interest Payment Date or, in the case of the first Interest Payment Period, the original date of issuance of such Debt Security to, but excluding, the next succeeding Interest Payment Date or, in the case of the last Interest Payment Period, the Redemption Date, Special Redemption Date or Maturity Date, as applicable, on the principal thereof, on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on Deferred Interest and on any overdue installment of interest (including Defaulted Interest), payable (subject to the provisions of Article XII) on each Interest Payment Date commencing on March 15, 2006. Interest and any Deferred Interest on any Debt Security that is payable, and is punctually paid or duly provided for by the Company, on any Interest Payment Date shall be paid to the Person in whose name said Debt Security (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment, except that interest and any Deferred Interest payable on the Maturity Date shall be paid to the Person to whom principal is paid. In case (i) the Maturity Date of any Debt Security or (ii) the event that any Debt Security or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any Interest Payment Date and either on or prior to such Interest Payment Date, interest on such Debt Security will be paid upon presentation and surrender of such Debt Security.

Any interest on any Debt Security, other than Deferred Interest, that is payable, but is not punctually paid or duly provided for by the Company, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder, and such Defaulted Interest shall be paid by the Company to the Persons in whose names such Debt Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Debt Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements reasonably satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than fifteen nor less than ten days prior to the date of the proposed payment and not less than ten days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Debt Security Register, not less than ten days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Debt Securities (or their respective Predecessor Securities) are registered on such special record date and thereafter the Company shall have no further payment obligation in respect of the Defaulted Interest.

Any interest scheduled to become payable on an Interest Payment Date occurring during an Extension Period shall not be Defaulted Interest and shall be payable on such other date as may be specified in the terms of such Debt Securities.

The term "regular record date" as used in this Indenture shall mean the fifteenth day prior to the applicable Interest Payment Date whether or not such date is a Business Day.

Subject to the foregoing provisions of this Section, each Debt Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Debt Security shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Debt Security.

SECTION 2.09. Cancellation of Debt Securities Paid. etc.

All Debt Securities surrendered for the purpose of payment, redemption, exchange or registration of transfer, shall, if surrendered to the Company or any Paying Agent, be surrendered to the Trustee and promptly canceled by it, or, if surrendered to the Trustee, shall be promptly canceled by it, and no Debt Securities shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall dispose of all canceled Debt Securities in accordance with its customary practices, unless the Company otherwise directs the Trustee in writing, in which case the Trustee shall dispose of such Debt Securities as directed by the Company. If the Company shall acquire any of the Debt Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Debt Securities unless and until the same are surrendered to the Trustee for cancellation.

SECTION 2.10. Computation of Interest.

(a) From December 27, 2005 until March 15, 2011 (the "Fixed Rate Period"), the interest shall be computed on the basis of a 360-day year of twelve 30-day months and the amount payable for any partial period shall be computed on the basis of the number of days elapsed in a 360-day year of twelve 30-day months. Upon expiration of the Fixed Rate Period, the amount of interest payable for any Interest Payment Period will be computed on the basis of a 360-day year and the actual number of days elapsed in the relevant interest period; provided, however, that upon the occurrence of a Special Event Redemption pursuant to Section 10.02 the amounts payable pursuant to this Indenture shall be calculated as set forth in the definition of Special Redemption Price.

(b) Upon expiration of the Fixed Rate Period, LIBOR, for any Interest Payment Period, shall be determined by the Calculation Agent in accordance with the following provisions:

(1) On the second LIBOR Business Day (provided, that on such day commercial banks are open for business (including dealings in foreign currency deposits) in London (a "LIBOR Banking Day"), and otherwise the next preceding LIBOR Business Day that is also a LIBOR Banking Day) prior to March 15, June 15, September 15 and December 15 (or, with respect to the first Interest Payment Period upon expiration of the Fixed Rate Period, on March 15, 2011) (each such day, a "LIBOR Determination Date" for the following Interest Payment Period), the Calculation Agent shall obtain the rate for three-month U.S. Dollar deposits in Europe, which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions) or such other page as may replace such Telerate Page 3750 on the Moneyline Telerate, Inc. service (or such other service or services as may be nominated by the British Banker's Association as the information vendor for the purpose of displaying London Interbank offered rates for U.S. dollar deposits), as of 11:00 a.m. (London time) on such LIBOR Determination Date, and the rate so obtained shall be LIBOR for such Interest Payment Period. "LIBOR Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banking institutions in The City of New York or Wilmington, Delaware are authorized or obligated by law or executive order to be closed. If such rate is superseded on Telerate Page 3750 by a corrected



rate before 12:00 noon (London time) on the same LIBOR Determination Date, the corrected rate as so substituted will be LIBOR for that Interest Payment Period.

(2) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 or such other page as may replace such Telerate Page 3750 on the Moneyline Telerate, Inc. service (or such other service or services as may be nominated by the British Banker's Association as the information vendor for the purpose of displaying London Interbank offered rates for U.S. dollar deposits), the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks (as defined below) to leading banks in the London Interbank market for three-month U.S. Dollar deposits in Europe (in an amount determined by the Calculation Agent) by reference to requests for quotations as of approximately 11 :00 a.m. (London time) on the LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal the arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such a quotation, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that at least two leading banks in the City of New York (as selected by the Calculation Agent) are quoting on the relevant LIBOR Determination Date for three-month U.S. Dollar deposits in Europe at approximately 11 :00 a.m. (London time) (in an amount determined by the Calculation Agent). As used herein, "Reference Banks" means four major banks in the London Interbank market selected by the Calculation Agent.

(3) If the Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR for the applicable Interest Payment Period shall be LIBOR in effect for the immediately preceding Interest Payment Period.

(c) All percentages resulting from any calculations on the Debt Securities will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

(d) On each LIBOR Determination Date, the Calculation Agent shall notify, in writing, the Company and the Paying Agent of the applicable Variable Rate in effect for the related Interest Payment Period. The Calculation Agent shall, upon the request of the holder of any Debt Securities, provide the Variable Rate then in effect. All calculations made by the Calculation Agent in the absence of manifest error shall be conclusive for all purposes and binding on the Company and the Holders of the Debt Securities. The Paying Agent shall be entitled to rely on information received from the Calculation Agent or the Company as to the Variable Rate. The Company shall, from time to time, provide any necessary information to the Paying Agent relating to any original issue discount and interest on the Debt Securities that is included in any payment and reportable for taxable income calculation purposes.

#### SECTION 2.11. Extension of Interest Payment Period.

As long as it is acting in good faith, and so long as no Event of Default pursuant to paragraphs (c), (e) or (f) of Section 5.01 of the Indenture has occurred and is continuing the Company shall have the right, from time to time and without causing an Event of Default, to defer payments of interest on the Debt Securities by extending the interest distribution period on the Debt Securities at any time and from time to time during the term of the Debt Securities, for up to twenty consecutive quarterly periods (each such extended interest distribution period, an "Extension Period"), during which

Extension Period no interest shall be due and payable (except any Additional Interest that may be due and payable). No Extension Period may end on a date other than an Interest Payment Date or extend beyond the Maturity Date, any Redemption Date (to the extent redeemed) or any Special Redemption Date, as the case may be. During any Extension Period, interest will continue to accrue on the Debt Securities, and interest on such accrued interest (such accrued interest and interest thereon referred to herein as "Deferred Interest") will accrue at an annual rate equal to the Interest Rate applicable during such Extension Period, compounded quarterly from the date such Deferred Interest would have been payable were it not for the Extension Period, to the extent permitted by law. No interest or Deferred Interest shall be due and payable during an Extension Period, except at the end thereof. At the end of any such Extension Period the Company shall pay all Deferred Interest then accrued and unpaid on the Debt Securities; provided, however, that no Extension Period may extend beyond the Maturity Date; and provided further, however, that during any such Extension Period, the Company shall be subject to the restrictions set forth in Section 3.08 of this Indenture. Prior to the termination of any Extension Period, the Company may further extend such period, provided, that such period together with all such previous and further consecutive extensions thereof shall not exceed twenty consecutive quarterly periods, or extend beyond the Maturity Date. Upon the termination of any Extension Period and upon the payment of all Deferred Interest, the Company may commence a new Extension Period, subject to the foregoing requirements. The Company must give the Trustee notice of its election to begin such Extension Period ("Notice") no later than the regular record date applicable to the next succeeding Interest Payment date. The Trustee shall give notice of the Company's election to begin a new Extension Period to the Securityholders promptly after receipt of notice from the Company of its election to begin or extend an Extension Period.

SECTION 2.12. CUSIP Numbers.

The Company in issuing the Debt Securities may use a "CUSIP" number (if then generally in use), and, if so, the Trustee shall use a "CUSIP" number in notices of redemption as a convenience to Securityholders; provided, that any such notice may state that no representation is made as to the correctness of such number either as printed on the Debt Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Debt Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee in writing of any change in the CUSIP number.

SECTION 2.13. Income Tax Certification.

As a condition to the payment of any principal of or interest on the Debt Securities without the imposition of withholding tax, the Trustee shall require the previous delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701 (a)(30) of the Code (under and as defined in the Declaration) or an Internal Revenue Service Form W-8 (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701 (a)(30) of the Code, and any other certification acceptable to it to enable the Trustee or any Paying Agent to determine their respective duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold in respect of such Debt Securities.

ARTICLE III  
PARTICULAR COVENANTS OF THE COMPANY

SECTION 3.01. Payment of Principal, Premium and Interest; Agreed Treatment of the Debt Securities.

(a) The Company covenants and agrees that it will duly and punctually pay or cause to be paid all payments due on the Debt Securities at the place, at the respective times and in the manner provided in this Indenture and the Debt Securities. At the option of the Company, each installment of interest on the Debt Securities may be paid (i) by mailing checks for such interest payable to the order of the holders of Debt Securities entitled thereto as they appear on the Debt Security Register or (ii) by wire transfer to any account with a banking institution located in the United States designated by such holders to the Paying Agent no later than the related record date. Notwithstanding anything to the contrary contained in this Indenture or any Debt Security, if the Trust or the Trustee of the Trust is the holder of any Debt Security, then all payments in respect of such Debt Security shall be made by the Company in immediately available funds when due.

(b) The Company will treat the Debt Securities as indebtedness, and the interest payable in respect of such Debt Securities as interest, for all U.S. federal income tax purposes. As a condition to the payment of any principal of or interest on any Debt Security without the imposition of withholding tax, the Company shall require the previous delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a Person that is a U.S. Person or an Internal Revenue Service Form W-8 (or applicable successor form) in the case of a Person that is not a U.S. Person and any other certification acceptable to it to enable the Company and the Trustee to determine their respective duties and liabilities with respect to any taxes or other charges that they may be required to pay or withhold in respect of such Debt Security or the holder of such Debt Security under any present or future law or regulation of the United States or any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation.

(c) As of the date of this Indenture, the Company represents that it has no intention to exercise its right under Section 2.11 to defer payments of interest on the Debt Securities by commencing an Extension Period.

SECTION 3.02. Offices for Notices and Payments, etc.

So long as any of the Debt Securities remain outstanding, the Company will maintain in New York, New York or Plano, Texas an office or agency where the Debt Securities may be presented for payment, an office or agency where the Debt Securities may be presented for registration of transfer and for exchange as provided in this Indenture and an office or agency where notices and demands to or upon the Company in respect of the Debt Securities or of this Indenture may be served. The Company hereby appoints the Trustee at JPMorgan Chase Bank, National Association, WSS Window, 4 New York Plaza, Ground Floor, New York, New York 10004, attention: Worldwide Securities Services (Houston) - Central Bancorp Statutory Trust I as such office or agency. In case the Company shall fail to maintain any such office or agency in New York, New York or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Principal Office of the Trustee.

In addition to any such office or agency, the Company may from time to time designate one or more other offices or agencies where the Debt Securities may be presented for registration of transfer and for exchange in the manner provided in this Indenture, and the Company may from time to time rescind such designation, as the Company may deem desirable or expedient; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to

maintain any such office or agency in New York, New York for the purposes above mentioned. The Company will give to the Trustee prompt written notice of any such designation or rescission thereof.

SECTION 3.03. Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.09, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.04. Provision as to Paying Agent.

(a) If the Company shall appoint a Paying Agent other than the Trustee, it will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provision of this Section 3.04:

(1) that it will hold all sums held by it as such agent for the payment of all payments due on the Debt Securities (whether such sums have been paid to it by the Company or by any other obligor on the Debt Securities) in trust for the benefit of the holders of the Debt Securities;

(2) that it will give the Trustee prompt written notice of any failure by the Company (or by any other obligor on the Debt Securities) to make any payment on the Debt Securities when the same shall be due and payable; and

(3) that it will, at any time during the continuance of any Event of Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the payments due on the Debt Securities, set aside, segregate and hold in trust for the benefit of the holders of the Debt Securities a sum sufficient to pay such payments so becoming due and will notify the Trustee in writing of any failure to take such action and of any failure by the Company (or by any other obligor under the Debt Securities) to make any payment on the Debt Securities when the same shall become due and payable.

Whenever the Company shall have one or more Paying Agents for the Debt Securities, it will, on or prior to each due date of the payments on the Debt Securities, deposit with a Paying Agent a sum sufficient to pay all payments so becoming due, such sum to be held in trust for the benefit of the Persons entitled thereto and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee in writing of its action or failure to act.

(c) Anything in this Section 3.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to the Debt Securities, or for any other reason, pay, or direct any Paying Agent to pay to the Trustee all sums held in trust by the Company or any such Paying Agent, such sums to be held by the Trustee upon the same terms and conditions herein contained.

(d) Anything in this Section 3.04 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.04 is subject to Sections 12.03 and 12.04.

(e) The Company hereby initially appoints the Trustee to act as Paying Agent (the "Paying Agent").

SECTION 3.05. Certificate to Trustee.

The Company will deliver to the Trustee on or before 120 days after the end of each fiscal year, so long as Debt Securities are outstanding hereunder, a Certificate stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any default by the Company in the performance of any covenants of the Company contained herein, stating whether or not they have knowledge of any such default and, if so, specifying each such default of which the signers have knowledge and the nature thereof.

SECTION 3.06. Additional Interest.

If and for so long as the Trust is the holder of all Debt Securities and is subject to or otherwise required to pay, or is required to withhold from distributions to holders of Trust Securities, any additional taxes (including withholding taxes), duties, assessments or other governmental charges as a result of a Tax Event, the Company will pay such additional amounts (the "Additional Interest") on the Debt Securities as shall be required so that the net amounts received and retained by the Trust for distribution to holders of Trust Securities after paying all taxes (including withholding taxes), duties, assessments or other governmental charges will be equal to the amounts the Trust would have received and retained for distribution to holders of Trust Securities after paying all taxes (including withholding taxes on distributions to holders of Trust Securities), duties, assessments or other governmental charges if no such additional taxes, duties, assessments or other governmental charges had been imposed. Whenever in this Indenture or the Debt Securities there is a reference in any context to the payment of principal of or premium, if any, or interest on the Debt Securities, such mention shall be deemed to include mention of payments of the Additional Interest provided for in this paragraph to the extent that, in such context, Additional Interest is, was or would be payable in respect thereof pursuant to the provisions of this paragraph and express mention of the payment of Additional Interest (if applicable) in any provisions hereof shall not be construed as excluding Additional Interest in those provisions hereof where such express mention is not made; provided, however, that, notwithstanding anything to the contrary contained in this Indenture or any Debt Security, the deferral of the payment of interest during an Extension Period pursuant to Section 2.11 shall not defer the payment of any Additional Interest that may be due and payable.

SECTION 3.07. Compliance with Consolidation Provisions.

The Company will not, while any of the Debt Securities remain outstanding, consolidate with, or merge into any other Person, or merge into itself, or sell, convey, transfer or otherwise dispose of all or substantially all of its property or capital stock to any other Person unless the provisions of Article XI hereof are complied with.

SECTION 3.08. Limitation on Dividends.

If Debt Securities are initially issued to the Trust or a trustee of such Trust in connection with the issuance of Trust Securities by the Trust (regardless of whether Debt Securities continue to be held by such Trust) and (i) there shall have occurred and be continuing an Event of Default, (ii) the Company shall be in default with respect to its payment of any obligations under the Capital Securities Guarantee or (iii) the Company shall have given notice of its election to defer payments of interest on the Debt Securities by extending the interest distribution period as provided herein and such period, or any extension thereof, shall have commenced and be continuing, then the Company may not (A) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company's capital stock or (B) make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem

any debt securities of the Company that rank *pari passu* in all respects with or junior in interest to the Debt Securities or (C) make any payment under any guarantees of the Company that rank *pari passu* in all respects with or junior in interest to the Capital Securities Guarantee (other than (a) repurchases, redemptions or other acquisitions of shares of capital stock of the Company (I) in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, (II) in connection with a dividend reinvestment or stockholder stock purchase plan or (III) in connection with the issuance of capital stock of the Company (or securities convertible into or exercisable for such capital stock), as consideration in an acquisition transaction entered into prior to the occurrence of (i), (ii) or (iii) above, (b) as a result of any exchange, reclassification, combination or conversion of any class or series of the Company's capital stock (or any capital stock of a subsidiary of the Company) for any class or series of the Company's capital stock or of any class or series of the Company's indebtedness for any class or series of the Company's capital stock, (c) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (d) any declaration of a dividend in connection with any stockholder's rights plan, or the issuance of rights, stock or other property under any stockholder's rights plan, or the redemption or repurchase of rights pursuant thereto, or (e) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks *pari passu* with or junior to such stock).

SECTION 3.09. Covenants as to the Trust.

For so long as such Trust Securities remain outstanding, the Company shall maintain 100% ownership of the Common Securities; provided, however, that any permitted successor of the Company under this Indenture that is a U.S. Person may succeed to the Company's ownership of such Common Securities. The Company, as owner of the Common Securities, shall use commercially reasonable efforts to cause the Trust (a) to remain a statutory trust, except in connection with a distribution of Debt Securities to the holders of Trust Securities in liquidation of the Trust, the redemption of all of the Trust Securities or certain mergers, consolidations or amalgamations, each as permitted by the Declaration, (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes and (c) to cause each holder of Trust Securities to be treated as owning an undivided beneficial interest in the Debt Securities.

ARTICLE IV  
LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 4.01. Securityholders' Lists.

The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee:

(a) on each regular record date for an Interest Payment Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Securityholders of the Debt Securities as of such record date; and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished, except that no such lists need be furnished under this Section 4.01 so long as the Trustee is in possession thereof by reason of its acting as Debt Security registrar.

SECTION 4.02. Preservation and Disclosure of Lists.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Debt Securities (1) contained in the most recent list furnished to it as provided in Section 4.01 or (2) received by it in the capacity of Debt Securities registrar (if so acting) hereunder. The Trustee may destroy any list furnished to it as provided in Section 4.01 upon receipt of a new list so furnished.

(b) In case three or more holders of Debt Securities (hereinafter referred to as "applicants") apply in writing to the Trustee and furnish to the Trustee reasonable proof that each such applicant has owned a Debt Security for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of Debt Securities with respect to their rights under this Indenture or under such Debt Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall within five Business Days after the receipt of such application, at the election of the Company, either:

(1) afford such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.02, or

(2) inform such applicants as to the approximate number of holders of Debt Securities whose names and addresses appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.02, and as to the approximate cost of mailing to such Securityholders the form of proxy or other communication, if any, specified in such application.

If the Company shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Securityholder of Debt Securities whose name and address appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.02 a copy of the form of proxy or other communication which is specified in such request with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants, and file with the Securities and Exchange Commission, if permitted or required by applicable law, together with a copy of the material to be mailed, a written statement of the Company to the effect that such mailing would be contrary to the best interests of the holders of all Debt Securities, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, as permitted or required by applicable law, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Securityholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Each and every holder of Debt Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any Paying Agent shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Debt Securities in accordance with the provisions of subsection (b) of this Section 4.02, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

ARTICLE V  
REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS UPON AN EVENT OF DEFAULT

SECTION 5.01. Events of Default.

The following events shall be "Events of Default" with respect to Debt Securities: (a) the Company defaults in the payment of any interest upon any Debt Security when it becomes due and payable (unless the Company has elected and may defer interest payments pursuant to Section 2.11 ), and continuance of such default for a period of 30 days; for the avoidance of doubt, an extension of any interest distribution period by the Company in accordance with Section 2.11 of this Indenture shall not constitute a default under this clause 5.01(a); or

(b) the Company defaults in the payment of all or any part of the principal of (or premium, if any, on) any Debt Securities as and when the same shall become due and payable either at maturity, upon redemption, by declaration of acceleration pursuant to Section 5.01 of this Indenture or otherwise; or

(c) the Company defaults in the payment of any interest upon any Debt Security when it becomes due and payable following the nonpayment of any such interest for 20 or more consecutive quarterly periods; or

(d) the Company defaults in the performance of, or breaches, any of its covenants or agreements in Sections 3.06, 3.07, 3.08 or 3.09 of this Indenture (other than a covenant or agreement a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of not less than 25% in aggregate principal amount of the outstanding Debt Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(e) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or orders the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days; or

(f) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company or of any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due; or

(g) the Trust shall have voluntarily or involuntarily liquidated, dissolved, wound-up its business or otherwise terminated its existence except in connection with (1) the distribution of the Debt Securities to holders of the Trust Securities in liquidation of their interests in the Trust, (2) the redemption of all of the outstanding Trust Securities or (3) certain mergers, consolidations or amalgamations, each as permitted by the Declaration.



If an Event of Default specified under clause (c) of this Section 5.01 occurs and is continuing with respect to the Debt Securities, then, and in each and every such case, unless the principal of the Debt Securities shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debt Securities then outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by Securityholders), may declare the entire principal of the Debt Securities and any premium and interest accrued, but unpaid, thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable. If an Event of Default specified under clause (e) or (f) of this Section 5.01 occurs, then, in each and every such case, the entire principal amount of the Debt Securities and any premium and interest accrued, but unpaid, thereon shall *ipso facto* become immediately due and payable without further action. Notwithstanding anything to the contrary in this Section 5.01, if at any time during the period in which this Indenture remains in force and effect, the Company ceases or elects to cease to be subject to the supervision and regulations of the Federal Reserve, OTS, OCC or similar regulatory authority overseeing bank, thrift, savings and loan or financial holding companies or similar institutions requiring specifications for the treatment of capital similar in nature to the capital adequacy guidelines under the Federal Reserve rules and regulations, then the first sentence of this paragraph shall be deemed to include clauses (a), (b) and (d) under this Section 5.01 as an Event of Default resulting in an acceleration of payment of the Debt Securities to the same extent as provided herein for clause (c).

With respect to clause (d) of this Section 5.01, the Company agrees that in the event of a breach by the Company of its covenants or agreements mentioned therein, any remedy at law or in damages may prove inadequate and therefore the Company agrees that the Trustee shall be entitled to injunctive relief against the Company in the event of any breach or threatened breach by the Company, in addition to any other relief (including damages) available to the Trustee under this Indenture or under law.

The foregoing provisions, however, are subject to the condition that if, at any time after the principal of the Debt Securities shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, (i) the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all the Debt Securities and all payments on the Debt Securities which shall have become due otherwise than by acceleration (with interest upon all such payments and Deferred Interest, to the extent permitted by law) and **such amount** as shall be sufficient to cover reasonable compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other amounts due to the Trustee pursuant to Section 6.06, if any, and (ii) all Events of Default under this Indenture, other than the non-payment of the payments on Debt Securities which shall have become due by acceleration, shall have been cured, waived or otherwise remedied as provided herein, and in each and every such case the holders of a majority in aggregate principal amount of the Debt Securities then outstanding, by written notice to the Company and to the Trustee, may waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon; provided, however, that if the Debt Securities are held by the Trust or a trustee of the Trust, such waiver or rescission and annulment shall not be effective until the holders of a majority in aggregate liquidation amount of the outstanding Capital Securities of the Trust shall have consented to such waiver or rescission and annulment.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the holders of the Debt Securities shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the holders of the Debt Securities shall continue as though no such proceeding had been taken.

SECTION 5.02. Payment of Debt Securities on Default; Suit Therefor.

The Company covenants that upon the occurrence of an Event of Default pursuant to clause 5.01(a), 5.01(b) or 5.01(c), and upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Debt Securities, the whole amount that then shall have become due and payable on all Debt Securities including Deferred Interest accrued on the Debt Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any other amounts due to the Trustee under Section 6.06. In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on such Debt Securities and collect in the manner provided by law out of the property of the Company or any other obligor on such Debt Securities wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Debt Securities under Bankruptcy Law, or in case a receiver or trustee shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Debt Securities, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Debt Securities shall then be due and payable as therein expressed or by declaration of acceleration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.02, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Debt Securities and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all other amounts due to the Trustee under Section 6.06) and of the Securityholders allowed in such judicial proceedings relative to the Company or any other obligor on the Debt Securities, or to the creditors or property of the Company or such other obligor, unless prohibited by applicable law and regulations, to vote on behalf of the holders of the Debt Securities in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or Person performing similar functions in comparable proceedings, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Securityholders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other amounts due to the Trustee under Section 6.06.

Nothing herein contained shall be construed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Debt Securities or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Debt Securities, may be enforced by the Trustee without the possession of any of the Debt Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Debt Securities.

In any proceedings brought by the Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Debt Securities, and it shall not be necessary to make any holders of the Debt Securities parties to any such proceedings.

#### SECTION 5.03. Application of Moneys Collected by Trustee.

Any moneys collected by the Trustee shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such moneys, upon presentation of the several Debt Securities in respect of which moneys have been collected, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

First: To the payment of costs and expenses incurred by, and reasonable fees of, the Trustee, its agents, attorneys and counsel, and of all other amounts due to the Trustee under Section 6.06;

Second: To the payment of all Senior Indebtedness of the Company if and to the extent required by Article XV;

Third: To the payment of the amounts then due and unpaid upon Debt Securities, in respect of which or for the benefit of which money has been collected, ratably, without preference or priority of any kind, according to the amounts due on such Debt Securities; and

Fourth: The balance, if any, to the Company.

#### SECTION 5.04. Proceedings by Securityholders.

No holder of any Debt Security shall have any right to institute any suit, action or proceeding for any remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default with respect to the Debt Securities and unless the holders of not less than 25% in aggregate principal amount of the Debt Securities then outstanding shall have given the Trustee a written request to institute such action, suit or proceeding and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding; provided, that no holder of Debt Securities shall have any right to prejudice the rights of any other holder of Debt Securities, obtain priority or preference over any other such holder or enforce any right under this Indenture except in the manner herein provided and for the equal, ratable and common benefit of all holders of Debt Securities.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Debt Security to receive payment of the principal of, premium, if any, and interest on such Debt Security when due, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such holder. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

SECTION 5.05. Proceedings by Trustee.

In case of an Event of Default hereunder the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 5.06. Remedies Cumulative and Continuing.

Except as otherwise provided in Section 2.06, all powers and remedies given by this Article V to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Debt Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to the Debt Securities, and no delay or omission of the Trustee or of any holder of any of the Debt Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.04, every power and remedy given by this Article V or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 5.07. Direction of Proceedings and Waiver of Defaults by Majority of Securityholders.

The holders of a majority in aggregate principal amount of the Debt Securities affected (voting as one class) at the time outstanding and, if the Debt Securities are held by the Trust or a trustee of the Trust, the holders of a majority in aggregate liquidation amount of the outstanding Capital Securities of the Trust shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such Debt Securities; provided, however, that if the Debt Securities are held by the Trust or a trustee of the Trust, such time, method and place or such exercise, as the case may be, may not be so directed until the holders of a majority in aggregate liquidation amount of the outstanding Capital Securities of the Trust shall have directed such time, method and place or such exercise, as the case may be; provided, further, that (subject to the provisions of Section 6.01) the Trustee shall have the right to decline to follow any such direction if the Trustee being advised by counsel shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if a Responsible Officer of the Trustee shall determine that the action or proceedings so directed would involve the Trustee in personal liability. Prior to any declaration of acceleration, or ipso facto acceleration, of the maturity of the Debt Securities, the holders of a majority in aggregate principal amount of the Debt Securities at the time outstanding may on behalf of the holders of all of the Debt Securities waive (or modify any previously granted waiver of) any past default or Event of Default and its consequences, except a default (a) in the payment of principal of, premium, if any, or interest on any of the Debt Securities, (b) in respect of covenants or provisions hereof which cannot be modified or amended without the consent of the holder of each Debt Security affected, or (c) in respect of the covenants contained in Section 3.09; provided, however, that if the Debt Securities are held by the Trust or a trustee of the Trust, such waiver or modification to such waiver shall not be effective until the holders of a majority in Liquidation Amount of the Trust Securities of the Trust shall have consented to such waiver or modification to such waiver; provided, further, that if the consent of the holder of each outstanding Debt Security is required, such

waiver or modification to such waiver shall not be effective until each holder of the outstanding Capital Securities of the Trust shall have consented to such waiver or modification to such waiver. Upon any such waiver or modification to such waiver, the Default or Event of Default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Debt Securities shall be restored to their former positions and rights hereunder, respectively; but no such waiver or modification to such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 5.07, said Default or Event of Default shall for all purposes of the Debt Securities and this Indenture be deemed to have been cured and to be not continuing.

#### SECTION 5.08. Notice of Defaults.

The Trustee shall, within 90 days after a Responsible Officer of the Trustee shall have actual knowledge or received written notice of the occurrence of a Default with respect to the Debt Securities, mail to all Securityholders, as the names and addresses of such holders appear upon the Debt Security Register, notice of all Defaults with respect to the Debt Securities known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 5.08 being hereby defined to be the events specified in subsections (a), (b), (c), (d), (e) and (f) of Section 5.01, not including periods of grace, if any, provided for therein); provided, that, except in the case of default in the payment of the principal of, premium, if any, or interest on any of the Debt Securities, the Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Trustee in good faith determines that the withholding of such notice is in the interests of the Securityholders.

#### SECTION 5.09. Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Debt Security by such holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.09 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in principal amount of the Debt Securities (or, if such Debt Securities are held by the Trust or a trustee of the Trust, more than 10% in liquidation amount of the outstanding Capital Securities), to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Debt Security against the Company on or after the same shall have become due and payable, or to any suit instituted in accordance with Section 14.12.

### ARTICLE VI CONCERNING THE TRUSTEE

#### SECTION 6.01. Duties and Responsibilities of Trustee.

With respect to the holders of Debt Securities issued hereunder, the Trustee, prior to the occurrence of an Event of Default with respect to the Debt Securities and after the curing or waiving of all Events of Default which may have occurred, with respect to the Debt Securities, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default with respect to the Debt Securities has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of

care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default with respect to the Debt Securities and after the curing or waiving of all Events of Default which may have occurred

(1) the duties and obligations of the Trustee with respect to the Debt Securities shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations with respect to the Debt Securities as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith, in accordance with the direction of the Securityholders pursuant to Section 5.07, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(d) the Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Debt Securities unless either (1) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (2) written notice of such Default or Event of Default shall have been given to the Trustee by the Company or any other obligor on the Debt Securities or by any holder of the Debt Securities, except with respect to an Event of Default pursuant to Sections 5.01(a), 5.01(b) or 5.01(c) hereof (other than an Event of Default resulting from the default in the payment of Additional Interest or premium, if any, if the Trustee does not have actual knowledge or written notice that such payment is due and payable), of which the Trustee shall be deemed to have knowledge; and

(e) in the absence of bad faith or gross negligence on the part of the Trustee, the Trustee may seek and rely on reasonable instructions from the Company.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

SECTION 6.02. Reliance on Documents. Opinions, etc.

Except as otherwise provided in Section 6.01:

(a) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, debenture or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to the Debt Securities (that has not been cured or waived) to exercise with respect to the Debt Securities such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, coupon or other paper or document, unless requested in writing to do so by the holders of not less than a majority in aggregate principal amount of the outstanding Debt Securities affected thereby; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents (including any Authenticating Agent) or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed by it with due care.

SECTION 6.03. No Responsibility for Recitals, etc.

The recitals contained herein and in the Debt Securities (except in the certificate of authentication of the Trustee or the Authenticating Agent) shall be taken as the statements of the Company and the Trustee and the Authenticating Agent assume no responsibility for the correctness of the same. The Trustee and the Authenticating Agent make no representations as to the validity or sufficiency of this Indenture or of the Debt Securities. The Trustee and the Authenticating Agent shall not be accountable for the use or application by the Company of any Debt Securities or the proceeds of any Debt Securities authenticated and delivered by the Trustee or the Authenticating Agent in conformity with the provisions of this Indenture.

SECTION 6.04. Trustee, Authenticating Agent, Paying Agents, Transfer Agents or Registrar May Own Debt Securities.

The Trustee or any Authenticating Agent or any Paying Agent or any transfer agent or any Debt Security registrar, in its individual or any other capacity, may become the owner or pledgee of Debt Securities with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, transfer agent or Debt Security registrar.

SECTION 6.05. Moneys to be Held in Trust.

Subject to the provisions of Section 12.04, all moneys received by the Trustee or any Paying Agent shall, until used or applied as herein provided, be held in trust for the purpose for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee and any Paying Agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys, if any, shall be paid from time to time to the Company upon the written order of the Company, signed by the Chairman of the Board of Directors, the President, the Chief Operating Officer, a Vice President, the Treasurer or an Assistant Treasurer of the Company.

SECTION 6.06. Compensation and Expenses of Trustee.

Other than as provided in the Fee Agreement of even date herewith between Cohen Bros. & Company, the Trustee, the Company and Delaware Trustee (as defined in the Declaration), the Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as shall be agreed to in writing between the Company and the Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company will pay or reimburse the Trustee upon its written request for all documented reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the reasonable expenses and disbursements of its counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance that arises from its negligence, willful misconduct or bad faith. The Company also covenants to indemnify each of the Trustee (including in its individual capacity) and any predecessor Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any and all loss, damage, claim, liability or expense including taxes (other than taxes based on the income of the Trustee), except to the extent such loss, damage, claim, liability or expense results from the negligence, willful misconduct or bad faith of such indemnitee, arising out of or in connection with the acceptance or administration of this Trust, including the costs and expenses of defending itself against any claim or liability in the premises. The obligations of the Company under this Section 6.06 to compensate and indemnify the Trustee and to pay or reimburse the Trustee for documented expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by (and the Company hereby grants and



pledges to the Trustee) a lien prior to that of the Debt Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Debt Securities.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in subsections (e), (t) or (g) of Section 5.01, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the resignation or removal of the Trustee and the defeasance or other termination of this Indenture.

Notwithstanding anything in this Indenture or any Debt Security to the contrary, the Trustee shall have no obligation whatsoever to advance funds to pay any principal of or interest on or other amounts with respect to the Debt Securities or otherwise advance funds to or on behalf of the Company.

#### SECTION 6.07. Officers' Certificate as Evidence.

Except as otherwise provided in Sections 6.01 and 6.02, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence, willful misconduct or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence, willful misconduct or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

#### SECTION 6.08. Eligibility of Trustee.

The Trustee hereunder shall at all times be a U.S. Person that is a banking corporation or national association organized and doing business under the laws of the United States of America or any state thereof or of the District of Columbia and authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million U.S. dollars (\$50,000,000) and subject to supervision or examination by federal, state, or District of Columbia authority. If such corporation or national association publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.08 the combined capital and surplus of such corporation or national association shall be deemed to be its combined capital and surplus as set forth in its most recent records of condition so published.

The Company may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee, notwithstanding that such corporation or national association shall be otherwise eligible and qualified under this Article.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.08, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.09.

If the Trustee has or shall acquire any "conflicting interest" within the meaning of § 31 O(b) of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to this Indenture.

#### SECTION 6.09. Resignation or Removal of Trustee, Calculation Agent, Paying Agent or Debt Security Registrar.

(a) The Trustee, or any trustee or trustees hereafter appointed, the Calculation Agent, the Paying Agent and any Debt Security Registrar may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof, at the Company's expense, to the holders of the Debt Securities at their addresses as they shall appear on the Debt Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor or successors by written instrument, in duplicate, executed by order of its Board of Directors, one copy of which instrument shall be delivered to the resigning party and one copy to the successor. If no successor shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation to the affected Securityholders, the resigning party may petition any court of competent jurisdiction for the appointment of a successor, or any Securityholder who has been a bona fide holder of a Debt Security or Debt Securities for at least six months may, subject to the provisions of Section 5.09, on behalf of himself or herself and all others similarly situated, petition any such court for the appointment of a successor. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of the last paragraph of Section 6.08 after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Debt Security or Debt Securities for at least six months,

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.08 and shall fail to resign after written request therefor by the Company or by any such Securityholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Company may remove the Trustee and appoint a successor Trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor Trustee, or, subject to the provisions of Section 5.09, if no successor Trustee shall have been so appointed and have accepted appointment within 30 days of the occurrence of any of (1), (2) or (3) above, any Securityholder who has been a bona fide holder of a Debt Security or Debt Securities for at least six months may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor Trustee.

(c) Upon prior written notice to the Company and the Trustee, the holders of a majority in aggregate principal amount of the Debt Securities at the time outstanding may at any time remove the Trustee and nominate a successor Trustee, which shall be deemed appointed as successor Trustee unless within ten Business Days after such nomination the Company objects thereto, in which case or in the case of a failure by such holders to nominate a successor Trustee, the Trustee so removed or any Securityholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 6.09 provided, may petition any court of competent jurisdiction for an appointment of a successor.

(d) Any resignation or removal of the Trustee, the Calculation Agent, the

Paying Agent and any Debt Security Registrar and appointment of a successor pursuant to any of the provisions of this Section 6.09 shall become effective upon acceptance of appointment by the successor as provided in Section 6.10.

SECTION 6.10. Acceptance by Successor.

Any successor Trustee, Calculation Agent, Paying Agent or Debt Security Registrar appointed as provided in Section 6.09 shall execute, acknowledge and deliver to the Company and to its predecessor an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the retiring party shall become effective and such successor, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations with respect to the Debt Securities of its predecessor hereunder, with like effect as if originally named herein; but, nevertheless, on the written request of the Company or of the successor, the party ceasing to act shall, upon payment of the amounts then due it pursuant to the provisions of Section 6.06, execute and deliver an instrument transferring to such successor all the rights and powers of the party so ceasing to act and shall duly assign, transfer and deliver to such successor all property and money held by such retiring party hereunder. Upon reasonable request of any such successor, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor all such rights and powers. Any party ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected to secure any amounts then due it pursuant to the provisions of Section 6.06.

If a successor Trustee is appointed, the Company, the retiring Trustee and the successor Trustee shall execute and deliver an indenture supplemental hereto which shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debt Securities as to which the predecessor Trustee is not retiring shall continue to be vested in the predecessor Trustee, and shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the Trust hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be Trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee.

No successor Trustee shall accept appointment as provided in this Section 6.10 unless at the time of such acceptance such successor Trustee shall be eligible and qualified under the provisions of Section 6.08.

In no event shall a retiring Trustee, Calculation Agent, Paying Agent or Debt Security Registrar be liable for the acts or omissions of any successor hereunder.

Upon acceptance of appointment by a successor Trustee, Calculation Agent, Paying Agent or Debt Security Registrar as provided in this Section 6.10, the Company shall mail notice of the succession to the holders of Debt Securities at their addresses as they shall appear on the Debt Security Register. If the Company fails to mail such notice within ten Business Days after the acceptance of appointment by the successor, the successor shall cause such notice to be mailed at the expense of the Company.

SECTION 6.11. Succession by Merger, etc.

Any Person into which the Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of

the Trustee, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, that such Person shall be otherwise eligible and qualified under this Article.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any of the Debt Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee, and deliver such Debt Securities so authenticated; and in case at that time any of the Debt Securities shall not have been authenticated, any successor to the Trustee may authenticate such Debt Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Debt Securities or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Debt Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

#### SECTION 6.12. Authenticating Agents.

There may be one or more Authenticating Agents appointed by the Trustee upon the request of the Company with power to act on its behalf and subject to its direction in the authentication and delivery of Debt Securities issued upon exchange or registration of transfer thereof as fully to all intents and purposes as though any such Authenticating Agent had been expressly authorized to authenticate and deliver Debt Securities; provided, that the Trustee shall have no liability to the Company for any acts or omissions of the Authenticating Agent with respect to the authentication and delivery of Debt Securities. Any such Authenticating Agent shall at all times be a Person organized and doing business under the laws of the United States or of any state or territory thereof or of the District of Columbia authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of at least \$50,000,000 and being subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such Person publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section 6.12 the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect herein specified in this Section .

Any Person into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, if such successor Person is otherwise eligible under this Section 6.12 without the execution or filing of any paper or any further act on the part of the parties hereto or such Authenticating Agent.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any Authenticating Agent with respect to the Debt Securities by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section 6.12, the Trustee may, and upon the request of the Company shall, promptly appoint a successor Authenticating Agent eligible under this Section 6.12, shall give written notice of such appointment to the Company and shall mail notice of such appointment to all holders of Debt Securities as the names and

addresses of such holders appear on the Debt Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all rights, powers, duties and responsibilities with respect to the Debt Securities of its predecessor hereunder, with like effect as if originally named as Authenticating Agent herein.

Other than as provided in the Fee Agreement of even date herewith between Cohen Bros. & Company, the Company, the Trustee and Delaware Trustee (as defined in the Declaration), the Company agrees to pay to any Authenticating Agent from time to time reasonable compensation for its services. Any Authenticating Agent shall have no responsibility or liability for any action taken by it as such in accordance with the directions of the Trustee and shall receive such reasonable indemnity as it may require against the costs, expenses and liabilities incurred in furtherance of its duties under this Section 6.12.

## ARTICLE VII CONCERNING THE SECURITY HOLDERS

### SECTION 7.01. Action by Securityholders.

Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Debt Securities or aggregate Liquidation Amount of the Capital Securities may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by such Securityholders or holders of Capital Securities, as the case may be, in person or by agent or proxy appointed in writing, or (b) by the record of such holders of Debt Securities voting in favor thereof at any meeting of such Securityholders duly called and held in accordance with the provisions of Article VIII or of such holders of Capital Securities duly called and held in accordance with the provisions of the Declaration, or (c) by a combination of such instrument or instruments and any such record of such a meeting of such Securityholders or holders of Capital Securities, as the case may be, or (d) by any other method the Trustee deems satisfactory.

If the Company shall solicit from the Securityholders any request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for such Debt Securities for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Debt Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, and for that purpose the outstanding Debt Securities shall be computed as of the record date; provided, however, that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

### SECTION 7.02. Proof of Execution by Securityholders.

Subject to the provisions of Sections 6.01, 6.02 and 8.05, proof of the execution of any instrument by a Securityholder or such Securityholder's agent or proxy shall be sufficient if made in accordance with such

reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The ownership of Debt Securities shall be proved by the Debt Security Register or by a certificate of the Debt Security Registrar. The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 7.03. Who Are Deemed Absolute Owners.

Prior to due presentment for registration of transfer of any Debt Security, the Company, the Trustee, any Authenticating Agent, any Paying Agent, any transfer agent and any Debt Security registrar may deem the Person in whose name such Debt Security shall be registered upon the Debt Security Register to be, and may treat such Person as, the absolute owner of such Debt Security (whether or not such Debt Security shall be overdue) for the purpose of receiving payment of or on account of the principal of, premium, if any, and interest on such Debt Security and for all other purposes; and neither the Company nor the Trustee nor any Authenticating Agent nor any Paying Agent nor any transfer agent nor any Debt Security registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being or upon such holder's order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Debt Security

SECTION 7.04. Debt Securities Owned by Company Deemed Not Outstanding.

In determining whether the holders of the requisite aggregate principal amount of Debt Securities have concurred in any direction, consent or waiver under this Indenture, Debt Securities which are owned by the Company or any other obligor on the Debt Securities or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (other than the Trust) or any other obligor on the Debt Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided, that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Debt Securities which a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded. Debt Securities so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Debt Securities and that the pledgee is not the Company or any such other obligor or Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 7.05. Revocation of Consents; Future Securityholders Bound.

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 7.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Debt Securities specified in this Indenture in connection with such action, any holder (in cases where no record date has been set pursuant to Section 7.01) or any holder as of an applicable record date (in cases where a record date has been set pursuant to Section 7.01) of a Debt Security (or any Debt Security issued in whole or in part in exchange or substitution therefor) the serial number of which is shown by the evidence to be included in the Debt Securities the holders of which have consented to such action may, by filing written notice with the Trustee at the Principal Office of the Trustee and upon proof of holding as provided in Section 7.02, revoke such action so far as concerns such Debt Security (or so far as concerns the principal amount represented by any exchanged or substituted Debt Security). Except as aforesaid any such action taken by the holder of any Debt Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Debt Security, and of any Debt Security issued in exchange or substitution therefor or on registration of transfer thereof,

irrespective of whether or not any notation in regard thereto is made upon such Debt Security or any Debt Security issued in exchange or substitution therefor.

## ARTICLE VIII SECURITYHOLDERS' MEETINGS

### SECTION 8.01. Purposes of Meetings.

A meeting of Securityholders may be called at any time and from time to time pursuant to the provisions of this Article VIII for any of the following purposes:

(a) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders pursuant to any of the provisions of Article V;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article VI;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.02; or

(d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of such Debt Securities under any other provision of this Indenture or under applicable law.

### SECTION 8.02. Call of Meetings by Trustee.

The Trustee may at any time call a meeting of Securityholders to take any action specified in Section 8.01, to be held at such time and at such place in The City of New York, the Borough of Manhattan, or Houston, Texas, as the Trustee shall determine. Notice of every meeting of the Securityholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed to holders of Debt Securities affected at their addresses as they shall appear on the Debt Securities Register. Such notice shall be mailed not less than 20 nor more than 180 days prior to the date fixed for the meeting.

### SECTION 8.03. Call of Meetings by Company or Securityholders.

In case at any time the Company pursuant to a Board Resolution, or the holders of at least 10% in aggregate principal amount of the Debt Securities, as the case may be, then outstanding, shall have requested the Trustee to call a meeting of Securityholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Securityholders may determine the time and the place in for such meeting and may call such meeting to take any action authorized in Section 8.01, by mailing notice thereof as provided in Section 8.02.

### SECTION 8.04. Qualifications for Voting.

To be entitled to vote at any meeting of Securityholders a Person shall be (a) a holder of one or more Debt Securities with respect to which the meeting is being held or (b) a Person appointed by an

instrument in writing as proxy by a holder of one or more such Debt Securities. The only Persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

#### SECTION 8.05. Regulations.

Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Debt Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 8.03, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote at the meeting.

Subject to the provisions of Section 7.04, at any meeting each holder of Debt Securities with respect to which such meeting is being held or proxy therefor shall be entitled to one vote for each \$1,000 principal amount of Debt Securities held or represented by such holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Debt Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Debt Securities held by such chairman or instruments in writing as aforesaid duly designating such chairman as the Person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.02 or 8.03 may be adjourned from time to time by a majority of those present, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

#### SECTION 8.06. Voting.

The vote upon any resolution submitted to any meeting of holders of Debt Securities with respect to which such meeting is being held shall be by written ballots on which shall be subscribed the signatures of such holders or of their representatives by proxy and the serial number or numbers of the Debt Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.02. The record shall show the serial numbers of the Debt Securities voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.



#### SECTION 8.07. Quorum; Actions.

The Persons entitled to vote a majority in outstanding principal amount of the Debt Securities shall constitute a quorum for a meeting of Securityholders; provided, however, that if any action is to be taken at such meeting with respect to a consent, waiver, request, demand, notice, authorization, direction or other action which may be given by the holders of not less than a specified percentage in outstanding principal amount of the Debt Securities, the Persons holding or representing such specified percentage in outstanding principal amount of the Debt Securities will constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Securityholders, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the permanent chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the permanent chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 8.02, except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the outstanding principal amount of the Debt Securities which shall constitute a quorum.

Except as limited by the proviso in the first paragraph of Section 9.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the holders of not less than a majority in outstanding principal amount of the Debt Securities; provided, however, that, except as limited by the proviso in the first paragraph of Section 9.02, any resolution with respect to any consent, waiver, request, demand, notice, authorization, direction or other action that this Indenture expressly provides may be given by the holders of not less than a specified percentage in outstanding principal amount of the Debt Securities may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid only by the affirmative vote of the holders of not less than such specified percentage in outstanding principal amount of the Debt Securities.

Any resolution passed or decision taken at any meeting of holders of Debt Securities duly held in accordance with this Section shall be binding on all the Securityholders, whether or not present or represented at the meeting.

#### SECTION 8.08. Written Consent Without a Meeting.

Whenever under this Indenture, Securityholders are required or permitted to take any action by vote, such action may be taken without a meeting on written consent, setting forth the action so taken, signed by the Securityholders of all outstanding Debt Securities entitled to vote thereon. No consent shall be effective to take the action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required by this paragraph to the Trustee, written consents signed by a sufficient number of Securityholders to take action are delivered to the Trustee at its Principal Office. Delivery made to the Trustee at its Principal Office, shall be by hand or by certificated or registered mail, return receipt requested. Written consent thus given by the Securityholders of such number of Debt Securities as is required hereunder, shall have the same effect as a valid vote of Securityholders of such number of Debt Securities.

## ARTICLE IX SUPPLEMENTAL INDENTURES

### SECTION 9.01. Supplemental Indentures without Consent of Securityholders.

The Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto, without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company, pursuant to Article XI hereof;

(b) to add to the covenants of the Company such further covenants, restrictions or conditions for the protection of the holders of Debt Securities as the Board of Directors shall consider to be for the protection of the holders of such Debt Securities, and to make the occurrence, or the occurrence and continuance, of a Default in any of such additional covenants, restrictions or conditions a Default or an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make or amend such other provisions in regard to matters or questions arising under this Indenture; provided, that any such action shall not adversely affect the interests of the holders of the Debt Securities;

(d) to add to, delete from, or revise the terms of Debt Securities, including, without limitation, any terms relating to the issuance, exchange, registration or transfer of Debt Securities, including to provide for transfer procedures and restrictions substantially similar to those applicable to the Capital Securities, as required by Section 2.05 (for purposes of assuring that no registration of Debt Securities is required under the Securities Act of 1933, as amended); provided, that any such action shall not adversely affect the interests of the holders of the Debt Securities then outstanding (it being understood, for purposes of this proviso, that transfer restrictions on Debt Securities substantially similar to those applicable to Capital Securities shall not be deemed to adversely affect the holders of the Debt Securities);

(e) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Debt Securities and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 6.1 O;

(f) to make any change (other than as elsewhere provided in this paragraph) that does not adversely affect the rights of any Securityholder in any material respect; or

(g) to provide for the issuance of and establish the form and terms and conditions of the Debt Securities, to establish the form of any certifications required to be furnished pursuant to the terms of this Indenture or the Debt Securities, or to add to the rights of the holders of Debt Securities..

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The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 9.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Debt Securities at the time outstanding, notwithstanding any of the provisions of Section 9 .02.

SECTION 9.02. Supplemental Indentures with Consent of Securityholders,

With the consent (evidenced as provided in Section 7.01) of the holders of not less than a majority in aggregate principal amount of the Debt Securities at the time outstanding affected by such supplemental indenture, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act, then in effect, applicable to indentures qualified thereunder) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Debt Securities; provided, however, that no such supplemental indenture shall without such consent of the holders of each Debt Security then outstanding and affected thereby (i) change the Maturity Date of any Debt Security, or reduce the principal amount thereof or any premium thereon, or reduce the rate (or manner of calculation of the rate) or extend the time of payment of interest thereon, or reduce (other than as a result of the maturity or earlier redemption of any such Debt Security in accordance with the terms of this Indenture and such Debt Security) or increase the aggregate principal amount of Debt Securities then outstanding, or change any of the redemption provisions, or make the principal thereof or any interest or premium thereon payable in any coin or currency other than United States Dollars, or impair or affect the right of any Securityholder to institute suit for payment thereof or impair the right of repayment, if any, at the option of the holder, or (ii) reduce the aforesaid percentage of Debt Securities the holders of which are required to consent to any such supplemental indenture; and provided, further, that if the Debt Securities are held by the Trust or a trustee of such trust, such supplemental indenture shall not be effective until the holders of a majority in Liquidation Amount of the outstanding Capital Securities shall have consented to such supplemental indenture; provided, further, that if the consent of the Securityholder of each outstanding Debt Security is required, such supplemental indenture shall not be effective until each holder of the outstanding Capital Securities shall have consented to such supplemental indenture.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders (and holders of Capital Securities, if required) as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, prepared by the Company, setting forth in general terms the substance of such supplemental indenture, to the Securityholders as their names and addresses appear

upon the Debt Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.03. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Debt Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Notation on Debt Securities.

Debt Securities authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Debt Securities so modified as to conform, in the opinion of the Board of Directors of the Company, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by the Company, authenticated by the Trustee or the Authenticating Agent and delivered in exchange for the Debt Securities then outstanding.

SECTION 9.05. Evidence of Compliance of Supplemental Indenture to be furnished to Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, shall, in addition to the documents required by Section 14.06, receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX. The Trustee shall receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article IX is authorized or permitted by, and conforms to, the terms of this Article IX and that it is proper for the Trustee under the provisions of this Article IX to join in the execution thereof.

## ARTICLE X REDEMPTION OF SECURITIES

SECTION 10.01. Optional Redemption.

At any time the Company shall have the right, subject to the receipt by the Company of prior approval from any regulatory authority with jurisdiction over the Company if such approval is then required under applicable capital guidelines or policies of such regulatory authority, to redeem the Debt Securities, in whole or (provided that all accrued and unpaid interest has been paid on all Debt Securities for all Interest Periods terminating on or prior to such date) from time to time in part, on any March 15, June 15, September 15 or December 15 on or after March 15, 2011 (the "Redemption Date"), at the Redemption Price.

SECTION 10.02. Special Event Redemption.

If a Special Event shall occur and be continuing, the Company shall have the right, subject to the receipt by the Company of prior approval from any regulatory authority with jurisdiction over the Company if such approval is then required under applicable capital guidelines or policies of such regulatory authority, to redeem the Debt Securities, in whole or in part, at any time within 90 days following the occurrence of such Special Event (the "Special Redemption Date"), at the Special Redemption Price.

SECTION 10.03. Notice of Redemption; Selection of Debt Securities.

In case the Company shall desire to exercise the right to redeem all, or, as the case may be, any part of the Debt Securities, it shall fix a date for redemption and shall mail, or cause the Trustee to mail (at the expense of the Company) a notice of such redemption at least 30 and not more than 60 days prior to the date fixed for redemption to the holders of Debt Securities so to be redeemed as a whole or in part at their last addresses as the same appear on the Debt Security Register. Such mailing shall be by first class mail. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Debt Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Debt Security.

Each such notice of redemption shall specify the CUSIP number, if any, of the Debt Securities to be redeemed, the date fixed for redemption, the redemption price (or manner of calculation of the price) at which Debt Securities are to be redeemed, the place or places of payment, that payment will be made upon presentation and surrender of such Debt Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. If less than all the Debt Securities are to be redeemed the notice of redemption shall specify the numbers of the Debt Securities to be redeemed. In case the Debt Securities are to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Debt Security, a new Debt Security or Debt Securities in principal amount equal to the unredeemed portion thereof will be issued.

Prior to 10:00 a.m. New York City time on the Redemption Date or the Special Redemption Date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more Paying Agents an amount of money sufficient to redeem on the redemption date all the Debt Securities so called for redemption at the appropriate redemption price, together with unpaid interest accrued to such date.

The Company will give the Trustee notice not less than 45 nor more than 60 days prior to the Redemption Date as to the Redemption Price at which the Debt Securities are to be redeemed and the aggregate principal amount of Debt Securities to be redeemed and the Trustee shall select, in such manner as in its sole discretion it shall deem appropriate and fair, the Debt Securities or portions thereof (in integral multiples of \$1,000) to be redeemed.

SECTION 10.04. Payment of Debt Securities Called for Redemption.

If notice of redemption has been given as provided in Section 10.03, the Debt Securities or portions of Debt Securities with respect to which such notice has been given shall become due and payable on the Redemption Date or the Special Redemption Date (as the case may be) and at the place or places stated in

such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said Redemption Date or the Special Redemption Date (unless the Company shall default in the payment of such Debt Securities at the redemption price, together with unpaid interest accrued thereon to said date) interest on the Debt Securities or portions of Debt Securities so called for redemption shall cease to accrue. On presentation and surrender of such Debt Securities at a place of payment specified in said notice, such Debt Securities or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with unpaid interest accrued thereon to the RedemptionDate or the Special Redemption Date (as the case may be).

Upon presentation of any Debt Security redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Debt Security or Debt Securities of authorized denominations in principal amount equal to the unredeemed portion of the Debt Security so presented.

## ARTICLE XI CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

### SECTION 11.01. Company May Consolidate, etc., on Certain Terms.

Nothing contained in this Indenture or in the Debt Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company) or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, **conveyance**, transfer or other disposition of all or substantially all of the property or capital stock of the Company or its successor or successors to any other corporation (whether or not affiliated with the Company, or its successor or successors) authorized to acquire and operate the same; provided, however, that the Company hereby covenants and agrees that, (i) upon any such consolidation, merger (where the Company is not the surviving corporation), sale, conveyance, transfer or other disposition, the successor entity shall be a corporation organized and existing under the laws of the United States or any state thereof or the District of Columbia (unless such corporation has (1) agreed to make all payments due in respect of the Debt Securities or, if outstanding, the Capital Securities and Capital Securities Guarantee without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges under the laws or regulations of the jurisdiction of organization or residence (for tax purposes) of such corporation or any political subdivision or taxing authority thereof or therein unless required by applicable law, in which case such corporation shall have agreed to pay such additional amounts as shall be required so that the net amounts received and retained by the holders of such Debt Securities or Capital Securities, as the case may be, after payment of all taxes (including withholding taxes), duties, assessments or other governmental charges, will be equal to the amounts that such holders would have received and retained had no such taxes (including withholding taxes), duties, assessments or other governmental charges been imposed, (2) irrevocably and unconditionally consented and submitted to the jurisdiction of any United States federal court or New York state court, in each case located in The City of New York, Borough of Manhattan, in respect of any action, suit or proceeding against it arising out of or in connection with this Indenture, the Debt Securities, the Capital Securities Guarantee or the Declaration and irrevocably and unconditionally waived, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (3) irrevocably appointed an agent in The City of New York for service of process in any action, suit or proceeding referred to in clause (2) above) and such corporation expressly assumes all of the obligations of the Company under the Debt Securities, this Indenture, the Capital Securities Guarantee and the Declaration and (ii) after giving effect to any such consolidation, merger, sale, conveyance, transfer or other disposition, no Default or Event of Default shall have occurred and be continuing.

SECTION 11.02. Successor Entity to be Substituted.

In case of any such consolidation, merger, sale, conveyance, transfer or other disposition contemplated in Section 11.01 and upon the assumption by the successor entity, by supplemental indenture, executed and delivered to the Trustee and reasonably satisfactory in form to the Trustee, of the due and punctual payment of the principal of and premium, if any, and interest on all of the Debt Securities and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by the Company, such successor entity shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the Company, and thereupon the predecessor entity shall be relieved of any further liability or obligation hereunder or upon the Debt Securities. Such successor entity thereupon may cause to be signed, and may issue either in its own name or in the name of the Company, any or all of the Debt Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee or the Authenticating Agent; and, upon the order of such successor entity instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee or the Authenticating Agent shall authenticate and deliver any Debt Securities which previously shall have been signed and delivered by the officers of the Company, to the Trustee or the Authenticating Agent for authentication, and any Debt Securities which such successor entity thereafter shall cause to be signed and delivered to the Trustee or the Authenticating Agent for that purpose. All the Debt Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Debt Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Debt Securities had been issued at the date of the execution hereof.

SECTION 11.03. Opinion of Counsel to be Given to Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, shall receive, in addition to the Opinion of Counsel required by Section 9.05, an Opinion of Counsel as conclusive evidence that any consolidation, merger, sale, conveyance, transfer or other disposition, and any assumption, permitted or required by the terms of this Article XI complies with the provisions of this Article XI.

ARTICLE XII  
SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 12.01. Discharge of Indenture.

When (a) the Company shall deliver to the Trustee for cancellation all Debt Securities theretofore authenticated (other than any Debt Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.06) and not theretofore canceled, or (b) all the Debt Securities not theretofore canceled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit with the Trustee, in trust, funds, which shall be immediately due and payable, sufficient to pay at maturity or upon redemption all of the Debt Securities (other than any Debt Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.06) not theretofore canceled or delivered to the Trustee for cancellation, including principal and premium, if any, and interest due or to become due to such date of maturity or redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of, and premium, if any, or interest on the Debt Securities (1) theretofore repaid to the Company in accordance with the provisions of Section 12.04, or (2) paid

to any state or to the District of Columbia pursuant to its unclaimed property or similar laws, and if in the case of either clause (a) or clause (b) the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect except for the provisions of Sections 2.05, 2.06, 3.01, 3.02, 3.04, 6.06, 6.09 and 12.04 hereof, which shall survive until such Debt Securities shall mature or are redeemed, as the case may be, and are paid in full. Thereafter, Sections 6.06, 6.09 and 12.04 shall survive, and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with, and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture, the Company, however, hereby agreeing to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred by the Trustee in connection with this Indenture or the Debt Securities.

SECTION 12.02. Deposited Moneys to be Held in Trust by Trustee.

Subject to the provisions of Section 12.04, all moneys deposited with the Trustee pursuant to Section 12.01 shall be held in trust and applied by it to the payment, either directly or through any Paying Agent (including the Company if acting as its own Paying Agent), to the holders of the particular Debt Securities for the payment of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal, and premium, if any, and interest.

SECTION 12.03. Paying Agent to Repay Moneys Held.

Upon the satisfaction and discharge of this Indenture, all moneys then held by any Paying Agent of the Debt Securities (other than the Trustee) shall, upon demand of the Company, be repaid to the Company or paid to the Trustee, and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

SECTION 12.04. Return of Unclaimed Moneys.

Any moneys deposited with or paid to the Trustee or any Paying Agent for payment of the principal of, and premium, if any, or interest on Debt Securities and not applied but remaining unclaimed by the holders of Debt Securities for two years after the date upon which the principal of, and premium, if any, or interest on such Debt Securities, as the case may be, shall have become due and payable, shall be repaid to the Company by the Trustee or such Paying Agent on written demand; and the holder of any of the Debt Securities shall thereafter look only to the Company for any payment which such holder may be entitled to collect and all liability of the Trustee or such Paying Agent with respect to such moneys shall thereupon cease.

ARTICLE XIII  
IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 13.01. Indenture and Debt Securities Solely Corporate Obligations.

No recourse for the payment of the principal of or premium, if any, or interest on any Debt Security, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture, or in any such Debt Security, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or agent, as such, past, present or future, of the Company or of any predecessor or successor corporation of the Company,



either directly or through the Company or any successor corporation of the Company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Debt Securities

ARTICLE XIV  
MISCELLANEOUS PROVISIONS

SECTION 14.01. Successors.

All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind its successors and assigns whether so expressed or not.

SECTION 14.02. Official Acts by Successor Entity.

Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee, officer or other authorized Person of any entity that shall at the time be the lawful successor of the Company.

SECTION 14.03. Surrender of Company Powers.

The Company by instrument in writing executed by authority of 2/3 (two-thirds) of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company and thereupon such power so surrendered shall terminate both as to the Company and as to any permitted successor.

SECTION 14.04. Addresses for Notices, etc.

Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Securityholders on the Company may be given or served in writing, duly signed by the party giving such notice, and shall be delivered, telecopied (which telecopy shall be followed by notice delivered or mailed by first class mail) or mailed by first class mail to the Company at:

Central Bancorp, Inc.  
4555 W. Walnut Street  
Garland, Texas 75042  
Attention: Keith Ward

Any notice, direction, request or demand by any Securityholder or the Company to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the office of JPMorgan Chase Bank, National Association at:

600 Travis Street, 50th Floor  
Houston, Texas 77002  
Attn: Worldwide Securities Services - Central Bancorp Statutory Trust I

SECTION 14.05. Governing Law.

This Indenture and the Debt Securities shall each be governed by, and construed in accordance with, the laws of the State of New York, without regard to conflict of laws principles of said State other than Section 5-1401 of the New York General Obligations Law.

SECTION 14.06. Evidence of Compliance with Conditions Precedent.

Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that in the opinion of the signers all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with (except that no such Opinion of Counsel is required to be furnished to the Trustee in connection with the authentication and issuance of Debt Securities issued on the date of this Indenture).

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture (except certificates delivered pursuant to Section 3.05) shall include (a) a statement that the person making such certificate or opinion has read such covenant or condition and the definitions relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 14.07. Non-Business Days.

Notwithstanding anything to the contrary contained herein, if any Interest Payment Date, other than on the Maturity Date, any Redemption Date or the Special Redemption Date, falls on a day that is not a Business Day, then any interest payable will be paid on, and such Interest Payment Date will be moved to, the next succeeding Business Day, and additional interest will accrue for each day that such payment is delayed as a result thereof. If the Maturity Date, any Redemption Date or the Special Redemption Date falls on a day that is not a Business Day, then the principal, premium, if any, and/or interest payable on such date will be paid on the next succeeding Business Day, and no additional interest will accrue in respect of such payment made on such next succeeding Business Day.

SECTION 14.08. Table of Contents, Headings, etc.

The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 14.09. Execution in Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 14.10. Severability.

In case any one or more of the provisions contained in this Indenture or in the Debt Securities shall for any reason be held to be in valid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Debt Securities, but this Indenture and such Debt Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 14.11. Assignment.

Subject to Article XI, the Company will have the right at all times to assign any of its rights or obligations under this Indenture and the Debt Securities to a direct or indirect wholly owned Subsidiary of the Company; provided, however, that, in the event of any such assignment, the Company will remain liable for all such obligations. Subject to the foregoing, this Indenture is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties thereto.

SECTION 14.12. Acknowledgment of Rights.

The Company acknowledges that, with respect to any Debt Securities held by the Trust or the Institutional Trustee of the Trust, if the Institutional Trustee of the Trust fails to enforce its rights under this Indenture as the holder of Debt Securities held as the assets of the Trust after the holders of a majority in Liquidation Amount of the Capital Securities of the Trust have so directed in writing such Institutional Trustee, a holder of record of such Capital Securities may to the fullest extent permitted by law institute legal proceedings directly against the Company to enforce such Institutional Trustee's rights under this Indenture without first instituting any legal proceedings against such Institutional Trustee or any other Person. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Company to pay interest (or premium, if any) or principal on the Debt Securities on the date such interest (or premium, if any) or principal is otherwise due and payable (or in the case of redemption, on the redemption date), the Company acknowledges that a holder of record of Capital Securities of the Trust may directly institute a proceeding against the Company for enforcement of payment to such holder directly of the principal of (or premium, if any) or interest on the Debt Securities having an aggregate principal amount equal to the aggregate Liquidation Amount of the Capital Securities of such holder on or after the respective due date specified in the Debt Securities.

ARTICLE XV  
SUBORDINATION OF DEBT SECURITIES

SECTION 15.01. Agreement to Subordinate.

The Company covenants and agrees, and each holder of Debt Securities issued hereunder and under any supplemental indenture (the "Additional Provisions") by such Securityholder's acceptance thereof likewise covenants and agrees, that all Debt Securities shall be issued subject to the provisions of this Article XV; and each holder of a Debt Security, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment by the Company of the payments due on all Debt Securities issued hereunder and under any Additional Provisions shall, to the extent and in the manner hereinafter set forth, be subordinated and junior in right of payment to the prior payment in full of all Senior Indebtedness of the Company, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article XV shall prevent the occurrence of any Default or Event of Default hereunder.

SECTION 15.02. Default on Senior Indebtedness.

In the event and during the continuation of any default by the Company in the payment of principal, premium, interest or any other payment due on any Senior Indebtedness of the Company following any applicable grace period, or in the event that the maturity of any Senior Indebtedness of the Company has been accelerated because of a default, and such acceleration has not been rescinded or canceled and such Senior Indebtedness has not been paid in full, then, in either case, no payment shall be made by the Company with respect to the payments due on the Debt Securities.

In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee when such payment is prohibited by the preceding paragraph of this Section 15.02, such payment shall, subject to Section 15.06, be held in trust for the benefit of , and shall be paid over or delivered to, the holders of Senior Indebtedness or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Indebtedness may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Indebtedness (or their representative or representatives or a trustee) notify the Trustee in writing within 90 days of such payment of the amounts then due and owing on the Senior Indebtedness and only the amounts specified in such notice to the Trustee shall be paid to the holders of Senior Indebtedness.

SECTION 15.03. Liquidation; Dissolution; Bankruptcy.

Upon any payment by the Company or distribution of assets of the Company of any kind or character, whether in cash , property or securities, to creditors upon any dissolution or winding-up or liquidation or reorganization of the Company, whether voluntary or involuntary or in **bankruptcy**, insolvency, receivership or other proceedings, all amounts due upon all Senior Indebtedness of the Company shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made by the Company on the Debt Securities; and upon any such dissolution or winding-up or liquidation or reorganization, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Securityholders or the Trustee would be entitled to receive from the Company, except for the provisions of this Article XV, shall be paid by the Company, or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Securityholders or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Indebtedness of the Company (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay such Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Securityholders.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee before all Senior Indebtedness of the Company is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under

any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Indebtedness of the Company remaining unpaid to the extent necessary to pay such Senior Indebtedness in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the holders of such Senior Indebtedness.

For purposes of this Article XV, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article XV with respect to the Debt Securities to the payment of all Senior Indebtedness of the Company, that may at the time be outstanding, provided, that (a) such Senior Indebtedness is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (b) the rights of the holders of such Senior Indebtedness are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance, transfer or other disposition of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article XI of this Indenture shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 15.03 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article XI of this Indenture. Nothing in Section 15.02 or in this Section 15.03 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06 of this Indenture.

#### SECTION 15.04. Subrogation.

Subject to the payment in full of all Senior Indebtedness of the Company, the Securityholders shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to such Senior Indebtedness until all payments due on the Debt Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of such Senior Indebtedness of any cash, property or securities to which the Securityholders or the Trustee would be entitled except for the provisions of this Article XV, and no payment over pursuant to the provisions of this Article XV to or for the benefit of the holders of such Senior Indebtedness by Securityholders or the Trustee, shall, as between the Company, its creditors other than holders of Senior Indebtedness of the Company, and the holders of the Debt Securities be deemed to be a payment or distribution by the Company to or on account of such Senior Indebtedness. It is understood that the provisions of this Article XV are and are intended solely for the purposes of defining the relative rights of the holders of the Debt Securities, on the one hand, and the holders of such Senior Indebtedness, on the other hand.

Nothing contained in this Article XV or elsewhere in this Indenture, any Additional Provisions or in the Debt Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness of the Company, and the holders of the Debt Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Debt Securities all payments on the Debt Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Debt Securities and creditors of the Company, other than the holders of Senior Indebtedness of the Company, nor shall anything herein or therein prevent the Trustee or the holder of any Debt Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article XV of the holders of such Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article XV, the Trustee, subject to the provisions of Article VI of this Indenture, and the Securityholders shall be entitled to conclusively rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding-up, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidation trustee, agent or other Person making such payment or distribution, delivered to the Trustee or to the Securityholders, for the purposes of ascertaining the Persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XV.

**SECTION 15.05. Trustee to Effectuate Subordination.**

Each Securityholder by such Securityholder's acceptance thereof authorizes and directs the Trustee on such Securityholder's behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article XV and appoints the Trustee such Securityholder's attorney-in-fact for any and all such purposes.

**SECTION 15.06. Notice by the Company.**

The Company shall give prompt written notice to a Responsible Officer of the Trustee at the Principal Office of the Trustee of any fact known to the Company that would prohibit the making of any payment of moneys to or by the Trustee in respect of the Debt Securities pursuant to the provisions of this Article XV. Notwithstanding the provisions of this Article XV or any other provision of this Indenture or any Additional Provisions, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment of moneys to or by the Trustee in respect of the Debt Securities pursuant to the provisions of this Article XV, unless and until a Responsible Officer of the Trustee at the Principal Office of the Trustee shall have received written notice thereof from the Company or a holder or holders of Senior Indebtedness or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 15.06 at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Debt Security), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary that may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself or herself to be a holder of Senior Indebtedness of the Company (or a trustee or representative on behalf of such holder) to establish that such notice has been given by a holder of such Senior Indebtedness or a trustee or representative on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of such Senior Indebtedness to participate in any payment or distribution pursuant to this Article XV, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article XV, and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 15.07. Rights of the Trustee, Holders of Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XV in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture or any Additional Provisions shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness of the Company, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article XV, and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture or any Additional Provisions against the Trustee. The Trustee shall not owe or be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness and, subject to the provisions of Article VI of this Indenture, the Trustee shall not be liable to any holder of such Senior Indebtedness if it shall pay over or deliver to Securityholders, the Company or any other Person money or assets to which any holder of such Senior Indebtedness shall be entitled by virtue of this Article XV or otherwise.

Nothing in this Article XV shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06.

SECTION 15.08. Subordination May Not Be Impaired.


No right of any present or future holder of any Senior Indebtedness of the Company to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company, or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company, with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof that any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness of the Company may, at any time and from time to time, without the consent of or notice to the Trustee or the Securityholders, without incurring responsibility to the Securityholders and without impairing or releasing the subordination provided in this Article XV or the obligations hereunder of the holders of the Debt Securities to the holders of such Senior Indebtedness, do any one or more of the following: (a) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (b) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (c) release any Person liable in any manner for the collection of such Senior Indebtedness; and (d) exercise or refrain from exercising any rights against the Company, and any other Person.

JPMorgan Chase Bank, National Association, in its capacity as Trustee, hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions herein above set forth. IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

**CENTRAL BANCORP, INC.,  
as Guarantor**

By:   
Name: James D. Yoo  
Title: President

**JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, as Guarantee Trustee**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

**CENTRAL BANCORP, INC.,  
as Guarantor**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, as Guarantee Trustee**

By:  \_\_\_\_\_  
Name: RAFAEL HERRERA  
Title: VICE PRESIDENT

EXHIBIT A

**FORM OF JUNIOR SUBORDINATED DEBT SECURITY  
DUE2035**

[FORM OF FACE OF SECURITY]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE COMPANY, (B) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO A "NON U.S. PERSON" IN AN "OFFSHORE TRANSACTION" PURSUANT TO REGULATIONS UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT TO A "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (a) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT IN ACCORDANCE WITH THE INDENTURE, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES, REPRESENTS AND WARRANTS THAT IT WILL NOT ENGAGE IN HEDGING TRANSACTIONS INVOLVING THIS SECURITY UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER

IS ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF THIS SECURITY IS NOT PROHIBITED BY SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF ERISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

IN CONNECTION WITH ANY TRANSFER. THE HOLDER OF THIS SECURITY WILL DELIVER TO THE COMPANY AND TRUSTEE SUCH CERTIFICATES AND OTHER INFORMATION AS MAY BE REQUIRED BY THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING A PRINCIPAL AMOUNT OF NOT LESS THAN \$100,000 AND MULTIPLES OF \$1,000 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING A PRINCIPAL AMOUNT OF LESS THAN \$100,000 SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER. ANY SUCH PURPORTED TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THIS SECURITY FOR ANY PURPOSE, INCLUDING, BUT NOT LIMITED TO, THE RECEIPT OF DISTRIBUTIONS ON THIS SECURITY, AND SUCH PURPORTED TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THIS SECURITY.

THIS OBLIGATION IS NOT A DEPOSIT AND IS NOT INSURED BY THE UNITED STATES OR ANY AGENCY OR FUND OF THE UNITED STATES, INCLUDING THE FEDERAL DEPOSIT INSURANCE CORPORATION. THIS OBLIGATION IS SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND THE CLAIMS OF GENERAL AND SECURED CREDITORS OF THE COMPANY, IS INELIGIBLE AS COLLATERAL FOR A LOAN BY THE COMPANY OR ANY OF ITS SUBSIDIARIES AND IS NOT SECURED.

Form of Junior Subordinated Debt Security due 2035 of  
Central Bancorp, Inc.

Central Bancorp, Inc., a bank holding company incorporated in Texas (the "Company"), for value received promises to pay to JPMorgan Chase Bank, National Association, not in its individual capacity but solely as Institutional Trustee for Central Bancorp Statutory Trust I, a Delaware statutory trust (the "Holder"), or registered assigns, the principal sum of Twenty Six Million Eight Hundred Five Thousand Dollars on March 15, 2036 and to pay interest on said principal sum from December 27, 2005, or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears on March 15, June 15, September 15 and December 15

of each year commencing March 15, 2006, at the rate of 6.255% (the "Fixed Rate") per annum until March 15, 2011 (the "Fixed Rate Period") and thereafter at a variable per annum rate equal to LIBOR (as defined in the Indenture) plus 1.40% (the "Variable Rate" and together with the Fixed Rate the "Interest Rate") (provided, however, that the Interest Rate for any Interest Payment Period may not exceed the highest rate permitted by New York law, as the same may be modified by United States law of general applicability) until the principal hereof shall have become due and payable, and on any overdue principal and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at an annual rate equal to the Interest Rate in effect for each such Extension Period compounded quarterly. The amount of interest payable on any Interest Payment Date shall be computed during the Fixed Rate Period on the basis of a 360-day year of twelve 30-day months and the amount payable for any partial period shall be computed on the basis of the number of days elapsed in a 360 day year of twelve 30 day months, and thereafter on the basis of a 360-day year and the actual number of days elapsed in the relevant interest period.

Notwithstanding anything to the contrary contained herein, if any Interest Payment Date, other than on the Maturity Date, any Redemption Date or the Special Redemption Date, falls on a day that is not a Business Day, then any interest payable will be paid on, and such Interest Payment Date will be moved to, the next succeeding Business Day, and additional interest will accrue for each day that such payment is delayed as a result thereof. If the Maturity Date, any Redemption Date or the Special Redemption Date falls on a day that is not a Business Day, then the principal, premium, if any, and/or interest payable on such date will be paid on the next succeeding Business Day, and no additional interest will accrue in respect of such payment made on such next succeeding Business Day. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date with, as provided in the Indenture, be paid to the Person in whose name this Debt Security (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, except that interest and any Deferred Interest payable on the Maturity Date shall be paid to the Person to whom principal is paid. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date and may be paid to the Person in whose name this Debt Security (or one or more Predecessor Debt Securities) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of the Debt Securities not less than 10 days prior to such special record date, all as more fully provided in the Indenture. The principal of and interest on this Debt Security shall be payable at the office or agency of the Trustee (or other Paying Agent appointed by the Company) maintained for that purpose in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debt Security Register or by wire transfer or immediately available funds to an account appropriately designated by the holder hereof. Notwithstanding the foregoing, so long as the holder of this Debt Security is the Institutional Trustee, payment of the principal of and premium, if any, and interest on this Debt Security shall be made in immediately available funds when due at such place and to such account as may be designated by the Institutional Trustee. All payments in respect of this Debt Security shall be payable in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts.

Upon submission of Notice (as defined in the Indenture) and so long as it is acting in good faith, and so long as no Event of Default pursuant to paragraphs (c), (e) or (f) of Section 5.01 of the Indenture has occurred and is continuing, the Company shall have the right, from time to time and without causing an Event of Default, to defer payments of interest on the Debt Securities by extending the interest distribution period on the Debt Securities at any time and from time to time during the term of the Debt Securities, for up to 20 consecutive quarterly periods (each such extended interest distribution period, an

"Extension Period"), during which Extension Period no interest shall be due and payable (except any Additional Interest that may be due and payable). During any Extension Period, interest will continue to accrue on the Debt Securities, and interest on such accrued interest (such accrued interest and interest thereon referred to herein as "Deferred Interest") will accrue at an annual rate equal to the Interest Rate applicable during such Extension Period, compounded quarterly from the date such Deferred Interest would have been payable were it not for the Extension Period, to the extent permitted by law. No Extension Period may end on a date other than an Interest Payment Date. At the end of any such Extension Period the Company shall pay all Deferred Interest then accrued and unpaid on the Debt Securities; provided, however, that no Extension Period may extend beyond the Maturity Date, any Redemption Date (to the extent redeemed), or any Special Redemption Date; and provided, further, however, during any such Extension Period, the Company may not (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company's capital stock or (ii) make any payment of principal of or premium, if any, or interest on or repay, repurchase or redeem any debt securities of the Company that rank *pari passu* in all respects with or junior in interest to the Debt Securities or (iii) make any payment under any guarantees of the Company that rank in all respects *pari passu* with or junior in respect to the Capital Securities Guarantee (other than (a) repurchases, redemptions or other acquisitions of shares of capital stock of the Company (A) in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, (B) in connection with a dividend reinvestment or stockholder stock purchase plan or (C) in connection with the issuance of capital stock of the Company (or securities convertible into or exercisable for such capital stock), as consideration in an acquisition transaction entered into prior to the applicable Extension Period, (b) as a result of any exchange, reclassification, combination or conversion of any class or series of the Company's capital stock (or any capital stock of a subsidiary of the Company) for any class or series of the Company's capital stock or of any class or series of the Company's indebtedness for any class or series of the Company's capital stock, (c) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (d) any declaration of a dividend in connection with any stockholder's rights plan, or the issuance of rights, stock or other property under any stockholder's rights plan, or the redemption or repurchase of rights pursuant thereto, or (e) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks *pari passu* with or junior to such stock). Prior to the termination of any Extension Period, the Company may further extend such Extension Period; provided, that no Extension Period (including all previous and further consecutive extensions that are part of such Extension Period) shall exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date. Upon the termination of any Extension Period and upon the payment of all Deferred Interest, the Company may commence a new Extension Period, subject to the foregoing requirements. No interest or Deferred Interest shall be due and payable during an Extension Period, except at the end thereof, but Deferred Interest shall accrue upon each installment of interest that would otherwise have been due and payable during such Extension Period until such installment is paid. The Company must give the Trustee notice of its election to begin or extend an Extension Period no later than the regular record date applicable to the next succeeding Interest Payment Date.

The indebtedness evidenced by this Debt Security is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Debt Security is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Debt Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on such holder's behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee such holder's attorney-in-fact for any and all such purposes. Each holder hereof, by such holder's acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior

Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

The Company waives diligence, presentment, demand for payment, notice of nonpayment, notice of protest, and all other demands and notices.

This Debt Security shall not be entitled to any benefit under the Indenture hereinafter referred to and shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Debt Security are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

[FORM OF REVERSE OF SECURITY]

This Debt Security is one of a duly authorized series of Debt Securities of the Company, all issued or to be issued pursuant to an Indenture (the "Indenture"), dated as of December 27, 2005, duly executed and delivered between the Company and JPMorgan Chase Bank, National Association, as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Debt Securities (referred to herein as the "Debt Securities") of which this Debt Security is a part. The summary of the terms of this Debt Security contained herein does not purport to be complete and is qualified by reference to the Indenture.

Upon the occurrence and continuation of a Tax Event, an Investment Company Event or a Capital Treatment Event (each a "Special Event"), this Debt Security may become due and payable, in whole or in part, at any time, within 90 days following the occurrence of such Tax Event, Investment Company Event or Capital Treatment Event (the "Special Redemption Date"), as the case may be, at the Special Redemption Price.

The Company shall also have the right to redeem this Debt Security at the option of the Company, in whole or in part, on any March 15, June 15, September 15 or December 15 on or after March 15, 2011 (a "Redemption Date"), at the Redemption Price.

Any redemption pursuant to the preceding paragraph will be made, subject to the receipt by the Company of prior approval from any regulatory authority with jurisdiction over the Company if such approval is then required under applicable capital guidelines or policies of such regulatory authority, upon not less than 30 days' nor more than 60 days' notice. If the Debt Securities are only partially redeemed by the Company, the Debt Securities will be redeemed pro rata or by lot or by any other method utilized by the Trustee.

"Redemption Price" means 100% of the principal amount of the Debt Securities being redeemed plus accrued and unpaid interest on such Debt Securities to the Redemption Date.

"Special Redemption Price" means, with respect to the redemption of any Debt Security following a Special Event, an amount in cash equal to 103.525% of the principal amount of Debt Securities to be redeemed prior to March 15, 2007 and thereafter equal to the percentage of the principal amount of the Debt Securities that is specified below for the Special Redemption Date plus, in each case, unpaid interest accrued thereon to the Special Redemption Date:

Special Redemption During the  
12-Month Period Beginning March 15

Percentage of Principal Amount

2007		103.140%	
	2008	102.355	%
	2009	101.57	%
	2010	100.785%	
	2011 and thereafter	100	%

In the event of redemption of this Debt Security in part only, a new Debt Security or Debt Securities for the unredeemed portion hereof will be issued in the name of the holder hereof upon the cancellation hereof.

In certain cases where an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Debt Securities may be declared, and, in certain cases, shall ipso facto become, due and payable, and upon such declaration of acceleration shall become due and payable, in each case, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of the Debt Securities at the time outstanding affected thereby, as specified in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Debt Securities; provided, however, that no such supplemental indenture shall, among other things, without the consent of the holders of each Debt Security then outstanding and affected thereby (i) change the Maturity Date of any Debt Security, or reduce the principal amount thereof or any premium thereon, or reduce the rate (or manner of calculation of the rate) or extend the time of payment of interest thereon, or reduce (other than as a result of the maturity or earlier redemption of any such Debt Security in accordance with the terms of the Indenture and such Debt Security) or increase the aggregate principal amount of Debt Securities then outstanding, or change any of the redemption provisions, or make the principal thereof or any interest or premium thereon payable in any coin or currency other than United States Dollars, or impair or affect the right of any holder of Debt Securities to institute suit for the payment thereof, or (ii) reduce the aforesaid percentage of Debt Securities, the holders of which are required to consent to any such supplemental indenture. The Indenture also contains provisions permitting the holders of a majority in aggregate principal amount of the Debt Securities at the time outstanding, on behalf of all of the holders of the Debt Securities, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture, and its consequences, except (a) a default in payments due in respect of any of the Debt Securities, (b) in respect of covenants or provisions of the Indenture which cannot be modified or amended without the consent of the holder of each Debt Security affected, or (c) in respect of the covenants of the Company relating to its ownership of Common Securities of the Trust. Any such consent or waiver by the registered holder of this Debt Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Debt Security and of any Debt Security issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Debt Security.

No reference herein to the Indenture and no provision of this Debt Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay all payments due on this Debt Security at the time and place and at the rate and in the money herein prescribed.

As provided in the Indenture and subject to certain limitations herein and therein set forth, this Debt Security is transferable by the registered holder hereof on the Debt Security Register of the Company, upon surrender of this Debt Security for registration of transfer at the office or agency of the Trustee in Houston, Texas accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered holder hereof or such holder's attorney duly authorized in writing, and thereupon one or more new Debt Securities of authorized denominations and for the same aggregate principal amount will be issued to the designated transferee or transferees. No service charge will be made for any such registration of transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Debt Security, the Company, the Trustee, any Authenticating Agent, any Paying Agent, any transfer agent and the Debt Security registrar may deem and treat the registered holder hereof as the absolute owner hereof (whether or not this Debt Security shall be overdue and notwithstanding any notice of ownership or writing hereon) for the purpose of receiving payment of the principal of and premium, if any, and interest on this Debt Security and for all other purposes, and neither the Company nor the Trustee nor any Authenticating Agent nor any Paying Agent nor any transfer agent nor any Debt Security registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Debt Security, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

The Debt Securities are issuable only in registered certificated form without coupons. As provided in the Indenture and subject to certain limitations herein and therein set forth, Debt Securities are exchangeable for a like aggregate principal amount of Debt Securities of a different authorized denomination, as requested by the holder surrendering the same.

All terms used in this Debt Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE INDENTURE AND THE DEBT SECURITIES, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW).



AMENDED AND RESTATED DECLARATION

OF TRUST

Central Bancorp Statutory Trust I

Dated as of December 27, 2005

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AMENDED AND RESTATED DECLARATION OF TRUST OF

Central Bancorp Statutory Trust I

December 27, 2005

AMENDED AND RESTATED DECLARATION OF TRUST (this "Declaration"), dated and effective as of December 27, 2005, by the Trustees (as defined herein), the Administrators (as defined herein), the Sponsor (as defined herein) and the holders from time to time of undivided beneficial interests in the assets of the Trust (as defined herein) to be issued pursuant to this Declaration.

WHEREAS, the Delaware Trustee and the Sponsor established Central Bancorp Statutory Trust I (the "Trust"), a statutory trust under the Statutory Trust Act (as defined herein), pursuant to a Declaration of Trust, dated as of December 20, 2005 (the "Original Declaration"), and a Certificate of Trust filed with the Secretary of State of the State of Delaware on December 20, 2005, for the sole purpose of issuing and selling certain securities representing undivided beneficial interests in the assets of the Trust and investing the proceeds thereof in the Debentures (as defined herein) of the Debenture Issuer (as defined herein) in connection with the issuance of the Capital Securities (as defined herein);

WHEREAS, as of the date hereof, no interests in the assets of the Trust have been issued; and

WHEREAS, all of the Trustees, the Administrators and the Sponsor, by this Declaration, amend and restate each and every term and provision of the Original Declaration.

NOW, THEREFORE, it being the intention of the parties hereto to continue the Trust as a statutory trust under the Statutory Trust Act and that this Declaration constitutes the governing instrument of such statutory trust, and that all assets contributed to the Trust will be held in trust for the benefit of the holders, from time to time, of the securities representing undivided beneficial interests in the assets of the Trust issued hereunder, subject to the provisions of this Declaration, and, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, amend and restate in its entirety the Original Declaration and agree as follows:

ARTICLE I  
INTERPRETATION AND DEFINITIONS

SECTION 1.1. Definitions. Unless the context otherwise requires:

(a) capitalized terms used in this Declaration but not defined in the preamble above or elsewhere herein have the respective meanings assigned to them in this Section 1.1 or, if not defined in this Section 1.1 or elsewhere herein, in the Indenture;

(b) a term defined anywhere in this Declaration has the same meaning throughout;

(c) all references to "the Declaration" or "this Declaration" are to this Declaration as modified, supplemented or amended from time to time;

(d) all references in this Declaration to Articles and Sections and Annexes and Exhibits are to Articles and Sections of and Annexes and Exhibits to this Declaration unless otherwise specified;

(e) a term defined in the Trust Indenture Act (as defined herein) has the same meaning when used in this Declaration unless otherwise defined in this Declaration or unless the context otherwise requires; and

(f) a reference to the singular includes the plural and vice versa.

"Additional Interest" has the meaning set forth in Section 3.06 of the Indenture.

"Administrative Action" has the meaning set forth in paragraph 4(a) of Annex I.

"Administrators" means each of Keith Ward and James D. Yoo, solely in such Person's capacity as Administrator of the Trust continued hereunder and not in such Person's individual capacity, or such Administrator's successor in interest in such capacity, or any successor appointed as herein provided.

"Affiliate" has the same meaning as given to that term in Rule 405 of the Securities Act or any successor rule thereunder.

"Authorized Officer" of a Person means any Person that is authorized to bind such Person.

"Bankruptcy Event" means, with respect to any Person:

(a) a court having jurisdiction in the premises enters a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of such Person or for any substantial part of its property, or orders the winding-up or liquidation of its affairs, and such decree, appointment or order remains unstayed and in effect for a period of 90 consecutive days; or

(b) such Person commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, consents to the entry of an order for relief in an involuntary case under any such law, or consents to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of such Person of any

substantial part of its property, or makes any general assignment for the benefit of creditors, or fails generally to pay its debts as they become due.

"Business Day" means any day other than Saturday, Sunday or any other day on which banking institutions in Wilmington, Delaware or New York City or the city of the Corporate Trust Office are permitted or required by any applicable law or executive order to close.

"Calculation Agent" has the meaning set forth in Section 1.01 of the Indenture. "Capital Securities" has the meaning set forth in Section 6.1(a).

"Capital Securities Purchase Agreement" means the Capital Securities Purchase Agreement dated as of December 20, 2005 among the Trust, the Sponsor and Merrill Lynch International.

"Capital Security Certificate" means a definitive Certificate registered in the name of the Holder representing a Capital Security substantially in the form of Exhibit A 1.

"Capital Treatment Event" has the meaning set forth in paragraph 4(a) of Annex I.

"Certificate" means any certificate evidencing Securities.

"Certificate of Trust" means the certificate of trust filed with the Secretary of State of the State of Delaware with respect to the Trust, as amended and restated from time to time.

"Closing Date" means the date of execution and delivery of this Declaration.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation.

"Commission" means the United States Securities and Exchange Commission.

"Common Securities" has the meaning set forth in Section 6.1 (a).

"Common Security Certificate" means a definitive Certificate registered in the name of the Holder representing a Common Security substantially in the form of Exhibit A-2.

"Company Indemnified Person" means (a) any Administrator; (b) any Affiliate of any Administrator; (c) any officers, directors, shareholders, members, partners, employees, representatives or agents of any Administrator; or (d) any officer, employee or agent of the Trust or its Affiliates.

"Corporate Trust Office" means the office of the Institutional Trustee at which the corporate trust business of the Institutional Trustee shall, at any particular time, be principally administered, which office shall at all times be located in the United States and at the date of execution of this Declaration is located at 600 Travis Street, so" Floor, Houston, TX 77002, Attn: Worldwide Securities Services - Central Bancorp Statutory Trust I.

"Coupon Rate" has the meaning set forth in paragraph 2(a) of Annex I.

"Covered Person" means: (a) any Administrator, officer, director, shareholder, partner, member, representative, employee or agent of (i) the Trust or (ii) the Trust's Affiliates; and (b) any Holder of Securities.

"Debenture Issuer" means Central Bancorp, Inc., a bank holding company incorporated in Texas, in its capacity as issuer of the Debentures under the Indenture.



"Debenture Trustee" means JPMorgan Chase Bank, National Association, not in its individual capacity but solely as trustee under the Indenture until a successor is appointed thereunder, and thereafter means such successor trustee.

"Debentures" means the Junior Subordinated Debt Securities due March 15, 2036 to be issued by the Debenture Issuer under the Indenture.

"Deferred Interest" means any interest on the Debentures that would have been overdue and unpaid for more than one Distribution Payment Date but for the imposition of an Extension Period, and the interest that shall accrue (to the extent that the payment of such interest is legally enforceable) on such interest at the Coupon Rate applicable during such Extension Period, compounded quarterly from the date on which such Deferred Interest would otherwise have been due and payable until paid or made available for payment.

"Definitive Capital Securities" means any Capital Securities in definitive form issued by the Trust.

"Delaware Trustee" has the meaning set forth in Section 4.2.

"Direct Action" has the meaning set forth in Section 2.8(e).

"Distribution" means a distribution payable to Holders of Securities in accordance with Section 5.1.

"Distribution Payment Date" has the meaning set forth in paragraph 2(e) of Annex I. "Distribution Payment Period" means the period from and including a Distribution Payment Date, or in the case of the first Distribution Payment Period, the original date of issuance of the Securities, to, but excluding, the next succeeding Distribution Payment Date or, in the case of the last Distribution Payment Period, the Redemption Date, Special Redemption Date or Maturity Date (each as defined in the Indenture), as the case may be, for the related Debentures.

"Event of Default" means the occurrence of an Indenture Event of Default.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor legislation.

"Extension Period" has the meaning set forth in paragraph 2(e) of Annex I.

"Fiduciary Indemnified Person" shall mean each of the Institutional Trustee (including in its individual capacity), the Delaware Trustee (including in its individual capacity), any Affiliate of the Institutional Trustee or the Delaware Trustee, and any officers, directors, shareholders, members, partners, employees, representatives, custodians, nominees or agents of the Institutional Trustee or the Delaware Trustee.

"Fiscal Year" has the meaning set forth in Section 10.1.

"Fixed Rate" has the meaning set forth in paragraph 2(a) of Annex I.

"Guarantee" means the Guarantee Agreement, dated as of the Closing Date, of the Sponsor (the "Guarantor") in respect of the Capital Securities.

"Holder" means a Person in whose name a Certificate representing a Security is registered on the register maintained by or on behalf of the Registrar, such Person being a beneficial owner within the meaning of the Statutory Trust Act.

"Indemnified Person" means a Company Indemnified Person or a Fiduciary Indemnified Person.

"Indenture" means the Indenture, dated as of the Closing Date, between the Debenture Issuer and the Debenture Trustee, and any indenture supplemental thereto pursuant to which the Debentures are to be issued.

"Indenture Event of Default" means an "Event of Default" as defined in the Indenture. "Institutional Trustee" means the Trustee meeting the eligibility requirements set forth in Section 4.3.

"Investment Company" means an investment company as defined in the Investment Company Act.

"Investment Company Act" means the Investment Company Act of 1940, as amended from time to time, or any successor legislation.

"Investment Company Event" has the meaning set forth in paragraph 4(a) of Annex I.

"Legal Action" has the meaning set forth in Section 2.8(e).

"LIBOR" means the London Interbank Offered Rate for U.S. Dollar deposits in Europe as determined by the Calculation Agent according to paragraph 2(b) of Annex I.

"LIBOR Banking Day" has the meaning set forth in paragraph 2(b)(1) of Annex I.

"LIBOR Business Day" has the meaning set forth in paragraph 2(b)(1) of Annex I.

"LIBOR Determination Date" has the meaning set forth in paragraph 2(b)(1) of Annex I.

"Liquidation" has the meaning set forth in paragraph 3 of Annex I.

"Liquidation Distribution" has the meaning set forth in paragraph 3 of Annex I.

"Majority in liquidation amount of the Securities" means Holders of outstanding Securities voting together as a single class or, as the context may require, Holders of outstanding Capital Securities or Holders of outstanding Common Securities voting separately as a class, who are the record owners of more than 50% of the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accrued and unpaid Distributions to the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

"Notice" has the meaning set forth in Section 2.11 of the Indenture.

"Officers' Certificate" means, with respect to any Person, a certificate signed by two Authorized Officers of such Person. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Declaration shall include:

- (a) a statement that each officer signing the Officers' Certificate has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers' Certificate;

(c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Paying Agent" has the meaning set forth in Section 6.2.

"Payment Amount" has the meaning set forth in Section 5.1.

"Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Placement Agreement" means the Placement Agreement relating to the offering and sale of Capital Securities.

"PORTAL" has the meaning set forth in Section 2.6(a)(i)(E).

"Property Account" has the meaning set forth in Section 2.8(c).

"Pro Rata" has the meaning set forth in paragraph 8 of Annex I.

"QIB" means a "qualified institutional buyer" as defined under Rule 144A.

"Quorum" means a majority of the Administrators or, if there are only two Administrators, both of them.

"Redemption/Distribution Notice" has the meaning set forth in paragraph 4(e) of Annex I.

"Redemption Price" has the meaning set forth in paragraph 4(a) of Annex I.

"Registrar" has the meaning set forth in Section 6.2.

"Relevant Trustee" has the meaning set forth in Section 4.7(a).

"Responsible Officer" means, with respect to the Institutional Trustee, any officer within the Corporate Trust Office of the Institutional Trustee with direct responsibility for the administration of this Declaration, including any vice-president, any assistant vice-president, any secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer or other officer of the Corporate Trust Office of the Institutional Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Restricted Securities Legend" has the meaning set forth in Section 8.2(c).

"Rule 144A" means Rule 144A under the Securities Act.

"Rule 3a-5" means Rule 3a-5 under the Investment Company Act.

"Rule 3a-7" means Rule 3a-7 under the Investment Company Act.

"Securities" means the Common Securities and the Capital Securities, as applicable.

"Securities Act" means the Securities Act of 1933, as amended from time to time, or any successor legislation.

"Sponsor" means Central Bancorp, Inc., a bank holding company that is a U.S. Person incorporated in Texas, or any successor entity in a merger, consolidation or amalgamation that is a U.S. Person, in its capacity as sponsor of the Trust.

"Statutory Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. Code § 3801 et seq., as it may be amended from time to time, or any successor legislation.

"Successor Delaware Trustee" has the meaning set forth in Section 4.7(e).

"Successor Entity" has the meaning set forth in Section 2.15(b).

"Successor Institutional Trustee" has the meaning set forth in Section 4.7(b). "Successor Securities" has the meaning set forth in Section 2.15(b).

"Super Majority" has the meaning set forth in paragraph 5(b) of Annex I. "Tax Event" has the meaning set forth in paragraph 4(a) of Annex I.

"10% in liquidation amount of the Securities" means Holders of outstanding Securities voting together as a single class or, as the context may require, Holders of outstanding Capital Securities or Holders of outstanding Common Securities voting separately as a class, who are the record owners of 10% or more of the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accrued and unpaid Distributions to the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

"Transfer Agent" has the meaning set forth in Section 6.2.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended from time to time, or any successor legislation.

"Trustee" or "Trustees" means each Person who has signed this Declaration as a trustee, so long as such Person shall continue in office in accordance with the terms hereof, and all other Persons who may from time to time be duly appointed, qualified and serving as Trustees in accordance with the provisions hereof, and references herein to a Trustee or the Trustees shall refer to such Person or Persons solely in their capacity as trustees hereunder.

"Trust Property" means (a) the Debentures, (b) any cash on deposit in, or owing to, the Property Account and (c) all proceeds and rights in respect of the foregoing and any other property and assets for the time being held or deemed to be held by the Institutional Trustee pursuant to the trusts of this Declaration.

"U.S. Person" means a United States Person as defined in Section 7701(a)(30) of the Code.

"Variable Rate" has the meaning set forth in paragraph 2(a) of Annex I.

ARTICLE II  
ORGANIZATION

SECTION 2.1. Name.

The Trust is continued hereby and shall be known as "Central Bancorp Statutory Trust I," as such name may be modified from time to time by the Administrators following written notice to the Institutional Trustee and the Holders of the Securities. The Trust's activities may be conducted under the name of the Trust or any other name deemed advisable by the Administrators.

SECTION 2.2. Office. The address of the principal office of the Trust, which shall be in a state of the United States or the District of Columbia, is 4555 W. Walnut Street, Garland, Texas 75042. On ten Business Days' written notice to the Institutional Trustee and the Holders of the Securities, the Administrators may designate another principal office, which shall be in a state of the United States or the District of Columbia.

SECTION 2.3. Purpose. The exclusive purposes and functions of the Trust are (a) to issue and sell the Securities representing undivided beneficial interests in the assets of the Trust, (b) to invest the gross proceeds from such sale to acquire the Debentures, (c) to facilitate direct investment in the assets of the Trust through issuance of the Common Securities and the Capital Securities and (d) except as otherwise limited herein, to engage in only those other activities incidental thereto that are deemed necessary or advisable by the Institutional Trustee, including, without limitation, those activities specified in this Declaration. The Trust shall not borrow money, issue debt or reinvest proceeds derived from investments, pledge any of its assets, or otherwise undertake (or permit to be undertaken) any activity that would cause the Trust not to be classified for United States federal income tax purposes as a grantor trust.

SECTION 2.4. Authority. Except as specifically provided in this Declaration, the Institutional Trustee shall have exclusive and complete authority to carry out the purposes of the Trust. An action taken by a Trustee on behalf of the Trust and in accordance with such Trustee's powers shall constitute the act of and serve to bind the Trust. In dealing with the Trustees acting on behalf of the Trust, no Person shall be required to inquire into the authority of the Trustees to bind the Trust. Persons dealing with the Trust are entitled to rely conclusively on the power and authority of the Trustees as set forth in this Declaration. The Administrators shall have only those ministerial duties set forth herein with respect to accomplishing the purposes of the Trust and are not intended to be trustees or fiduciaries with respect to the Trust or the Holders. The Institutional Trustee shall have the right, but shall not be obligated except as provided in Section 2.6, to perform those duties assigned to the Administrators.

SECTION 2.5. Title to Property of the Trust. Except as provided in Section 2.6(g) and Section 2.8 with respect to the Debentures and the Property Account or as otherwise provided in this Declaration, legal title to all assets of the Trust shall be vested in the Trust. The Holders shall not have legal title to any part of the assets of the Trust, but shall have an undivided beneficial interest in the assets of the Trust.

SECTION 2.6. Powers and Duties of the Trustees and the Administrators.

(a) The Trustees and the Administrators shall conduct the affairs of the Trust in accordance with the terms of this Declaration. Subject to the limitations set forth in paragraph (b) of this Section, and in accordance with the following provisions (i) and (ii), the Administrators and, at the direction of the Administrators, the Trustees, shall have the authority to enter into all transactions and agreements determined by the Administrators to be appropriate in exercising the authority, express or implied, otherwise granted to

the Trustees or the Administrators, as the case may be, under this Declaration, and to perform all acts in furtherance thereof, including without limitation, the following:

(i) Each Administrator shall have the power, duty and authority, and is hereby authorized, to act on behalf of the Trust with respect to the following matters:

(A) the issuance and sale of the Securities;

(B) to acquire the Debentures with the proceeds of the sale of the Securities; provided, however, that the Administrators shall cause legal title to the Debentures to be held of record in the name of the Institutional Trustee for the benefit of the Holders;

(C) to cause the Trust to enter into, and to execute, deliver and perform on behalf of the Trust, such agreements as may be necessary or desirable in connection with the purposes and function of the Trust, including agreements with the Paying Agent, a Debenture subscription agreement between the Trust and the Sponsor and a Common Securities subscription agreement between the Trust and the Sponsor;

(D) ensuring compliance with the Securities Act and applicable state securities or blue sky laws;

(E) if and at such time determined solely by the Sponsor at the request of the Holders, assisting in the designation of the Capital Securities for trading in the Private Offering, Resales and Trading through the Automatic Linkages ("PORT AL") system if available;

(F) the sending of notices (other than notices of default) and other information regarding the Securities and the Debentures to the Holders in accordance with this Declaration, including notice of any notice received from the Debenture Issuer of its election to defer payments of interest on the Debentures by extending the interest payment period under the Indenture;

(G) the appointment of a Paying Agent, Transfer Agent and Registrar in accordance with this Declaration;

(H) execution and delivery of the Securities in accordance with this Declaration;

(I) execution and delivery of closing certificates pursuant to the Placement Agreement and the application for a taxpayer identification number;

(J) unless otherwise determined by the Holders of a Majority in liquidation amount of the Securities or as otherwise required by the Statutory Trust Act, to execute on behalf of the Trust (either acting alone or together with any or all of the Administrators) any documents that the Administrators have the power to execute pursuant to this Declaration;

(K) the taking of any action incidental to the foregoing as the Sponsor or an Administrator may from time to time determine is necessary or advisable to give effect to the terms of this Declaration for the benefit of the Holders (without consideration of the effect of any such action on any particular Holder);

(L) to establish a record date with respect to all actions to be taken hereunder that require a record date be established, including Distributions, voting rights, redemptions and exchanges, and to issue relevant notices to the Holders of Capital Securities and Holders of Common Securities as to such actions and applicable record dates;

(M) to duly prepare and file on behalf of the Trust all applicable tax returns and tax information reports that are required to be filed with respect to the Trust;

(N) to negotiate the terms of, and the execution and delivery of, the Placement Agreement and the Capital Securities Purchase Agreement related thereto, providing for the sale of the Capital Securities;

(O) to employ or otherwise engage employees, agents (who may be designated as officers with titles), managers, contractors, advisors, attorneys and consultants and pay reasonable compensation for such services;

(P) to incur expenses that are necessary or incidental to carry out any of the purposes of the Trust;

(Q) to give the certificate required by § 314(a)(4) of the Trust Indenture Act to the Institutional Trustee, which certificate may be executed by an Administrator; and

(R) to take all action that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory trust under the laws of each jurisdiction (other than the State of Delaware) in which such existence is necessary to protect the limited liability of the Holders of the Capital Securities or to enable the Trust to effect the purposes for which the Trust was created.

(ii) As among the Trustees and the Administrators, the Institutional Trustee shall have the power, duty and authority, and is hereby authorized, to act on behalf of the Trust with respect to the following matters:

(A) the establishment of the Property Account;

(B) the receipt of the Debentures;

(C) the collection of interest, principal and any other payments made in respect of the Debentures in the Property Account;

(D) the distribution through the Paying Agent of amounts owed to the Holders in respect of the Securities;

(E) the exercise of all of the rights, powers and privileges of a holder of the Debentures;

(F) the sending of notices of default and other information regarding the Securities and the Debentures to the Holders in accordance with this Declaration;

(G) the distribution of the Trust Property in accordance with the terms of this Declaration;

(H) to the extent provided in this Declaration, the winding up of the affairs of and liquidation of the Trust;

(I) after any Event of Default (of which the Institutional Trustee has knowledge (as provided in Section 2.10(m) hereof)) (provided, that such Event of Default is not by or with respect to the Institutional Trustee), the taking of any action incidental to the foregoing as the Institutional Trustee may from time to time determine is necessary or advisable to give effect to the terms of this Declaration and protect and conserve the Trust Property for the benefit of the Holders (without consideration of the effect of any such action on any particular Holder);

(J) to take all action that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory trust under the laws of the State of Delaware to protect the limited liability of the Holders of the Capital Securities or to enable the Trust to effect the purposes for which the Trust was created; and

(K) to undertake any actions set forth in § 317(a) of the Trust Indenture Act.

(b) The Institutional Trustee shall have the power and authority, and is hereby authorized, to act on behalf of the Trust with respect to any of the duties, liabilities, powers or the authority of the Administrators set forth in Section 2.6(a)(i)(E) and (F) herein but shall not have a duty to do any such act unless specifically requested to do so in writing by the Sponsor, and shall then be fully protected in acting pursuant to such written request; and in the event of a conflict between the action of the Administrators and the action of the Institutional Trustee, the action of the Institutional Trustee shall prevail.

(c) So long as this Declaration remains in effect, the Trust (or the Trustees or Administrators acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, neither the Trustees nor the Administrators may cause the Trust to (i) acquire any investments or engage in any activities not authorized by this Declaration, (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Holders, except as expressly provided herein, (iii) take any action that would cause (or in the case of the Institutional Trustee, to the actual knowledge of a Responsible Officer would cause) the Trust to fail or cease to qualify as a "grantor trust" for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money or issue any other debt or (v) take or consent to any action that would result in the placement of a lien on any of the Trust Property. The Institutional Trustee shall, at the sole cost and expense of the Trust, defend all claims and demands of all Persons at any time claiming any lien on any of the Trust Property adverse to the interest of the Trust or the Holders in their capacity as Holders.

(d) In connection with the issuance and sale of the Capital Securities, the Sponsor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Sponsor in furtherance of the following prior to the date of this Declaration are hereby ratified and confirmed in all respects):



(i) the taking of any action necessary to obtain an exemption from the Securities Act;

(ii) the determination of the States in which to take appropriate action to qualify or register for sale all or part of the Capital Securities and the determination of any and all such acts, other than actions which must be taken by or on behalf of the Trust, and the advisement of and direction to the Trustees of actions they must take on behalf of the Trust, and the preparation for execution and filing of any documents to be executed and filed by the Trust or on behalf of the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such States in connection with the sale of the Capital Securities; and

(iii) the taking of any other actions necessary or desirable to carry out any of the foregoing activities.

(e) Notwithstanding anything herein to the contrary, the Administrators, the Institutional Trustee and the Holders of a Majority in liquidation amount of the Common Securities are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that (i) the Trust will not be deemed to be an Investment Company (in the case of the Institutional Trustee, to the actual knowledge of a Responsible Officer), and (ii) the Trust will not fail to be classified as a grantor trust for United States federal income tax purposes (in the case of the Institutional Trustee, to the actual knowledge of a Responsible Officer) and (iii) the Trust will not take any action inconsistent with the treatment of the Debentures as indebtedness of the Debenture Issuer for United States federal income tax purposes (in the case of the Institutional Trustee, to the actual knowledge of a Responsible Officer). In this connection, the Institutional Trustee, the Administrators and the Holders of a Majority in liquidation amount of the Common Securities are authorized to take any action, not inconsistent with applicable laws or this Declaration, as amended from time to time, that each of the Institutional Trustee, the Administrators and such Holders determine in their discretion to be necessary or desirable for such purposes, even if such action adversely affects the interests of the Holders of the Capital Securities.

(f) All expenses incurred by the Administrators or the Trustees pursuant to this Section 2.6 shall be reimbursed by the Sponsor, and the Trustees shall have no obligations with respect to such expenses.

(g) The assets of the Trust shall consist of the Trust Property.

(h) Legal title to all Trust Property shall be vested at all times in the Institutional Trustee (in its capacity as such) and shall be held and administered by the Institutional Trustee for the benefit of the Trust in accordance with this Declaration.

(i) If the Institutional Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Declaration and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Institutional Trustee or to such Holder, then and in every such case the Sponsor, the Institutional Trustee and the Holders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Institutional Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 2.7. Prohibition of Actions by the Trust and the Trustees. The Trust shall not, and the Institutional Trustee and the Administrators shall not, and the Administrators shall cause the Trust not to, engage in any activity other than as required or authorized by this Declaration. In particular, the Trust shall not, and the Institutional Trustee and the Administrators shall not cause the Trust to:

(a) invest any proceeds received by the Trust from holding the Debentures, but shall distribute all such proceeds to Holders of the Securities pursuant to the terms of this Declaration and of the Securities;

(b) acquire any assets other than as expressly provided herein;

(c) possess Trust Property for other than a Trust purpose;

(d) make any loans or incur any indebtedness other than loans represented by the Debentures;

(e) possess any power or otherwise act in such a way as to vary the Trust Property or the terms of the Securities;

(f) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Securities; or

(g) other than as provided in this Declaration (including Annex 1), (i) direct the time, method and place of exercising any trust or power conferred upon the Debenture Trustee with respect to the Debentures, (ii) waive any past default that is waivable under the Indenture, (iii) exercise any right to rescind or annul any declaration that the principal of all the Debentures shall be due and payable, or (iv) consent to any amendment, modification or termination of the Indenture or the Debentures where such consent shall be required unless the Trust shall have received a written opinion of counsel experienced in such matters to the effect that such amendment, modification or termination will not cause the Trust to cease to be classified as a grantor trust for United States federal income tax purposes.

#### SECTION 2.8. Powers and Duties of the Institutional Trustee.

(a) The legal title to the Debentures shall be owned by and held of record in the name of the Institutional Trustee in trust for the benefit of the Trust. The right, title and interest of the Institutional Trustee to the Debentures shall vest automatically in each Person who may hereafter be appointed as Institutional Trustee in accordance with Section 4.7. Such vesting and cessation of title shall be effective whether or not conveyancing documents with regard to the Debentures have been executed and delivered.

(b) The Institutional Trustee shall not transfer its right, title and interest in the Debentures to the Administrators or to the Delaware Trustee.

(c) The Institutional Trustee shall:

(i) establish and maintain a segregated non-interest bearing trust account (the "Property Account") in the United States (as defined in Treasury Regulations § 301.7701-7), in the name of and under the exclusive control of the Institutional Trustee, and maintained in the Institutional Trustee's trust department, on behalf of the Holders of the Securities and, upon the receipt of payments of funds made in respect of the Debentures held by the Institutional Trustee, deposit such funds into the Property Account and make payments to the Holders of the Capital Securities and Holders of the Common Securities from the Property Account in accordance with Section 5.1. Funds in the Property Account shall be held uninvested until disbursed in accordance with this Declaration;

(ii) engage in such ministerial activities as shall be necessary or appropriate to effect the redemption of the Capital Securities and the Common Securities to the extent the Debentures are redeemed or mature; and

(iii) upon written notice of distribution issued by the Administrators in accordance with the terms of the Securities, engage in such ministerial activities as shall be necessary or appropriate to effect the distribution of the Debentures to Holders of Securities upon the occurrence of certain circumstances pursuant to the terms of the Securities.

(d) The Institutional Trustee shall take all actions and perform such duties as may be specifically required of the Institutional Trustee pursuant to the terms of the Securities.

(e) The Institutional Trustee may bring or defend, pay, collect, compromise, arbitrate, resort to legal action with respect to, or otherwise adjust claims or demands of or against, the Trust (a "Legal Action") which arise out of or in connection with an Event of Default of which a Responsible Officer of the Institutional Trustee has actual knowledge or the Institutional Trustee's duties and obligations under this Declaration or the Trust Indenture Act; provided, however, that if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Debenture Issuer to pay interest or premium, if any, on or principal of the Debentures on the date such interest, premium, if any, or principal is otherwise payable (or in the case of redemption, on the redemption date), then a Holder of the Capital Securities may directly institute a proceeding for enforcement of payment to such Holder of the principal of or premium, if any, or interest on the Debentures having a principal amount equal to the aggregate liquidation amount of the Capital Securities of such Holder (a "Direct Action") on or after the respective due date specified in the Debentures. In connection with such Direct Action, the rights of the Holders of the Common Securities will be subrogated to the rights of such Holder of the Capital Securities to the extent of any payment made by the Debenture Issuer to such Holder of the Capital Securities in such Direct Action; provided, however, that a Holder of the Common Securities may exercise such right of subrogation only if no Event of Default with respect to the Capital Securities has occurred and is continuing.

(f) The Institutional Trustee shall continue to serve as a Trustee until either:

(i) the Trust has been completely liquidated and the proceeds of the liquidation distributed to the Holders of the Securities pursuant to the terms of the Securities and this Declaration (including Annex I) and the certificate of cancellation referenced in Section 7.1 (b) has been filed; or

(ii) a Successor Institutional Trustee has been appointed and has accepted that appointment in accordance with Section 4.7.

(g) The Institutional Trustee shall have the legal power to exercise all of the rights, powers and privileges of a holder of the Debentures under the Indenture and, if an Event of Default occurs and is continuing, the Institutional Trustee may, for the benefit of Holders of the Securities, enforce its rights as holder of the Debentures subject to the rights of the Holders pursuant to this Declaration (including Annex I) and the terms of the Securities.

(h) The Institutional Trustee must exercise the powers set forth in this Section 2.8 in a manner that is consistent with the purposes and functions of the Trust set out in Section 2.3, and the Institutional Trustee shall not take any action that is inconsistent with the purposes and functions of the Trust set out in Section 2.3.

SECTION 2.9. Certain Duties and Responsibilities of the Trustees and the Administrators.

(a) The Institutional Trustee, before the occurrence of any Event of Default (of which the Institutional Trustee has knowledge (as provided in Section 2. 10(m) hereof)) and after the curing of all Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Declaration and no implied covenants shall be read into this Declaration against the Institutional Trustee. In case an Event of Default (of which the Institutional Trustee has knowledge (as provided in Section 2. 10(m) hereof)), has occurred (that has not been cured or waived pursuant to Section 6.8), the Institutional Trustee shall exercise such of the rights and powers vested in it by this Declaration, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) The duties and responsibilities of the Trustees and the Administrators shall be as provided by this Declaration and, in the case of the Institutional Trustee, by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Declaration shall require any Trustee or Administrator to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Declaration relating to the conduct or affecting the liability of or affording protection to the Trustees or the Administrators shall be subject to the provisions of this Article. Nothing in this Declaration shall be construed to release a Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct or bad faith. Nothing in this Declaration shall be construed to release an Administrator from liability for its own gross negligent action, its own gross negligent failure to act, or its own willful misconduct or bad faith. To the extent that, at law or in equity, a Trustee or an Administrator has duties and liabilities relating to the Trust or to the Holders, such Trustee or Administrator shall not be liable to the Trust or to any Holder for such Trustee's or Administrator's good faith reliance on the provisions of this Declaration. The provisions of this Declaration, to the extent that they restrict the duties and liabilities of the Administrators or the Trustees otherwise existing at law or in equity, are agreed by the Sponsor and the Holders to replace such other duties and liabilities of the Administrators or the Trustees.

(c) All payments made by the Institutional Trustee or a Paying Agent in respect of the Securities shall be made only from the revenue and proceeds from the Trust Property and only to the extent that there shall be sufficient revenue or proceeds from the Trust Property to enable the Institutional Trustee or a Paying Agent to make payments in accordance with the terms hereof. Each Holder, by its acceptance of a Security, agrees that it will look solely to the revenue and proceeds from the Trust Property to the extent legally available for distribution to it as herein provided and that the Trustees and the Administrators are not personally liable to it for any amount distributable in respect of any Security or for any other liability in respect of any Security. This Section 2.9(c) does not limit the liability of the Trustees expressly set forth elsewhere in this Declaration or, in the case of the Institutional Trustee, in the Trust Indenture Act.

(d) No provision of this Declaration shall be construed to relieve the Institutional Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct or bad faith with respect to matters that are within the authority of the Institutional Trustee under this Declaration, except that:

(i) the Institutional Trustee shall not be liable for any error or judgment made in good faith by a Responsible Officer of the Institutional Trustee, unless it shall be proved that the Institutional Trustee was negligent in ascertaining the pertinent facts;

(ii) the Institutional Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a Majority in liquidation amount of the Capital Securities or the Common Securities, as applicable, relating to the time, method and place of conducting any proceeding for any remedy available to the Institutional Trustee, or exercising any trust or power conferred upon the Institutional Trustee under this Declaration;

(iii) the Institutional Trustee's sole duty with respect to the custody, safe keeping and physical preservation of the Debentures and the Property Account shall be to deal with such property in a similar manner as the Institutional Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Institutional Trustee under this Declaration and the Trust Indenture Act;

(iv) the Institutional Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Sponsor; and money held by the Institutional Trustee need not be segregated from other funds held by it except in relation to the Property Account maintained by the Institutional Trustee pursuant to Section 2.8( c)(i) and except to the extent otherwise required by law; and

(v) the Institutional Trustee shall not be responsible for monitoring the compliance by the Administrators or the Sponsor with their respective duties under this Declaration, nor shall the Institutional Trustee be liable for any default or misconduct of the Administrators or the Sponsor.

SECTION 2.10. Certain Rights of Institutional Trustee. Subject to the provisions of Section 2.9.

(a) the Institutional Trustee may conclusively rely and shall fully be protected in acting or refraining from acting in good faith upon any resolution, written opinion of counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(b) if (i) in performing its duties under this Declaration, the Institutional Trustee is required to decide between alternative courses of action, (ii) in construing any of the provisions of this Declaration, the Institutional Trustee finds the same ambiguous or inconsistent with any other provisions contained herein, or (iii) the Institutional Trustee is unsure of the application of any provision of this Declaration, then, except as to any matter as to which the Holders of Capital Securities are entitled to vote under the terms of this Declaration, the Institutional Trustee may deliver a notice to the Sponsor requesting the Sponsor's opinion as to the course of action to be taken and the Institutional Trustee shall take such action, or refrain from taking such action, as the Institutional Trustee in its sole discretion shall deem advisable and in the best interests of the Holders, in which event the Institutional Trustee shall have no liability except for its own negligence or willful misconduct;

(c) any direction or act of the Sponsor or the Administrators contemplated by this Declaration shall be sufficiently evidenced by an Officers' Certificate;

(d) whenever in the administration of this Declaration, the Institutional Trustee shall deem it desirable that a matter be proved or established before undertaking, suffering

or omitting any action hereunder, the Institutional Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Sponsor or the Administrators;

(e) the Institutional Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or reregistration thereof;

(f) the Institutional Trustee may consult with counsel of its selection (which counsel may be counsel to the Sponsor or any of its Affiliates) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon and in accordance with such advice; the Institutional Trustee shall have the right at any time to seek instructions concerning the administration of this Declaration from any court of competent jurisdiction;

(g) the Institutional Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Declaration at the request or direction of any of the Holders pursuant to this Declaration, unless such Holders shall have offered to the Institutional Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; provided, that nothing contained in this Section 2.1 O(g) shall be taken to relieve the Institutional Trustee, upon the occurrence of an Event of Default (of which the Institutional Trustee has knowledge (as provided in Section 2.1O(m) hereof)) that has not been cured or waived, of its obligation to exercise the rights and powers vested in it by this Declaration;

(h) the Institutional Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document, unless requested in writing to do so by one or more Holders, but the Institutional Trustee may make such further inquiry or investigation into such facts or matters as it may see fit;

(i) the Institutional Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys and the Institutional Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent or attorney appointed with due care by it hereunder;

(j) whenever in the administration of this Declaration the Institutional Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Institutional Trustee (i) may request instructions from the Holders of the Common Securities and the Capital Securities, which instructions may be given only by the Holders of the same proportion in liquidation amount of the Common Securities and the Capital Securities as would be entitled to direct the Institutional Trustee under the terms of the Common Securities and the Capital Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (iii) shall be fully protected in acting in accordance with such instructions;

(k) except as otherwise expressly provided in this Declaration, the Institutional Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Declaration;

(l) when the Institutional Trustee incurs expenses or renders services in connection with a Bankruptcy Event, such expenses (including the fees and expenses of its counsel) and the compensation

for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors rights generally;

(m) the Institutional Trustee shall not be charged with knowledge of an Event of Default unless a Responsible Officer of the Institutional Trustee has actual knowledge of such event or the Institutional Trustee receives written notice of such event from any Holder, except with respect to an Event of Default pursuant to Sections 5.01(a), 5.01(b) or 5.01(c) of the Indenture (other than an Event of Default resulting from the default in the payment of Additional Interest or premium, if any, if the Institutional Trustee does not have actual knowledge or written notice that such payment is due and payable), of which the Institutional Trustee shall be deemed to have knowledge;

(n) any action taken by the Institutional Trustee or its agents hereunder shall bind the Trust and the Holders of the Securities, and the signature of the Institutional Trustee or its agents alone shall be sufficient and effective to perform any such action and no third party shall be required to inquire as to the authority of the Institutional Trustee to so act or as to its compliance with any of the terms and provisions of this Declaration, both of which shall be conclusively evidenced by the Institutional Trustee's or its agent's taking such action; and

(o) no provision of this Declaration shall be deemed to impose any duty or obligation on the Institutional Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Institutional Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Institutional Trustee shall be construed to be a duty.

#### SECTION 2.11. Delaware Trustee.

Notwithstanding any other provision of this Declaration other than Section 4.2, the Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities of any of the Trustees or the Administrators described in this Declaration (except as may be required under the Statutory Trust Act). Except as set forth in Section 4.2, the Delaware Trustee shall be a Trustee for the sole and limited purpose of fulfilling the requirements of § 3807 of the Statutory Trust Act.

#### SECTION 2.12. Execution of Documents.

Unless otherwise determined in writing by the Institutional Trustee, and except as otherwise required by the Statutory Trust Act, the Institutional Trustee, or any one or more of the Administrators, as the case may be, is authorized to execute and deliver on behalf of the Trust any documents, agreements, instruments or certificates that the Trustees or the Administrators, as the case may be, have the power and authority to execute pursuant to Section 2.6.

#### SECTION 2.13. Not Responsible for Recitals or Issuance of Securities.

The recitals contained in this Declaration and the Securities (except in the certificate of authentication of the Institutional Trustee) shall be taken as the statements of the Sponsor, and the Trustees do not assume any responsibility for their correctness. The Trustees make no representations as to the value or condition of the property of the Trust or any part thereof. The Trustees make no representations as to the validity or sufficiency of this Declaration, the Debentures or the Securities.

SECTION 2.14. Duration of Trust. The Trust, unless dissolved pursuant to the provisions of Article VII hereof, shall have existence for thirty-five (35) years from the Closing Date.

SECTION 2.15. Mergers.

(a) The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other Person, except as described in this Section 2.15 and except with respect to the distribution of Debentures to Holders of Securities pursuant to Section 7.1 (a)(iv) of the Declaration or Section 4 of Annex I.

(b) The Trust may, with the consent of the Administrators (which consent will not be unreasonably withheld) and without the consent of the Institutional Trustee, the Delaware Trustee or the Holders of the Capital Securities, consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to a trust organized as such under the laws of any state; provided, that:

(i) if the Trust is not the survivor, such successor entity (the "Successor Entity") either:

(A) expressly assumes all of the obligations of the Trust under the Securities; or

(B) substitutes for the Securities other securities having substantially the same terms as the Securities (the "Successor Securities") so that the Successor Securities rank the same as the Securities rank with respect to Distributions and payments upon Liquidation, redemption and otherwise;

(ii) the Sponsor expressly appoints, as the holder of the Capital Securities, a trustee of the Successor Entity that possesses the same powers and duties as the Institutional Trustee;

(iii) the Capital Securities or any Successor Securities (excluding any securities substituted for the Common Securities) are listed or quoted, or any Successor Securities will be listed or quoted upon notification of issuance, on any national securities exchange or with another organization on which the Capital Securities are then listed or quoted, if any;

(iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Capital Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, if the Capital Securities are then rated;

(v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Securities (including any Successor Securities) in any material respect (other than with respect to any dilution of such Holders' interests in the Successor Entity as a result of such merger, consolidation, amalgamation or replacement);

(vi) such Successor Entity has a purpose substantially identical to that of the Trust;

(vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Trust has received a written opinion of a nationally recognized independent counsel to the Trust experienced in such matters to the effect that:

(A) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of



the Securities (including any Successor Securities) in any material respect (other than with respect to any dilution of the Holders' interests in the Successor Entity);

(B) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor the Successor Entity will be required to register as an Investment Company; and

(C) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Trust (or the Successor Entity) will continue to be classified as a grantor trust for United States federal income tax purposes;(viii) the Sponsor guarantees the obligations of such Successor Entity under the Successor Securities to the same extent provided by the Guarantee, the Debentures and this Declaration; and

(ix) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Institutional Trustee shall have received an Officers' Certificate of the Administrators and an opinion of counsel, each to the effect that all conditions precedent of this paragraph (b) to such transaction have been satisfied.

(c) Notwithstanding Section 2.15(b), the Trust shall not, except with the consent of Holders of 100% in liquidation amount of the Securities, consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, any other Person or permit any other Person to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or Successor Entity to be classified as other than a grantor trust for United States federal income tax purposes.

### ARTICLE III SPONSOR

SECTION 3.1. Sponsor's Purchase of Common Securities. On the Closing Date, the Sponsor will purchase all of the Common Securities issued by the Trust, in an amount at least equal to 3% of the capital of the Trust, at the same time as the Capital Securities are sold.

SECTION 3.2. Responsibilities of the Sponsor. In connection with the *issue* and sale of the Capital Securities, the Sponsor shall have the exclusive right and responsibility and sole decision to engage in, or direct the Administrators to engage in, the following activities:

(a) to determine the States in which to take appropriate action to qualify or register for sale of all or part of the Capital Securities and to do any and all such acts, other than actions which must be taken by the Trust, and advise the Trust of actions it must take, and prepare for execution and filing any documents to be executed and filed by the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such States;

(b) to prepare for filing and request the Administrators to cause the filing by the Trust, as may be appropriate, of an application to the PORTAL system, for listing or quotation upon notice of issuance of any Capital Securities, as requested by the Holders of not less than a Majority in liquidation amount of the Capital Securities; and

(c) to negotiate the terms of and/or execute and deliver on behalf of the Trust, the Placement Agreement, the Capital Securities Purchase Agreement and other related agreements providing for the sale of the Capital Securities

ARTICLE IV  
TRUSTEES AND ADMINISTRATORS

SECTION 4.1. Number of Trustees. The number of Trustees initially shall be two, and:

- (a) at any time before the issuance of any Securities, the Sponsor may, by written instrument, increase or decrease the number of Trustees; and
- (b) after the issuance of any Securities, the number of Trustees may be increased or decreased by vote of the Holder of a Majority in liquidation amount of the Common Securities voting as a class at a meeting of the Holder of the Common Securities; provided, however, that there shall be a Delaware Trustee if required by Section 4.2; and there shall always be one Trustee who shall be the Institutional Trustee, and such Trustee may also serve as Delaware Trustee if it meets the applicable requirements, in which case Section 2.11 shall have no application to such entity in its capacity as Institutional Trustee.

SECTION 4.2. Delaware Trustee. If required by the Statutory Trust Act, one Trustee (the "Delaware Trustee") shall be:

- (a) a natural person who is a resident of the State of Delaware; or
- (b) if not a natural person, an entity which is organized under the laws of the United States or any state thereof or the District of Columbia, has its principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law, including §3807 of the Statutory Trust Act.

SECTION 4.3. Institutional Trustee: Eligibility.

- (a) There shall at all times be one Trustee which shall act as Institutional Trustee which shall:
    - (i) not be an Affiliate of the Sponsor;
    - (ii) not offer or provide credit or credit enhancement to the Trust; and
    - (iii) be a banking corporation or national association organized and doing business under the laws of the United States of America or any state thereof or of the District of Columbia and authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million U.S. dollars (\$50,000,000), and subject to supervision or examination by federal, state or District of Columbia authority. If such corporation or national association publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then for the purposes of this Section 4.3(a)(iii), the combined capital and surplus of such corporation or national association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.
  - (b) If at any time the Institutional Trustee shall cease to be eligible to so act under Section 4.3(a), the Institutional Trustee shall immediately resign in the manner and with the effect set forth in Section 4.7.
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(c) If the Institutional Trustee has or shall acquire any "conflicting interest" within the meaning of § 31 O(b) of the Trust Indenture Act, the Institutional Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to this Declaration.

(d) The initial Institutional Trustee shall be JPMorgan Chase Bank, National Association.

SECTION 4.4. Certain Qualifications of the Delaware Trustee Generally. The Delaware Trustee shall be a U.S. Person and either a natural person who is at least 21 years of age or a legal entity that shall act through one or more Authorized Officers.

SECTION 4.5. Administrators. Each Administrator shall be a U.S. Person.

There shall at all times be at least one Administrator. Except where a requirement for action by a specific number of Administrators is expressly set forth in this Declaration and except with respect to any action the taking of which is the subject of a meeting of the Administrators, any action required or permitted to be taken by the Administrators may be taken by, and any power of the Administrators may be exercised by, or with the consent of, any one such Administrator acting alone.

SECTION 4.6. Initial Delaware Trustee. The initial Delaware Trustee shall be Chase Bank USA, National Association.

SECTION 4.7. Appointment. Removal and Resignation of the Trustees and the Administrators.

(a) No resignation or removal of any Trustee (the "Relevant Trustee") and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of this Section 4.7.

(b) Subject to Section 4.7(a), a Relevant Trustee may resign at any time by giving written notice thereof to the Holders of the Securities and by appointing a successor Relevant Trustee, except in the case of the Delaware Trustee's successor which shall be appointed by Holders of a Majority in liquidation amount of the Common Securities. Upon the resignation of the Institutional Trustee, the Institutional Trustee shall appoint a successor by requesting from at least three Persons meeting the eligibility requirements their expenses and charges to serve as the successor Institutional Trustee on a form provided by the Administrators, and selecting the Person who agrees to the lowest reasonable expense and charges (the "Successor Institutional Trustee"). If the instrument of acceptance by the successor Relevant Trustee required by this Section 4.7 shall not have been delivered to the Relevant Trustee within 60 days after the giving of such notice of resignation or delivery of the instrument of removal, the Relevant Trustee may petition, at the expense of the Trust, any federal, state or District of Columbia court of competent jurisdiction for the appointment of a successor Relevant Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Relevant Trustee. The Institutional Trustee shall have no liability for the selection of such successor pursuant to this Section 4.7.

(c) Unless an Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by an act of the Holders of a Majority in liquidation amount of the Common Securities. If any Trustee shall be so removed, the Holders of the Common Securities, by act of the Holders of a Majority in liquidation amount of the Common Securities delivered to the Relevant Trustee, shall promptly appoint a successor Relevant Trustee, and such successor Trustee shall comply with the applicable requirements of this Section 4.7. If an Event of Default shall have occurred and be continuing, the Institutional Trustee or the Delaware Trustee, or both of them, may be removed by the act of the Holders of a Majority in liquidation amount of the Capital Securities, delivered to the Relevant Trustee (in its individual capacity and on behalf of the Trust). If any Trustee shall be so removed, the Holders of Capital Securities, by act of the Holders of a Majority in liquidation amount of the Capital Securities then outstanding delivered to the Relevant Trustee,

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shall promptly appoint a successor Relevant Trustee or Trustees, and such successor Trustee shall comply with the applicable requirements of this Section 4.7. If no successor Relevant Trustee shall have been so appointed by the Holders of a Majority in liquidation amount of the Capital Securities and accepted appointment in the manner required by this Section 4.7 within 30 days after delivery of an instrument of removal, the Relevant Trustee or any Holder who has been a Holder of the Securities for at least six months may, on behalf of himself and all others similarly situated, petition any federal, state or District of Columbia court of competent jurisdiction for the appointment of a successor Relevant Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a successor Relevant Trustee or Trustees.

(d) The Institutional Trustee shall give notice of each resignation and each removal of a Trustee and each appointment of a successor Trustee to all Holders and to the Sponsor. Each notice shall include the name of the successor Relevant Trustee and the address of its Corporate Trust Office if it is the Institutional Trustee.

(e) Notwithstanding the foregoing or any other provision of this Declaration, in the event a Delaware Trustee who is a natural person dies or is adjudged by a court to have become incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by the Institutional Trustee (provided the Institutional Trustee satisfies the requirements of a Delaware Trustee *as* set forth in Section 4.2) following the procedures in this Section 4.7 (with the successor being a Person who satisfies the eligibility requirement for a Delaware Trustee set forth in this Declaration) (the "Successor Delaware Trustee").

(f) In case of the appointment hereunder of a successor Relevant Trustee, the retiring Relevant Trustee and each successor Relevant Trustee with respect to the Securities shall execute and deliver an amendment hereto wherein each successor Relevant Trustee shall accept such appointment and which (a) shall contain such provisions *as* shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Relevant Trustee all the rights, powers, trusts and duties of the retiring Relevant Trustee with respect to the Securities and the Trust and (b) shall add to or change any of the provisions of this Declaration *as* shall be necessary to provide for or facilitate the administration of the Trust by more than one Relevant Trustee, it being understood that nothing herein or in such amendment shall constitute such Relevant Trustees co-trustees and upon the execution and delivery of such amendment the resignation or removal of the retiring Relevant Trustee shall become effective to the extent provided therein and each such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on request of the Trust or any successor Relevant Trustee, such retiring Relevant Trustee shall duly assign, transfer and deliver to such successor Relevant Trustee all Trust Property, all proceeds thereof and money held by such retiring Relevant Trustee hereunder with respect to the Securities and the Trust subject to the payment of all unpaid fees, expenses and indemnities of such retiring Relevant Trustee.

(g) No Institutional Trustee or Delaware Trustee shall be liable for the acts or omissions to act of any Successor Institutional Trustee or Successor Delaware Trustee, as the case maybe.

(h) The Holders of the Capital Securities will have no right to vote to appoint, remove or replace the Administrators, which voting rights are vested exclusively in the Holders of the Common Securities.

(i) Any successor Delaware Trustee shall file an amendment to the Certificate of Trust with the Secretary of State of the State of Delaware identifying the name and principal place of business of such Delaware Trustee in the State of Delaware.

#### SECTION 4.8. Vacancies Among Trustees.

If a Trustee ceases to hold office for any reason and the number of Trustees is not reduced pursuant to Section 4.1, or if the number of Trustees is increased pursuant to Section 4.1, a vacancy shall occur. A resolution certifying the existence of such vacancy by the Trustees or, if there are more than two, a majority of the Trustees shall be conclusive evidence of the existence of such vacancy. The vacancy shall be filled with a Trustee appointed in accordance with Section 4.7.

SECTION 4.9. Effect of Vacancies.

The death, resignation, retirement, removal, bankruptcy, dissolution, liquidation, incompetence or incapacity to perform the duties of a Trustee shall not operate to dissolve, terminate or annul the Trust or terminate this Declaration. Whenever a vacancy in the number of Trustees shall occur, until such vacancy is filled by the appointment of a Trustee in accordance with Section 4.7, the Institutional Trustee shall have all the powers granted to the Trustees and shall discharge all the duties imposed upon the Trustees by this Declaration.

SECTION 4.10. Meetings of the Trustees and the Administrators.

Meetings of the Trustees or the Administrators shall be held from time to time upon the call of any Trustee or Administrator, as applicable. Regular meetings of the Trustees and the Administrators, respectively, may be in person in the United States or by telephone, at a place (if applicable) and time fixed by resolution of the Trustees or the Administrators, as applicable. Notice of any in-person meetings of the Trustees or the Administrators shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 48 hours before such meeting. Notice of any telephonic meetings of the Trustees or the Administrators or any committee thereof shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 24 hours before a meeting. Notices shall contain a brief statement of the time, place and anticipated purposes of the meeting. The presence (whether in person or by telephone) of a Trustee or an Administrator, as the case may be, at a meeting shall constitute a waiver of notice of such meeting except where a Trustee or an Administrator, as the case may be, attends a meeting for the express purpose of objecting to the transaction of any activity on the ground that the meeting has not been lawfully called or convened. Unless provided otherwise in this Declaration, any action of the Trustees or the Administrators, as the case may be, may be taken at a meeting by vote of a majority of the Trustees or the Administrators present (whether in person or by telephone) and eligible to vote with respect to such matter; provided, that, in the case of the Administrators, a Quorum is present, or without a meeting by the unanimous written consent of the Trustees or the Administrators, as the case may be. Meetings of the Trustees and the Administrators together shall be held from time to time upon the call of any Trustee or Administrator.

SECTION 4.11. Delegation of Power.

(a) Any Trustee or any Administrator, as the case may be, may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 that is a U.S. Person his or her power for the purpose of executing any documents, instruments or other writings contemplated in Section 2.6.

(b) The Trustees shall have power to delegate from time to time to such of their number or to any officer of the Trust that is a U.S. Person, the doing of such things and the execution of such instruments or other writings either in the name of the Trust or the names of the Trustees or otherwise as the Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

SECTION 4.12. Merger. Conversion, Consolidation or Succession to Business.

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Any Person into which the Institutional Trustee or the Delaware Trustee, as the case maybe, may be merged or converted or with which either may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Institutional Trustee or the Delaware Trustee, as the case may be, shall be a party, or any Person succeeding to all or substantially all the corporate trust business of the Institutional Trustee or the Delaware Trustee, as the case may be, shall be the successor of the Institutional Trustee or the Delaware Trustee, as the case may be, hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided such Person shall be otherwise qualified and eligible under this Article and, provided, further, that such Person shall file an amendment to the Certificate of Trust with the Secretary of State of the State of Delaware as contemplated in Section 4.7(i).

## ARTICLE V DISTRIBUTIONS

### SECTION 5.1. Distributions.

(a) Holders shall receive Distributions in accordance with the applicable terms of the relevant Holder's Securities. Distributions shall be made on the Capital Securities and the Common Securities in accordance with the preferences set forth in their respective terms. If and to the extent that the Debenture Issuer makes a payment of interest (including any Additional Interest or Deferred Interest) or premium, if any, on and/or principal on the Debentures held by the Institutional Trustee (the amount of any such payment being a "Payment Amount"), the Institutional Trustee shall and is directed, to the extent funds are available in the Property Account for that purpose, to make a distribution (a "Distribution") of the Payment Amount to Holders. For the avoidance of doubt, funds in the Property Account shall not be distributed to Holders to the extent of any taxes payable by the Trust, in the case of withholding taxes, as determined by the Institutional Trustee or any Paying Agent and, in the case of taxes other than withholding taxes, as determined by the Administrators in a written notice to the Institutional Trustee.

(b) As a condition to the payment of any principal of or interest on the Securities without the imposition of withholding tax, the Administrators shall require the previous delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or an Internal Revenue Service Form W-8 (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code, and any other certification acceptable to it to enable the Institutional Trustee or any Paying Agent to determine their respective duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold in respect of such Securities.

## ARTICLE VI ISSUANCE OF SECURITIES

### SECTION 6.1. General Provisions Regarding Securities.

(a) The Administrators shall on behalf of the Trust issue one series of capital securities, evidenced by a certificate substantially in the form of Exhibit A-1, representing undivided beneficial interests in the assets of the Trust and having such terms as are set forth in Annex I (the "Capital Securities"), and one series of common securities, evidenced by a certificate substantially in the form of Exhibit A-2, representing undivided beneficial interests in the assets of the Trust and having such terms as are set forth in Annex I (the "Common Securities"). The Trust shall issue no securities or other interests in the assets of the Trust other than the Capital Securities and the Common Securities. The Capital Securities rank *pari passu* and payment thereon shall be made Pro Rata with the Common Securities except that, where an Event of Default has occurred and is continuing, the rights of Holders of the Common

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Securities to payment in respect of Distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights to payment of the Holders of the Capital Securities.

(b) The Certificates shall be signed on behalf of the Trust by one or more Administrators. Such signature shall be the facsimile or manual signature of any Administrator. In case any Administrator of the Trust who shall have signed any of the Securities shall cease to be such Administrator before the Certificates so signed shall be delivered by the Trust, such Certificates nevertheless may be delivered as though the person who signed such Certificates had not ceased to be such Administrator. Any Certificate may be signed on behalf of the Trust by such person who, at the actual date of execution of such Security, shall be an Administrator of the Trust, although at the date of the execution and delivery of the Declaration any such person was not such an Administrator. A Capital Security shall not be valid until authenticated by the manual signature of an Authorized Officer of the Institutional Trustee. Such signature shall be conclusive evidence that the Capital Security has been authenticated under this Declaration. Upon written order of the Trust signed by one Administrator, the Institutional Trustee shall authenticate the Capital Securities for original issue. The Institutional Trustee may appoint an authenticating agent that is a U.S. Person acceptable to the Trust to authenticate the Capital Securities. A Common Security need not be so authenticated and shall be valid upon execution by one or more Administrators.

(c) The consideration received by the Trust for the issuance of the Securities shall constitute a contribution to the capital of the Trust and shall not constitute a loan to the Trust.

(d) Upon issuance of the Securities as provided in this Declaration, the Securities so issued shall be deemed to be validly issued, fully paid and non-assessable, and each Holder thereof shall be entitled to the benefits provided by this Declaration.

(e) Every Person, by virtue of having become a Holder in accordance with the terms of this Declaration, shall be deemed to have expressly assented and agreed to the terms of, and shall be bound by, this Declaration and the Guarantee.

#### SECTION 6.2. Paying Agent, Transfer Agent, Calculation Agent and Registrar.

(a) The Trust shall maintain in New York, New York, an office or a gency where the Securities may be presented for payment (the "Paying Agent"), and an office or agency where Securities may be presented for registration of transfer or exchange (the "Transfer Agent"). The Trustee hereby appoints the Institutional Trustee as Paying Agent and Transfer Agent at JPMorgan Chase Bank, National Association, WSS Window, 4 New York Plaza, Ground Floor, New York, New York 10004, Attn: Worldwide Securities Services (Houston) - Central Bancorp Statutory Trust I. The Trust shall also keep or cause to be kept a register for the purpose of registering Securities and transfers and exchanges of Securities, such register to be held by a registrar (the "Registrar"). The Administrators may appoint the Paying Agent, the Registrar and the Transfer Agent, and may appoint one or more additional Paying Agents, one or more co-Registrars, or one or more co-Transfer Agents in such other locations as it shall determine. The term "Paying Agent" includes any additional Paying Agent, the term "Registrar" includes any additional Registrar or co-Registrar and the term "Transfer Agent" includes any additional Transfer Agent or co-Transfer Agent. The Administrators may change any Paying Agent, Transfer Agent or Registrar at any time without prior notice to any Holder. The Administrators shall notify the Institutional Trustee of the name and address of any Paying Agent, Transfer Agent and Registrar not a party to this Declaration. The Administrators hereby initially appoint the Institutional Trustee to act as Registrar for the Capital Securities and the Common Securities at its Corporate Trust Office. The Institutional Trustee or any of its Affiliates in the United States may act as Paying Agent, Transfer Agent or Registrar.

(b) The Trust shall also appoint a Calculation Agent, which shall determine the Coupon Rate in accordance with the terms of the Securities. The Trust initially appoints the Institutional Trustee as Calculation Agent.

**SECTION 6.3. Form and Dating.**

(a) The Capital Securities and the Institutional Trustee's certificate of authentication thereon shall be substantially in the form of Exhibit A-1, and the Common Securities shall be substantially in the form of Exhibit A-2, each of which is hereby incorporated in and expressly made a part of this Declaration. Certificates may be typed, printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Administrators, as conclusively evidenced by their execution thereof. The Certificates may have letters, numbers, notations or other marks of identification or designation and such legends or endorsements required by law, stock exchange rule, agreements to which the Trust is subject, if any, or usage (provided, that any such notation, legend or endorsement is in a form acceptable to the Sponsor). The Trust at the direction of the Sponsor shall furnish any such legend not contained in Exhibit A-1 to the Institutional Trustee in writing. Each Capital Security shall be dated the date of its authentication. The terms and provisions of the Securities set forth in Annex I and the forms of Securities set forth in Exhibits A-1 and A-2 are part of the terms of this Declaration and to the extent applicable, the Institutional Trustee, the Delaware Trustee, the Administrators and the Sponsor, by their execution and delivery of this Declaration, expressly agree to such terms and provisions and to be bound thereby. Capital Securities will be issued only in blocks having a stated liquidation amount of not less than \$100,000 and multiples of \$1,000 in excess thereof.

(b) The Capital Securities sold by the Trust to the initial purchasers pursuant to the Placement Agreement and the Capital Securities Purchase Agreement shall be issued in definitive form, registered in the name of the Holder thereof, without coupons and with the Restricted Securities Legend.

**SECTION 6.4. Mutilated, Destroyed, Lost or Stolen Certificates.** If: (a) any mutilated Certificates should be surrendered to the Registrar, or if the Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Certificate; and (b) there shall be delivered to the Registrar, the Administrators and the Institutional Trustee such security or indemnity as may be required by them to hold each of them harmless; then, in the absence of notice that such Certificate shall have been acquired by a bona fide purchaser, an Administrator on behalf of the Trust shall execute (and in the case of a Capital Security Certificate, the institutional Trustee shall authenticate) and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Certificate, a new Certificate of like denomination. In connection with the issuance of any new Certificate under this Section 6.4, the Registrar or the Administrators may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Certificate issued pursuant to this Section shall constitute conclusive evidence of an ownership interest in the relevant Securities, as if originally issued, whether or not the lost, stolen or destroyed Certificate shall be found at any time.

**SECTION 6.5. Temporary Securities.** Until definitive Securities are ready for delivery, the Administrators may prepare and, in the case of the Capital Securities, the Institutional Trustee shall authenticate, temporary Securities. Temporary Securities shall be substantially in form of definitive Securities but may have variations that the Administrators consider appropriate for temporary Securities. Without unreasonable delay, the Administrators shall prepare and, in the case of the Capital Securities, the Institutional Trustee shall authenticate definitive Securities in exchange for temporary Securities.

**SECTION 6.6. Cancellation.** The Administrators at any time may deliver Securities to the Registrar for cancellation. The Registrar shall forward to the Institutional Trustee any

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Securities surrendered to it for registration of transfer, redemption or payment. The Institutional Trustee shall promptly cancel all Securities surrendered for registration of transfer, payment, replacement or cancellation and shall dispose of such canceled Securities in accordance with its standard procedures or otherwise as the Administrators direct. The Administrators may not issue new Securities to replace Securities that have been paid or that have been delivered to the Institutional Trustee for cancellation.

SECTION 6.7. Rights of Holders: Waivers of Past Defaults.

(a) The legal title to the Trust Property is vested exclusively in the Institutional Trustee (in its capacity as such) in accordance with Section 2.5, and the Holders shall not have any right or title therein other than the undivided beneficial interest in the assets of the Trust conferred by their Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Securities shall be personal property giving only the rights specifically set forth therein and in this Declaration. The Securities shall have no, and the issuance of the Securities shall not be subject to, preemptive or other similar rights and when issued and delivered to Holders against payment of the purchase price therefor, the Securities will be fully paid and nonassessable by the Trust.

(b) For so long as any Capital Securities remain outstanding, if, upon an Indenture Event of Default under Sections 5.01(c), (e) or (f) of the Indenture, the Debenture Trustee fails or the holders of not less than 25% in principal amount of the outstanding Debentures fail to declare the principal of all of the Debentures to be immediately due and payable, the Holders of not less than a Majority in liquidation amount of the Capital Securities then outstanding shall have the right to make such declaration by a notice in writing to the Institutional Trustee, the Sponsor and the Debenture Trustee.

(c) Upon an Indenture Event of Default under Sections 5.01(c), (e) or (f) at any time after a declaration of acceleration of maturity of the Debentures has been made and before a judgment or decree for payment of the money due has been obtained by the Debenture Trustee as provided in the Indenture, if the Institutional Trustee, subject to the provisions hereof, fails to annul any such declaration and waive such default, the Holders of not less than a Majority in liquidation amount of the Capital Securities, by written notice to the Institutional Trustee, the Sponsor and the Debenture Trustee, may rescind and annul such declaration and its consequences if:

(i) the Sponsor has paid or deposited with the Debenture Trustee a sum sufficient to pay

(A) all overdue installments of interest on all of the Debentures;

(B) any accrued Deferred Interest on all of the Debentures;

(C) all payments on any Debentures that have become due otherwise than by such declaration of acceleration and interest and Deferred Interest thereon at the rate borne by the Debentures; and

(D) all sums paid or advanced by the Debenture Trustee under the Indenture and the reasonable compensation, documented expenses, disbursements and advances of the Debenture Trustee and the Institutional Trustee, their agents and counsel; and

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(ii) all Events of Default with respect to the Debentures, other than the non-payment of the principal of or premium, if any, on the Debentures that has become due solely by such acceleration, have been cured or waived as provided in Section 5.07 of the Indenture.

(d) The Holders of not less than a Majority in liquidation amount of the Capital Securities may, on behalf of the Holders of all the Capital Securities, waive any past default or Event of Default, except a default or Event of Default in the payment of principal of or premium, if any, or interest (unless such default or Event of Default has been cured and a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the Debenture Trustee) or a default or Event of Default in respect of a covenant or provision that under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Debenture. No such rescission shall affect any subsequent default or impair any right consequent thereon.

(e) Upon receipt by the Institutional Trustee of written notice declaring such an acceleration, or rescission and annulment thereof, by Holders of any part of the Capital Securities, a record date shall be established for determining Holders of outstanding Capital Securities entitled to join in such notice, which record date shall be at the close of business on the day the Institutional Trustee receives such notice. The Holders on such record date, or their duly designated proxies, and only such Persons, shall be entitled to join in such notice, whether or not such Holders remain Holders after such record date; provided, that, unless such declaration of acceleration, or rescission and annulment, as the case may be, shall have become effective by virtue of the requisite percentage having joined in such notice prior to the day that is 90 days after such record date, such notice of declaration of acceleration, or rescission and annulment, as the case may be, shall automatically and without further action by any Holder be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder, or a proxy of a Holder, from giving, after expiration of such 90-day period, a new written notice of declaration of acceleration, or rescission and annulment thereof, as the case may be, that is identical to a **written notice that has been canceled pursuant to the proviso to the preceding sentence**, in which event a new record date shall be established pursuant to the provisions of this Section 6.7.

(f) Except as otherwise provided in this Section 6.7, the Holders of not less than a Majority in liquidation amount of the Capital Securities may, on behalf of the Holders of all the Capital Securities, waive any past default or Event of Default and its consequences. Upon such waiver, any such default or Event of Default shall cease to exist, and any default or Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Declaration, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

## ARTICLE VII DISSOLUTION AND TERMINATION OF TRUST

### SECTION 7.1. Dissolution and Termination of Trust.

(a) The Trust shall dissolve on the first to occur of

(i) unless earlier dissolved, on March 15, 2041, the expiration of the term of the Trust;

(ii) a Bankruptcy Event with respect to the Sponsor, the Trust or the Debenture Issuer;

(iii) (other than in connection with a merger, consolidation or similar transaction not prohibited by the Indenture, this Declaration or the Guarantee, as the case may be) the filing of a certificate of dissolution or its equivalent with respect to the Sponsor or upon the revocation

of the charter of the Sponsor and the expiration of 90 days after the date of revocation without a reinstatement thereof;

(iv) the distribution of all of the Debentures to the Holders of the Securities, upon exercise of the right of the Holders of all of the outstanding Common Securities to dissolve the Trust as provided in Annex I hereto;

(v) the entry of a decree of judicial dissolution of any Holder of the Common Securities, the Sponsor, the Trust or the Debenture Issuer;

(vi) when all of the Securities shall have been called for redemption and the amounts necessary for redemption thereof shall have been paid to the Holders in accordance with the terms of the Securities; or

(vii) before the issuance of any Securities, with the consent of all of the Trustees and the Sponsor.

(b) As soon as is practicable after the occurrence of an event referred to in Section 7.1(a), and after satisfaction of liabilities to creditors of the Trust as required by applicable law, including Section 3808 of the Statutory Trust Act, and subject to the terms set forth in Annex I, the Delaware Trustee, when notified in writing of the completion of the winding up of the Trust in accordance with the Statutory Trust Act, shall terminate the Trust by filing, at the expense of the Sponsor, a certificate of cancellation with the Secretary of State of the State of Delaware. of the Trust.

(c) The provisions of Section 2.9 and Article IX shall survive the termination

#### ARTICLE VIII TRANSFER OF INTERESTS

##### SECTION 8.1. General.

(a) Subject to Section 6.4 and Section 8.1(c), when Capital Securities are presented to the Registrar with a request to register a transfer or to exchange them for an equal number of Capital Securities represented by different Certificates, the Registrar shall register the transfer or make the exchange if the requirements provided for herein for such transactions are met. To permit registrations of transfers and exchanges, the Trust shall issue and the Institutional Trustee shall authenticate Capital Securities at the Registrar's request.

(b) Upon issuance of the Common Securities, the Sponsor shall acquire and retain beneficial and record ownership of the Common Securities and, for so long as the Securities remain outstanding, the Sponsor shall maintain 100% ownership of the Common Securities; provided, however, that any permitted successor of the Sponsor under the Indenture that is a U.S. Person may succeed to the Sponsor's ownership of the Common Securities.

(c) Capital Securities may only be transferred, in whole or in part, in accordance with the terms and conditions set forth in this Declaration and in the terms of the Capital Securities. To the fullest extent permitted by applicable law, any transfer or purported transfer of any Security not made in accordance with this Declaration shall be null and void and will be deemed to be of no legal effect whatsoever and any such transferee shall be deemed not to be the holder of such Capital Securities for any purpose, including but not limited to the receipt

of Distributions on such Capital Securities, and such transferee shall be deemed to have no interest whatsoever in such Capital Securities.

(d) The Registrar shall provide for the registration of Securities and of transfers of Securities, which will be effected without charge but only upon payment (with such indemnity as the Registrar may require) in respect of any tax or other governmental charges that may be imposed in relation to it. Upon surrender for registration of transfer of any Securities, the Registrar shall cause one or more new Securities to be issued in the name of the designated transferee or transferees. Any Security issued upon any registration of transfer or exchange pursuant to the terms of this Declaration shall evidence the same Security and shall be entitled to the same benefits under this Declaration as the Security surrendered upon such registration of transfer or exchange. Every Security surrendered for registration of transfer shall be accompanied by a written instrument of transfer in form satisfactory to the Registrar duly executed by the Holder or such Holder's attorney duly authorized in writing. Each Security surrendered for registration of transfer shall be canceled by the Institutional Trustee pursuant to Section 6.6. A transferee of a Security shall be entitled to the rights and subject to the

obligations of a Holder hereunder upon the receipt by such transferee of a Security. By acceptance of a Security, each transferee shall be deemed to have agreed to be bound by this Declaration.

(e) Neither the Trust nor the Registrar shall be required (i) to issue, register the transfer of, or exchange any Securities during a period beginning at the opening of business 15 days before the day of any selection of Securities for redemption and ending at the close of business on the earliest date on which the relevant notice of redemption is deemed to have been given to all Holders of the Securities to be redeemed, or (ii) to register the transfer or exchange of any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

#### SECTION 8.2. Transfer Procedures and Restrictions.

(a) The Capital Securities shall bear the Restricted Securities Legend (as defined below), which shall not be removed unless there is delivered to the Trust such satisfactory evidence, which may include an opinion of counsel reasonably acceptable to the Administrators and the Institutional Trustee, as may be reasonably required by the Trust or the Institutional Trustee, that neither the legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of the Securities Act or that such Securities are not "restricted" within the meaning of Rule 144 under the Securities Act. Upon provision of such satisfactory evidence, the Institutional Trustee, at the written direction of the Administrators, shall authenticate and deliver Capital Securities that do not bear the Restricted Securities Legend (other than the legend contemplated by Section 8.2(d)).

(b) When Capital Securities are presented to the Registrar (x) to register the transfer of such Capital Securities, or (y) to exchange such Capital Securities for an equal number of Capital Securities represented by different Certificates, the Registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Capital Securities surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Administrators, the Institutional Trustee and the Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing.

(c) Except as permitted by Section 8.2(a), each Capital Security shall bear a legend (the "Restricted Securities Legend") in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE DEBENTURE ISSUER OR THE TRUST, (B) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO A "NON U.S. PERSON" IN AN "OFFSHORE TRANSACTION" PURSUANT TO REGULATIONS UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT TO AN "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (a) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE DEBENTURE ISSUER'S AND THE TRUST'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND /OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM IN ACCORDANCE WITH THE AMENDED AND RESTATED DECLARATION OF TRUST, A COPY OF WHICH MAY BE OBTAINED FROM THE DEBENTURE ISSUER OR THE TRUST. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES, REPRESENTS AND WARRANTS THAT IT WILL NOT ENGAGE IN HEDGING TRANSACTIONS INVOLVING THIS SECURITY UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("BRISA"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR THE EXEMPTION RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION 96-23, 95-60, 91-38, 90-1 OR 84-14 OR

ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF THIS SECURITY IS NOT PROHIBITED BY SECTION 406 OF BRISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF BRISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF BRISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER OF THE CERTIFICATE WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS MAY BE REQUIRED BY THE AMENDED AND RESTATED DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING A LIQUIDATION AMOUNT OF NOT LESS THAN \$100,000 AND MULTIPLES OF \$1,000 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING A LIQUIDATION AMOUNT OF LESS THAN \$100,000 SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER. ANY SUCH PURPORTED TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THIS SECURITY FOR ANY PURPOSE, INCLUDING, BUT NOT LIMITED TO, THE RECEIPT OF DISTRIBUTIONS ON THIS SECURITY, AND SUCH PURPORTED TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THIS SECURITY.

(d) Capital Securities may only be transferred in minimum blocks of \$100,000 aggregate liquidation amount (100 Capital Securities) and multiples of \$1,000 in excess thereof. Any attempted transfer of Capital Securities in a block having an aggregate liquidation amount of less than \$100,000 shall be deemed to be void and of no legal effect whatsoever. Any such purported transferee shall be deemed not to be a Holder of such Capital Securities for any purpose, including, but not limited to, the receipt of Distributions on such Capital Securities, and such purported transferee shall be deemed to have no interest whatsoever in such Capital Securities.

(e) Each party hereto understands and hereby agrees that the Initial Purchaser is intended solely to be an interim holder of the Capital Securities and is purchasing such securities to facilitate consummation of the transactions contemplated herein and in the documents ancillary hereto. Notwithstanding any provision in this Declaration to the contrary, the Initial Purchaser shall have the right upon no title (a "Transfer Notice") to the Institutional Trustee and the Sponsor to transfer title in and to the Capital Securities; provided the Initial Purchaser shall take reasonable steps to ensure that such transfer is exempt from registration under the Securities Act of 1933, as amended, and rules promulgated thereunder. Any Transfer Notice delivered to the Institutional Trustee and Sponsor pursuant to the preceding sentence shall indicate the aggregate liquidation amount of Capital Securities being transferred, the name and address of the transferee thereof (the "Transferee") and the date of such transfer. Notwithstanding any provision in this Declaration to the contrary, the transfer by the Initial Purchaser of title in and to the Capital Securities pursuant to a Transfer Notice shall not be subject to any requirement relating to Opinions of Counsel, Certificates of Transfer or any other Opinion or Certificate applicable to transfers hereunder and relating to Capital Securities.

(f) Neither the Institutional Trustee nor the Registrar shall be responsible for ascertaining whether any transfer hereunder complies with the registration provisions of or any exemptions from the Securities Act, applicable state securities laws or the applicable laws of any other jurisdiction, ERISA, the Code or the Investment Company Act.

SECTION 8.3. Deemed Security Holders. The Trust, the Administrators, the Trustees, the Paying Agent, the Transfer Agent or the Registrar may treat the Person in whose name any Certificate shall be registered on the books and records of the Trust as the sole holder of such Certificate and of the Securities represented by such Certificate for purposes of receiving Distributions and for all other purposes whatsoever and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Certificate or in the Securities represented by such Certificate on the part of any Person, whether or not the Trust, the Administrators, the Trustees, the Paying Agent, the Transfer Agent or the Registrar shall have actual or other notice thereof.

ARTICLE IX  
LIMITATION OF LIABILITY OF HOLDERS  
OF SECURITIES, TRUSTEES OR OTHERS

SECTION 9.1. Liability.

(a) Except as expressly set forth in this Declaration, the Guarantee and the terms of the Securities, the Sponsor shall not be:

(i) personally liable for the return of any portion of the capital contributions (or any return thereon) of the Holders of the Securities which shall be made solely from assets of the Trust; and

(ii) required to pay to the Trust or to any Holder of the Securities any deficit upon dissolution of the Trust or otherwise.

(b) The Holder of the Common Securities shall be liable for all of the debts and obligations of the Trust (other than with respect to the Securities) to the extent not satisfied out of the Trust's assets.

(c) Except to the extent provided in Section 9.1(b), and pursuant to § 3803(a) of the Statutory Trust Act, the Holders of the Securities shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware, except as otherwise specifically set forth herein.

SECTION 9.2. Exculpation.

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Trust or any Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Declaration or by law, except that an Indemnified Person (other than an Administrator) shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's negligence or willful misconduct or bad faith with respect to such acts or omissions and except that an Administrator shall be liable for any such loss, damage or claim incurred by reason of such Administrator's gross negligence or willful misconduct or bad faith with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Trust and upon such information, opinions, reports or statements presented to the Trust by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and, if selected by such Indemnified Person, has been selected by such Indemnified Person with reasonable care by or on behalf of the Trust, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses or any other facts pertinent to the existence and amount of assets from which Distributions to Holders of Securities might properly be paid.

(c) It is expressly understood and agreed by the parties hereto that insofar as any document, agreement or certificate is executed on behalf of the Trust by any Trustee (i) such document, agreement or certificate is executed and delivered by such Trustee, not in its individual capacity, but solely as Trustee under this Declaration in the exercise of the powers and authority conferred and vested in it, (ii) each of the representations, undertakings and agreements made on the part of the Trust is made and intended not as representations, warranties, covenants, undertakings and agreements by any Trustee in its individual capacity, but is made and intended for the purpose of binding only the Trust and (iii) under no circumstances shall any Trustee in its individual capacity be personally liable for the payment of any indebtedness or expenses of the Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Trust under this Declaration or any other document, agreement or certificate. This Section 9.2(c) is not intended to excuse the Trustee for breaches of its responsibilities and obligations under any documents executed in its capacity as Trustee and not on behalf of the Trust.

### SECTION 9.3. Fiduciary Duty.

(a) To the extent that, at law or in equity, an Indemnified Person has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to any other Covered Person, an Indemnified Person acting under this Declaration shall not be liable to the Trust or to any other Covered Person for its good faith reliance on the provisions of this Declaration. The provisions of this Declaration, to the extent that they restrict the duties and liabilities of an Indemnified Person otherwise existing at law or in equity (other than the duties imposed on the Institutional Trustee under the Trust Indenture Act), are agreed by the parties hereto to replace such other duties and liabilities of the Indemnified Person.

(b) Whenever in this Declaration an Indemnified Person is permitted or required to make a decision:

(i) in its "discretion" or under a grant of similar authority, the Indemnified Person shall be entitled to consider such interests and factors as it desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Trust or any other Person; or

(ii) in its "good faith" or under another express standard, the Indemnified Person shall act under such express standard and shall not be subject to any other or different standard imposed by this Declaration or by applicable law.

### SECTION 9.4. Indemnification.

(a) (i) The Sponsor shall indemnify, to the fullest extent permitted by law, any Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Trust) by reason of the fact that such Person is or was an Indemnified Person against expenses (including attorneys' fees and expenses), judgments, fines and amounts paid in settlement actually and reasonably incurred by



such Person in connection with such action, suit or proceeding if such Person acted in good faith and in a manner such Person reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnified Person did not act in good faith and in a manner which such Person reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such conduct was unlawful.

(ii) The Sponsor shall indemnify, to the fullest extent permitted by law, any Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Trust to procure a judgment in its favor by reason of the fact that such Person is or was an Indemnified Person against expenses (including attorneys' fees and expenses) actually and reasonably incurred by such Person in connection with the defense or settlement of such action or suit if such Person acted in good faith and in a manner such Person reasonably believed to be in or not opposed to the best interests of the Trust and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such Indemnified Person shall have been adjudged to be liable to the Trust, unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such Person is fairly and reasonably entitled to indemnity for such expenses which such Court of Chancery or such other court shall deem proper.

(iii) To the extent that an Indemnified Person shall be successful on the merits or otherwise (including dismissal of an action without prejudice or the settlement of an action without admission of liability) in defense of any action, suit or proceeding referred to in paragraphs (i) and (ii) of this Section 9.4(a), or in defense of any claim, issue or matter therein, such Person shall be indemnified, to the fullest extent permitted by law, against expenses (including attorneys' fees and expenses) actually and reasonably incurred by such Person in connection therewith.

(iv) Any indemnification of an Administrator under paragraphs (i) and (ii) of this Section 9.4(a) (unless ordered by a court) shall be made by the Sponsor only as authorized in the specific case upon a determination that indemnification of the Indemnified Person is proper in the circumstances because such Person has met the applicable standard of conduct set forth in paragraphs (i) and (ii). Such determination shall be made (A) by the Administrators by a majority vote of a Quorum consisting of such Administrators who were not parties to such action, suit or proceeding, (B) if such a Quorum is not obtainable, or, even if obtainable, if a Quorum of disinterested Administrators so directs, by independent legal counsel in a written opinion, or (C) by the Common Security Holder of the Trust.

(v) To the fullest extent permitted by law, expenses (including attorneys' fees and expenses) incurred by an Indemnified Person in defending a civil, criminal, administrative or investigative action, suit or proceeding referred to in paragraphs (i) and (ii) of this Section 9.4(a) shall be paid by the Sponsor in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Indemnified Person to repay such amount if it shall ultimately be determined that such Person is not entitled to be indemnified by the Sponsor as authorized in this Section 9.4(a). Notwithstanding the foregoing, no advance shall be made by the Sponsor if a determination is reasonably and promptly made (1) in the case of a Company

Indemnified Person (A) by the Administrators by a majority vote of a Quorum of disinterested Administrators, (B) if such a Quorum is not obtainable, or, even if obtainable, if a Quorum of disinterested Administrators so directs, by independent legal counsel in a written opinion or (C) by the Common Security Holder of the Trust, that, based upon the facts known to the Administrators, counsel or the Common Security Holder at the time such determination is made, such Indemnified Person acted in bad faith or in a manner that such Person either believed to be opposed to or did not believe to be in the best interests of the Trust, or, with respect to any criminal proceeding, that such Indemnified Person believed or had reasonable cause to believe such conduct was unlawful, or (2) in the case of a Fiduciary Indemnified Person, by independent legal counsel in a written opinion that, based upon the facts known to the counsel at the time such determination is made, such Indemnified Person acted in bad faith or in a manner that such Indemnified Person either believed to be opposed to or did not believe to be in the best interests of the Trust, or, with respect to any criminal proceeding, that such Indemnified Person believed or had reasonable cause to believe such conduct was unlawful. In no event shall any advance be made (i) to a Company Indemnified Person in instances where the Administrators, independent legal counsel or the Common Security Holder reasonably determine that such Person deliberately breached such Person's duty to the Trust or its Common or Capital Security Holders or (ii) to a Fiduciary Indemnified Person in instances where independent legal counsel promptly and reasonably determines in a written opinion that such Person deliberately breached such Person's duty to the Trust or its Common or Capital Security Holders.

(b) The Sponsor shall indemnify, to the fullest extent permitted by applicable law, each Indemnified Person from and against any and all loss, damage, liability, tax (other than taxes based on the income of such Indemnified Person), penalty, expense or claim of any kind or nature whatsoever incurred by such Indemnified Person arising out of or in connection with or by reason of the creation, administration or termination of the Trust, or any act or omission of such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by this Declaration, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage, liability, tax, penalty, expense or claim incurred by such Indemnified Person by reason of negligence, willful misconduct or bad faith with respect to such acts or omissions.

(c) The indemnification and advancement of expenses provided by, or granted pursuant to, the other paragraphs of this Section 9.4 shall not be deemed exclusive of any other rights to which those seeking indemnification and advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors of the Sponsor or Capital Security Holders of the Trust or otherwise, both as to action in such Person's official capacity and as to action in another capacity while holding such office. All rights to indemnification under this Section 9.4 shall be deemed to be provided by a contract between the Sponsor and each Indemnified Person who serves in such capacity at any time while this Section 9.4 is in effect. Any repeal or modification of this Section 9.4 shall not affect any rights or obligations then existing.

(d) The Sponsor or the Trust may purchase and maintain insurance on behalf of any Person who is or was an Indemnified Person against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Sponsor would have the power to indemnify such Person against such liability under the provisions of this Section 9.4.

(e) For purposes of this Section 9.4, references to "the Trust" shall include, in addition to the resulting or surviving entity, any constituent entity (including any constituent of a constituent) absorbed in a consolidation or merger, so that any Person who is or was a director, trustee, officer or

employee of such constituent entity, or is or was serving at the request of such constituent entity as a director, trustee, officer, employee or agent of another entity, shall stand in the same position under the provisions of this Section 9.4 with respect to the resulting or surviving entity as such Person would have with respect to such constituent entity if its separate existence had continued. (f) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 9.4 shall, unless otherwise provided when authorized or ratified, continue as to a Person who has ceased to be an Indemnified Person and shall inure to the benefit of the heirs, executors and administrators of such a Person.

(g) The provisions of this Section 9.4 shall survive the termination of this Declaration or the earlier resignation or removal of the Institutional Trustee. The obligations of the Sponsor under this Section 9.4 to compensate and indemnify the Trustees and to pay or reimburse the Trustees for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustees as such, except funds held in trust for the benefit of the holders of particular Capital Securities, provided, that the Sponsor is the holder of the Common Securities.

(h) This Section 9.4 specifically supercedes and replaces Section 4 of the Original Declaration.

SECTION 9.5. Outside Businesses. Any Covered Person, the Sponsor, the Delaware Trustee and the Institutional Trustee (subject to Section 4.3(c)) may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Trust, and the Trust and the Holders of Securities shall have no rights by virtue of this Declaration in and to such independent ventures or the income or profits derived therefrom, and the *pursuit* of any such venture, even if competitive with the business of the Trust, shall not be deemed wrongful or improper. None of any Covered Person, the Sponsor, the Delaware Trustee or the Institutional Trustee shall be obligated to present any particular investment or other opportunity to the Trust even if such opportunity is of a character that, if presented to the Trust, could be taken by the Trust, and any Covered Person, the Sponsor, the Delaware Trustee and the Institutional Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. Any Covered Person, the Delaware Trustee and the Institutional Trustee may engage or be interested in any financial or other transaction with the Sponsor or any Affiliate of the Sponsor, or may act as depositary for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Sponsor or its Affiliates.

SECTION 9.6. Compensation: Fee.

(a) Subject to the provisions set forth in the Fee Agreement between the Institutional Trustee, Cohen Bros. & Company and the Company of even date herewith, the Sponsor agrees:

(i) to pay to the Trustees from time to time such compensation for all services rendered by them hereunder as the parties shall agree in writing from time to time (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); and

(ii) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable, documented expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Declaration (including the reasonable compensation and the expenses and disbursements of their respective agents and counsel), except any such expense, disbursement or advance attributable to their negligence or willful misconduct.

(b) The provisions of this Section 9.6 shall survive the dissolution of the Trust and the termination of this Declaration and the removal or resignation of any Trustee.

## ARTICLE X ACCOUNTING

SECTION 10.1. Fiscal Year. The fiscal year (the "Fiscal Year") of the Trust shall be the calendar year, or such other year as is required by the Code.

SECTION 10.2. Certain Accounting Matters.

(a) At all times during the existence of the Trust, the Administrators shall keep, or cause to be kept at the principal office of the Trust in the United States, as defined for purposes of Treasury Regulations § 301.7701-7, full books of account, records and supporting documents, which shall reflect in reasonable detail each transaction of the Trust. The books of account shall be maintained on the accrual method of accounting, in accordance with generally accepted accounting principles, consistently applied.

(b) The Administrators shall either (i) cause each Form 10-K and Form 10-Q prepared by the Sponsor and filed with the Commission in accordance with the Exchange Act to be delivered to each Holder of Securities, within 90 days after the filing of each Form 10-K and within 30 days after the filing of each Form 10-Q or (ii) cause to be prepared at the principal office of the Trust in the United States, as defined for purposes of Treasury Regulations

§ 301.7701-7, and delivered to each of the Holders of Securities, within 90 days after the end of each Fiscal Year of the Trust, annual financial statements of the Trust, including a balance sheet of the Trust as of the end of such Fiscal Year, and the related statements of income or loss.

(c) The Administrators shall cause to be duly prepared and delivered to each of the Holders of Securities Form 1099 or such other annual United States federal income tax information statement required by the Code, containing such information with regard to the Securities held by each Holder as is required by the Code and the Treasury Regulations. Notwithstanding any right under the Code to deliver any such statement at a later date, the Administrators shall endeavor to deliver all such statements within 30 days after the end of each Fiscal Year of the Trust.

(d) The Administrators shall cause to be duly prepared in the United States, as defined for purposes of Treasury Regulations § 301.7701-7, and filed an annual United States federal income tax return on a Form 1041 or such other form required by United States federal income tax law, and any other annual income tax returns required to be filed by the Administrators on behalf of the Trust with any state or local taxing authority.

(e) The administrators will cause the Sponsor's report FR Y-9C to be delivered to the Holder promptly following their filing with the Federal Reserve.

SECTION 10.3. Banking. The Trust shall maintain one or more bank accounts in the United States, as defined for purposes of Treasury Regulations § 301.7701-7, in the name and for the sole benefit of the Trust; provided, however, that all payments of funds in respect of the Debentures held by the

Institutional Trustee shall be made directly to the Property Account and no other funds of the Trust shall be deposited in the Property Account. The sole signatories for such accounts (including the Property Account) shall be designated by the Institutional Trustee.

SECTION 10.4. Withholding. The Institutional Trustee or any Paying Agent and the Administrators shall comply with all withholding requirements under United States federal, state and local law. As a condition to the payment of any principal of or interest on any Debt Security without the imposition of withholding tax, the Institutional Trustee or any Paying Agent shall require the previous delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or an Internal Revenue Service Form W-8 (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code) and any other certification acceptable to it to enable the Institutional Trustee or any Paying Agent and the Trustee to determine their respective duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold in respect of such Debt Security or the holder of such Debt Security under any present or future law or regulation of the United States or any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation. The Administrators shall file required forms with applicable jurisdictions and, unless an exemption from withholding is properly established by a Holder, shall remit amounts withheld with respect to the Holder to applicable jurisdictions. To the extent that the Institutional Trustee or any Paying Agent is required to withhold and pay over any amounts to any authority with respect to distributions or allocations to any Holder, the amount withheld shall be deemed to be a Distribution to the Holder in the amount of the withholding. In the event of any claimed overwithholding, Holders shall be limited to an action against the applicable jurisdiction. If the amount required to be withheld was not withheld from actual Distributions made, the Institutional Trustee or any Paying Agent may reduce subsequent Distributions by the amount of such withholding.

## ARTICLE XI AMENDMENTS AND MEETINGS

### SECTION 11.1. Amendments.

(a) Except as otherwise provided in this Declaration or by any applicable terms of the Securities, this Declaration may only be amended by a written instrument approved and executed by:

- (i) the Institutional Trustee,
- (ii) if the amendment affects the rights, powers, duties, obligations or immunities of the Delaware Trustee, the Delaware Trustee,
- (iii) if the amendment affects the rights, powers, duties, obligations or immunities of the Administrators, the Administrators, and
- (iv) the Holders of a Majority in liquidation amount of the Common Securities.

(b) Notwithstanding any other provision of this Article XI, no amendment shall be made, and any such purported amendment shall be void and ineffective:

- (i) unless the Institutional Trustee shall have first received

(A) an Officers' Certificate from each of the Trust and the Sponsor that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities); and

(B) an opinion of counsel (who may be counsel to the Sponsor or the Trust) that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities) and that all conditions precedent to the execution and delivery of such amendment have been satisfied; or

(ii) if the result of such amendment would be to

(A) cause the Trust to cease to be classified for purposes of United States federal income taxation as a grantor trust;

(B) reduce or otherwise adversely affect the powers of the Institutional Trustee in contravention of the Trust Indenture Act;

(C) cause the Trust to be deemed to be an Investment Company required to be registered under the Investment Company Act; or

(D) cause the Debenture Issuer to be unable to treat an amount equal to the Liquidation Amount of the Capital Securities as "Tier 1 Capital" for purposes of the capital adequacy guidelines of (x) the Federal Reserve (or, if the Debenture Issuer is not a bank holding company, such guidelines or policies applied to the Debenture Issuer as if the Debenture Issuer were subject to such guidelines of policies) or of (y) any other regulatory authority having jurisdiction over the Debenture Issuer.

(c) Except as provided in Section 11.1 (d), (e) or (g), no amendment shall be made, and any such purported amendment shall be void and ineffective, unless the Holders of a Majority in liquidation amount of the Capital Securities shall have consented to such amendment.

(d) In addition to and notwithstanding any other provision in this Declaration, without the consent of each affected Holder, this Declaration may not be amended to (i) change the amount or timing of any Distribution on the Securities or any redemption or liquidation provisions applicable to the Securities or otherwise adversely affect the amount of any Distribution required to be made in respect of the Securities as of a specified date or (ii) restrict the right of a Holder to institute suit for the enforcement of any such payment on or after such date.

(e) Sections 9.1 (b) and 9.1 (c) and this Section 11.1 shall not be amended without the consent of all of the Holders of the Securities.

(f) The rights of the Holders of the Capital Securities and Common Securities, as applicable, under Article IV to increase or decrease the number of, and appoint and remove, Trustees shall not be amended without the consent of the Holders of a Majority in liquidation amount of the Capital Securities or Common Securities, as applicable.

(g) Subject to Section 11.1(a), this Declaration may be amended by the Institutional Trustee and the Holder of a Majority in liquidation amount of the Common Securities without the consent of the Holders of the Capital Securities to:

(i) cure any ambiguity;

(ii) correct or supplement any provision in this Declaration that may be defective or inconsistent with any other provision of this Declaration;

(iii) add to the covenants, restrictions or obligations of the Sponsor; or

(iv) modify, eliminate or add to any provision of this Declaration to such extent as may be necessary or desirable, including, without limitation, to ensure that the Trust will be classified for United States federal income tax purposes at all times as a grantor trust and will not be required to register as an Investment Company under the Investment Company Act (including without limitation to conform to any change in Rule 3a-5, Rule 3a-7 or any other applicable rule under the Investment Company Act or written change in interpretation or application thereof by any legislative body, court, government agency or regulatory authority) which amendment does not have a material adverse effect on the rights, preferences or privileges of the Holders of Securities; provided, however, that no such modification, elimination or addition referred to in clauses (i), (ii), (iii) or (iv) shall adversely affect the powers, preferences or rights of Holders of Capital Securities.

#### SECTION 11.2. Meetings of the Holders of the Securities: Action by Written Consent.

(a) Meetings of the Holders of any class of Securities may be called at any time by the Administrators (or as provided in the terms of the Securities) to consider and act on any matter on which Holders of such class of Securities are entitled to act under the terms of this Declaration, the terms of the Securities or the rules of any stock exchange on which the Capital Securities are listed or admitted for trading, if any. The Administrators shall call a meeting of the Holders of such class if directed to do so by the Holders of not less than 10% in liquidation amount of such class of Securities. Such direction shall be given by delivering to the Administrators one or more notices in a writing stating that the signing Holders of the Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called. Any Holders of the Securities calling a meeting shall specify in writing the Certificates held by the Holders of the Securities exercising the right to call a meeting and only those Securities represented by such Certificates shall be counted for purposes of determining whether the required percentage set forth in the second sentence of this paragraph has been met.

(b) Except to the extent otherwise provided in the terms of the Securities, the following provisions shall apply to meetings of Holders of the Securities:

(i) notice of any such meeting shall be given to all the Holders of the Securities having a right to vote thereat at least 7 days and not more than 60 days before the date of such meeting. Whenever a vote, consent or approval of the Holders of the Securities is permitted or required under this Declaration or the rules of any stock exchange on which the Capital Securities are listed or admitted for trading, if any, such vote, consent or approval may be given at a meeting of the Holders of the Securities. Any action that may be taken at a meeting of the Holders of the Securities may be taken without a meeting if a consent in writing setting forth the action so taken is signed by the Holders of the Securities owning not less than the minimum amount of Securities that would be necessary to authorize or take such action at a meeting at which all Holders of the Securities having a right to vote thereon were present and voting. Prompt notice of the taking of action without a meeting shall be given to the Holders of the Securities entitled to vote who have not consented in writing. The Administrators may specify that any written ballot submitted to the Holders of the Securities for the purpose of taking any action without a meeting shall be returned to the Trust within the time specified by the Administrators;

(ii) each Holder of a Security may authorize any Person to act for it by proxy on all matters in which a Holder of Securities is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. No proxy shall be valid after the expiration of 11 months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Holder of the Securities executing it. Except as otherwise provided herein, all matters relating to the giving, voting or validity of proxies shall be governed by the General Corporation Law of the State of Delaware relating to proxies, and judicial interpretations thereunder, as if the Trust were a Delaware corporation and the Holders of the Securities were stockholders of a Delaware corporation; each meeting of the Holders of the Securities shall be conducted by the Administrators or by such other Person that the Administrators may designate; and

(iii) unless the Statutory Trust Act, this Declaration, the terms of the Securities, the Trust Indenture Act or the listing rules of any stock exchange on which the Capital Securities are then listed for trading, if any, otherwise provides, the Administrators, in their sole discretion, shall establish all other provisions relating to meetings of Holders of Securities, including notice of the time, place or **purpose of any meeting at which any matter is to be voted on by any Holders of the Securities**, waiver of any such notice, action by consent without a meeting, the establishment of a record date, quorum requirements, voting in person or by proxy or any other matter with respect to the exercise of any such right to vote; provided, however, that each meeting shall be conducted in the United States (as that term is defined in Treasury Regulations § 301.7701-7).

## ARTICLE XII REPRESENTATIONS OF INSTITUTIONAL TRUSTEE AND DELAWARE TRUSTEE

SECTION 12.1. Representations and Warranties of Institutional Trustee. The Trustee that acts as initial Institutional Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Institutional Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Institutional Trustee's acceptance of its appointment as Institutional Trustee, that:

(a) the Institutional Trustee is a banking corporation or national association with trust powers, duly organized, validly existing and in good standing under the laws of the State of New York or the United States of America, respectively, with trust power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(b) the Institutional Trustee has a combined capital and surplus of at least fifty million U.S. dollars (\$50,000,000);

(c) the Institutional Trustee is not an affiliate of the Sponsor, nor does the Institutional Trustee offer or provide credit or credit enhancement to the Trust;

(d) the execution, delivery and performance by the Institutional Trustee of this Declaration has been duly authorized by all necessary action on the part of the Institutional Trustee. This Declaration has been duly executed and delivered by the Institutional Trustee, and under Delaware law (excluding any securities laws) constitutes a legal, valid and binding obligation of the Institutional Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether considered in a proceeding in equity or at law);



(e) the execution, delivery and performance of this Declaration by the Institutional Trustee does not conflict with or constitute a breach of the charter or by-laws of the Institutional Trustee; and

(f) no consent, approval or authorization of, or registration with or notice to, any state or federal banking authority governing the trust powers of the Institutional Trustee is required for the execution, delivery or performance by the Institutional Trustee of this Declaration.

SECTION 12.2. Representations and Warranties of Delaware Trustee. The Trustee that acts as initial Delaware Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Delaware Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Delaware Trustee's acceptance of its appointment as Delaware Trustee that:

(a) if it is not a natural person, the Delaware Trustee is duly organized and has its principal place of business in the State of Delaware;

(b) if it is not a natural person, the execution, delivery and performance by the Delaware Trustee of this Declaration has been duly authorized by all necessary corporate action on the part of the Delaware Trustee. This Declaration has been duly executed and delivered by the Delaware Trustee, and under Delaware law (excluding any securities laws) constitutes a legal, valid and binding obligation of the Delaware Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether considered in a proceeding in equity or at law);

(c) if it is not a natural person, the execution, delivery and performance of this Declaration by the Delaware Trustee does not conflict with or constitute a breach of the articles of association or by-laws of the Delaware Trustee;

(d) it has trust power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(e) no consent, approval or authorization of, or registration with or notice to, any state or federal banking authority governing the trust powers of the Delaware Trustee is required for the execution, delivery or performance by the Delaware Trustee of this Declaration; and

(f) State of Delaware. if the Delaware Trustee is a natural person, he or she is a resident of the

#### ARTICLE XIII MISCELLANEOUS

SECTION 13.1. Notices. All notices provided for in this Declaration shall be in writing, duly signed by the party giving such notice, and shall be delivered, telecopied (which telecopy shall be followed by notice delivered or mailed by first class mail) or mailed by first class mail, as follows:

(a) if given to the Trust, in care of the Administrators at the Trust's mailing address set forth below (or such other address as the Trust may give notice of to the Holders of the Securities):

Central Bancorp Statutory Trust I  
c/o Central Bancorp, Inc.  
4555 W. Walnut Street  
Garland, Texas 75042

Attention: Keith Ward  
Telecopy: (972) 516-3680  
Telephone: (972) 485-7201

(b) if given to the Delaware Trustee, at the mailing address set forth below (or such other address as the Delaware Trustee may give notice of to the Holders of the Securities):

Chase Bank USA, National Association  
500 Stanton Christiana Rd., FL3/0PS4  
Newark, DE 19713  
Attn: Worldwide Securities Services  
Telecopy: 302-552-6280  
Telephone: 302-552-6279

(c) if given to the Institutional Trustee, at the Institutional Trustee's mailing address set forth below (or such other address as the Institutional Trustee may give notice of to the Holders of the Securities):

JPMorgan Chase Bank, National Association  
600 Travis Street, 50<sup>th</sup> Floor  
Houston, TX 77002  
Attention: Worldwide Securities Services Central Bancorp Statutory Trust I  
Telecopy: 713-216-2101  
Telephone: 713-216-4781

(d) if given to the Holder of the Common Securities, at the mailing address of the Sponsor set forth below (or such other address as the Holder of the Common Securities may give notice of to the Trust):

Central Bancorp, Inc.  
4555 W. Walnut Street  
Garland, Texas 75042  
Attention: Keith Ward  
Telecopy: (972) 516-3680  
Telephone: (972) 485-7201

(e) if given to any other Holder, at the address set forth on the books and records of the Trust.

All such notices shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid, except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

SECTION 13.2. Governing Law. This Declaration and the rights and obligations of the parties hereunder shall be governed by and interpreted in accordance with the law of the State of Delaware and all rights, obligations and remedies shall be governed by such laws without regard to the principles of conflict of laws of the State of Delaware or any other jurisdiction that would call for the application of the law of any jurisdiction other than the State of Delaware.

SECTION 13.3. Submission to Jurisdiction.

(a) Each of the parties hereto agrees that any suit, action or proceeding arising out of or based upon this Declaration, or the transactions contemplated hereby, may be instituted in any of the courts of the State of New York located in the Borough of Manhattan, City and State of New York, and further agrees to submit to the jurisdiction of Delaware, and to any actions that are instituted in state or Federal court in Wilmington, Delaware and any competent court in the place of its corporate domicile in respect of actions brought against it as a defendant. In addition, each such party irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of such suit, action or proceeding brought in any such court and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum and irrevocably waives any right to which it may be entitled on account of its place of corporate domicile. Each such party hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Declaration or the transactions contemplated hereby. Each such party agrees that final judgment in any proceedings brought in such a court shall be conclusive and binding upon it and may be enforced in any court to the jurisdiction of which it is subject by a suit upon such judgment.

(b) Each of the Sponsor, the Trustees, the Administrators and the Holder of the Common Securities irrevocably consents to the service of process on it in any such suit, action or proceeding by the mailing thereof by registered or certified mail, postage prepaid, to it at its address given in or pursuant to Section 13.1 hereof.

(c) To the extent permitted by law, nothing herein contained shall preclude any party from effecting service of process in any lawful manner or from bringing any suit, action or proceeding in respect of this Declaration in any other state, country or place.

SECTION 13.4. Intention of the Parties. It is the intention of the parties hereto that the Trust be classified for United States federal income tax purposes as a grantor trust. The provisions of this Declaration shall be interpreted to further this intention of the parties.

SECTION 13.5. Headings. Headings contained in this Declaration are inserted for convenience of reference only and do not affect the interpretation of this Declaration or any provision hereof.

SECTION 13.6. Successors and Assigns. Whenever in this Declaration any of the parties hereto is named or referred to, the successors and assigns of such party shall be deemed to be included, and all covenants and agreements in this Declaration by the Sponsor and the Trustees shall bind and inure to the benefit of their respective successors and assigns, whether or not so expressed.

SECTION 13.7. Partial Enforceability. If any provision of this Declaration, or the application of such provision to any Person or circumstance, shall be held invalid, the remainder of this Declaration, or the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

SECTION 13.8. Counterparts. This Declaration may contain more than one counterpart of the signature page and this Declaration may be executed by the affixing of the signature of each of the Trustees and Administrators to any of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

IN WITNESS WHEREOF, the undersigned have caused this Declaration to be duly executed as of the day and year first above written.

CHASE BANK USA, NATIONAL  
ASSOCIATION,  
as Delaware Trustee

By: \_\_\_\_\_  
Name: Gene P. Ledger  
Title: Assistant Vice President

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,  
as Institutional Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Central Bancorp, Inc.,  
as Sponsor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Administrator


By: \_\_\_\_\_  
Administrator

IN WITNESS WHEREOF, the undersigned have caused this Declaration to be duly executed as of the day and year first above written.

CHASE BANK USA, NATIONAL  
ASSOCIATION,  
as Delaware Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,  
as Institutional Trustee

By:  \_\_\_\_\_  
Name: **RAFAEL HERRERA**  
Title: **VICE PRESIDENT**

Central Bancorp, Inc.,  
as Sponsor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Administrator

By: \_\_\_\_\_  
Administrator

IN WITNESS WHEREOF, the undersigned have caused this Declaration to be duly executed as of the day and year first above written.


CHASE BANK USA, NATIONAL  
ASSOCIATION,  
as Delaware Trustee


By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,  
as Institutional Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Central Bancorp, Inc.,  
as Sponsor

By:   
Name: James D. Yoo  
Title: President

By:   
Administrator

By:   
Administrator

## ANNEX I

### TERMS OF CAPITAL SECURITIES AND COMMON SECURITIES

Pursuant to Section 6.1 of the Amended and Restated Declaration of Trust, dated as of December 27, 2005 (as amended from time to time, the "Declaration"), the designation, rights, privileges, restrictions, preferences and other terms and provisions of the Capital Securities and the Common Securities are set out below (each capitalized term used but not defined herein has the meaning set forth in the Declaration):

#### 1. Designation and Number.

(a) Capital Securities. 26,000 Capital Securities of Central Bancorp Statutory Trust I (the "Trust"), with an aggregate stated liquidation amount with respect to the assets of the Trust of Twenty Six Million Dollars (\$26,000,000) and a stated liquidation amount with respect to the assets of the Trust of \$1,000 per Capital Security, are hereby designated for the purposes of identification only as the "TP Securities" (the "Capital Securities"). The Capital Security Certificates evidencing the Capital Securities shall be substantially in the form of Exhibit A-1 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice or to conform to the rules of any stock exchange on which the Capital Securities are listed, if any.

(b) Common Securities. 805 Common Securities of the Trust (the "Common Securities") will be evidenced by Common Security Certificates substantially in the form of Exhibit A-2 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice. In the absence of an Event of Default, the Common Securities will have an aggregate stated liquidation amount with respect to the assets of the Trust of Eight Hundred Five Thousand Dollars (\$805,000) and a stated liquidation amount with respect to the assets of the Trust of \$1,000 per Common Security.

#### 2. Distributions.

(a) Distributions payable on each Security will be payable at a fixed rate of 6.255% (the "Fixed Rate") per annum from December 27, 2005 until March 15, 2011 (the "Fixed Rate Period") and thereafter at a variable per annum rate of interest, reset quarterly, equal to LIBOR, as determined on the LIBOR Determination Date for such Distribution Payment Period, plus 1.40% (the "Variable Rate" and together with the Fixed Rate the "Coupon Rate") of the stated liquidation amount of \$1,000 per Security (provided, however, that the Coupon Rate for any Distribution Payment Period may not exceed the highest rate permitted by New York law, as the same may be modified by United States law of general applicability), such Coupon Rate being the rate of interest payable on the Debentures to be held by the Institutional Trustee. Except as set forth below in respect of an Extension Period, Distributions in arrears for more than one quarterly period will bear interest thereon compounded quarterly at the applicable Coupon Rate for each such quarterly period (to the extent permitted by applicable law). The term "Distributions" as used herein includes cash distributions, any such compounded distributions and any Additional Interest payable on the Debentures unless otherwise stated. A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Institutional Trustee and to the extent the Institutional Trustee has funds legally available in the Property Account therefor. During the Fixed Rate Period, the amount of Distributions payable for any Distribution Payment Period will be computed for any full quarterly Distribution Payment Period on the basis of a 360-day year of twelve 30-day months and the amount payable for any partial period shall be computed on the basis of the number of days elapsed in a 360-day year of twelve 30-day months. Upon expiration of the Fixed Rate Period, Distribution will be computed on the basis of a 360-day year and the actual number of days elapsed in the relevant Distribution period; provided, however, that upon the occurrence of a Special Event redemption pursuant to paragraph 4(a) below the amounts

payable pursuant to this Declaration shall be calculated as set forth in the definition of Special Redemption Price.

(b) Upon expiration of the Fixed Rate Period, LIBOR shall be determined by the Calculation Agent in accordance with the following provisions:

(1) On the second LIBOR Business Day (provided, that on such day commercial banks are open for business (including dealings in foreign currency deposits) in London (a "LIBOR Banking Day"), and otherwise the next preceding LIBOR Business Day that is also a LIBOR Banking Day) prior to March 15, June 15, September 15 and December 15 (or, with respect to the first Distribution Payment Period, on December 20, 2005), after the expiration of the Fixed Rate Period, on March 15, 2011 (each such day, a "LIBOR Determination Date") for such Distribution Payment Period, the Calculation Agent shall obtain the rate for three-month U.S. Dollar deposits in Europe, which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions) or such other page as may replace such Telerate Page 3750 on the Moneyline Telerate, Inc. service (or such other service or services as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying London interbank offered rates for U.S. dollar deposits), as of 11:00 a.m. (London time) on such LIBOR Determination Date, and the rate so obtained shall be LIBOR for such Distribution Payment Period. "LIBOR Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banking institutions in The City of New York or Wilmington, Delaware are authorized or obligated by law or executive order to be closed. If such rate is superseded on Telerate Page 3750 by a corrected rate before 12:00 noon (London time) on the same LIBOR Determination Date, the corrected rate as so substituted will be the applicable LIBOR for that Distribution Payment Period.

(2) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 or such other page as may replace such Telerate Page 3750 on the Moneyline Telerate, Inc. service (or such other service or services as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying London interbank offered rates for U.S. dollar deposits), the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks (as defined below) to leading banks in the London Interbank market for three-month U.S. Dollar deposits in Europe (in an amount determined by the Calculation Agent) by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal the arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such a quotation, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that at least two leading banks in the City of New York (as selected by the Calculation Agent) are quoting on the relevant LIBOR Determination Date for three-month U.S. Dollar deposits in Europe at approximately 11:00 a.m. (London time) (in an amount determined by the Calculation Agent). As used herein, "Reference Banks" means four major banks in the London Interbank market selected by the Calculation Agent.

(3) If the Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR for the applicable Distribution Payment Period shall be LIBOR in effect for the immediately preceding Distribution Payment Period.



(c) All percentages resulting from any calculations on the Securities will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

(d) On each LIBOR Determination Date, the Calculation Agent shall notify, in writing, the Sponsor and the Paying Agent of the applicable Coupon Rate in effect for the related Distribution Payment Period. The Calculation Agent shall, upon the request of the Holder of any Securities, provide the Coupon Rate then in effect. All calculations made by the Calculation Agent in the absence of manifest error shall be conclusive for all purposes and binding on the Sponsor and the Holders of the Securities. The Paying Agent shall be entitled to rely on information received from the Calculation Agent or the Sponsor as to the Coupon Rate. The Sponsor shall, from time to time, provide any necessary information to the Paying Agent relating to any original issue discount and interest on the Securities that is included in any payment and reportable for taxable income calculation purposes.

(e) Distributions on the Securities will be cumulative, will accrue from the date of original issuance, and will be payable, subject to extension of Distribution payment periods as described herein, quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing March 15, 2006 (each, a "Distribution Payment Date"). Subject to prior submission of Notice (as defined in the Indenture), and so long as no Event of Default pursuant to paragraphs (c), (e) or (f) of Section 5.01 of the Indenture has occurred and is continuing the Debenture Issuer has the right under the Indenture to defer payments of interest on the Debentures by extending the interest distribution period for up to 20 consecutive quarterly periods (each, an "Extension Period") at any time and from time to time on the Debentures, subject to the conditions described below, during which Extension Period no interest shall be due and payable (except any Additional Interest that may be due and payable). During any Extension Period, interest will continue to accrue on the Debentures, and interest on such accrued interest (such accrued interest and interest thereon referred to herein as "Deferred Interest") will accrue at an annual rate equal to the Coupon Rate in effect for each such Extension Period, compounded quarterly from the date such Deferred Interest would have been payable were it not for the Extension Period, to the extent permitted by law. No Extension Period may end on a date other than a Distribution Payment Date. At the end of any such Extension Period, the Debenture Issuer shall pay all Deferred Interest then accrued and unpaid on the Debentures; provided, however, that no Extension Period may extend beyond the Maturity Date, Redemption Date (to the extent redeemed) or Special Redemption Date; and provided, further, that, during any such Extension Period, the Debenture Issuer may not (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Debenture Issuer's capital stock or (ii) make any payment of principal or premium or interest on or repay, repurchase or redeem any debt securities of the Debenture Issuer that rank *pari passu* in all respects with or junior in interest to the Debentures or (iii) make any payment under any guarantees of the Debenture Issuer that rank in all respects *pari passu* with or junior in interest to the Guarantee (other than (a) repurchases, redemptions or other acquisitions of shares of capital stock of the Debenture Issuer (A) in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, (B) in connection with a dividend reinvestment or stockholder stock purchase plan or (C) in connection with the issuance of capital stock of the Debenture Issuer (or securities convertible into or exercisable for such capital stock), as consideration in an acquisition transaction entered into prior to the applicable Extension Period, (b) as a result of any exchange, reclassification, combination or conversion of any class or series of the Debenture Issuer's capital stock (or any capital stock of a subsidiary of the Debenture Issuer) for any class or series of the Debenture Issuer's capital stock or of any class or series of the Debenture Issuer's indebtedness for any class or series of the Debenture Issuer's capital stock, (c) the purchase of fractional interests in shares of the Debenture Issuer's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (d) any declaration of a dividend in connection with any stockholder's rights

plan, or the issuance of rights, stock or other property under any stockholder's rights plan, or the redemption or repurchase of rights pursuant thereto, or (e) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks *pari passu* with or junior to such stock). Prior to the termination of any Extension Period, the Debenture Issuer may further extend such period; provided, that such period together with all such previous and further consecutive extensions thereof shall not exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date. Upon the termination of any Extension Period and upon the payment of all Deferred Interest, the Debenture Issuer may commence a new Extension Period, subject to the foregoing requirements. No interest or Deferred Interest shall be due and payable during an Extension Period, except at the end thereof, but Deferred Interest shall accrue upon each installment of interest that would otherwise have been due and payable during such Extension Period until such installment is paid. If Distributions are deferred, the Distributions due shall be paid on the date that the related Extension Period terminates, or, if such date is not a Distribution Payment Date, on the immediately following Distribution Payment Date, to Holders of the Securities as they appear on the books and records of the Trust on the record date immediately preceding such date. Distributions on the Securities must be paid on the dates payable (after giving effect to any Extension Period) to the extent that the Trust has funds legally available for the payment of such distributions in the Property Account of the Trust. The Trust's funds available for Distribution to the Holders of the Securities will be limited to payments received from the Debenture Issuer. The payment of Distributions out of moneys held by the Trust is guaranteed by the Guarantor pursuant to the Guarantee.

(f) Distributions on the Securities will be payable to the Holders thereof as they appear on the books and records of the Registrar on the relevant record dates. The relevant record dates shall be selected by the Administrators, which dates shall be 15 days before the relevant Distribution Payment Date. Distributions payable on any Securities that are not punctually paid on any Distribution Payment Date, as a result of the Debenture Issuer having failed to make a payment under the Debentures, as the case may be, when due (taking into account any Extension Period), will cease to be payable to the Person in whose name such Securities are registered on the relevant record date, and such defaulted Distribution will instead be payable to the Person in whose name such Securities are registered on the special record date or other specified date determined in accordance with the Indenture. Notwithstanding anything to the contrary contained herein, if any Distribution Payment Date, other than on the Maturity Date, any Redemption Date or the Special Redemption Date, falls on a day that is not a Business Day, then any Distributions payable will be paid on, and such Distribution Payment Date will be moved to, the next succeeding Business Day, and additional Distributions will accrue for each day that such payment is delayed as a result thereof. If the Maturity Date, any Redemption Date or the Special Redemption Date falls on a day that is not a Business Day, then the principal, premium, if any, and/or Distributions payable on such date will be paid on the next succeeding Business Day, and no additional Distributions will accrue in respect of such payment made on such next succeeding Business Day.

(g) In the event that there is any money or other property held by or for the Trust that is not accounted for hereunder, such property shall be distributed pro rata (as defined herein) among the Holders of the Securities.

3. Liquidation Distribution Upon Dissolution. In the event of the voluntary or involuntary liquidation, dissolution, winding-up or termination of the Trust (each, a "Liquidation") other than in connection with a redemption of the Debentures, the Holders of the Securities will be entitled to receive out of the assets of the Trust available for distribution to Holders of the Securities, after satisfaction of liabilities to creditors of the Trust (to the extent not satisfied by the Debenture Issuer), distributions equal to the aggregate of the stated liquidation amount of \$1,000 per Security plus accrued and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"),

unless in connection with such Liquidation, the Debentures in an aggregate stated principal amount equal to the aggregate stated liquidation amount of such Securities, with an interest rate equal to the Coupon Rate of, and bearing accrued and unpaid interest in an amount equal to the accrued and unpaid Distributions on, and having the same record date as, such Securities, after paying or making reasonable provision to pay all claims and obligations of the Trust in accordance with Section 3808(e) of the Statutory Trust Act, shall be distributed on a Pro Rata basis to the Holders of the Securities in exchange for such Securities. The Sponsor, as the Holder of all of the Common Securities, has the right at any time to, upon receipt of an opinion of nationally recognized tax counsel that Holders will not recognize any gain or loss for United States federal income tax purposes as a result of the distribution Debentures, dissolve the Trust (including without limitation upon the occurrence of a Tax Event, an Investment Company Event or a Capital Treatment Event), subject to the receipt by the Debenture Issuer of prior approval from any regulatory authority having jurisdiction over the Sponsor that is primarily responsible for regulating the activities of the Sponsor if such approval is then required under applicable capital guidelines or policies of such regulatory authority, and, after satisfaction of liabilities to creditors of the Trust, cause the Debentures to be distributed to the Holders of the Securities on a Pro Rata basis in accordance with the aggregate stated liquidation amount thereof.

The Trust shall dissolve on the first to occur of (i) March 15, 2041, the expiration of the term of the Trust, (ii) a Bankruptcy Event with respect to the Sponsor, the Trust or the Debenture Issuer, (iii) (other than in connection with a merger, consolidation or similar transaction not prohibited by the Indenture, this Declaration or the Guarantee, as the case may be) the filing of a certificate of dissolution or its equivalent with respect to the Sponsor or upon the revocation of the charter of the Sponsor and the expiration of 90 days after the date of revocation without a reinstatement thereof, (iv) the distribution to the Holders of the Securities of the Debentures, upon exercise of the right of the Holder of all of the outstanding Common Securities to dissolve the Trust as described above, (v) the entry of a decree of a judicial dissolution of the Sponsor or the Trust, or (vi) when all of the Securities shall have been called for redemption and the amounts necessary for redemption thereof shall have been paid to the Holders in accordance with the terms of the Securities. As soon as practicable after the dissolution of the Trust and upon completion of the winding up of the Trust, the Trust shall terminate upon the filing of a certificate of cancellation with the Secretary of State of the State of Delaware.

If a Liquidation of the Trust occurs as described in clause (i), (ii), (iii) or (v) in the immediately preceding paragraph, the Trust shall be liquidated by the Institutional Trustee of the Trust as expeditiously as such Trustee determines to be possible by distributing, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, to the Holders of the Securities, the Debentures on a Pro Rata basis to the extent not satisfied by the Debenture Issuer, unless such distribution is determined by the Institutional Trustee not to be practical, in which event such Holders will be entitled to receive out of the assets of the Trust available for distribution to the Holders, after satisfaction of liabilities to creditors of the Trust to the extent not satisfied by the Debenture Issuer, an amount equal to the Liquidation Distribution. An early Liquidation of the Trust pursuant to clause (iv) of the immediately preceding paragraph shall occur if the Institutional Trustee determines that such Liquidation is possible by distributing, after satisfaction of liabilities to creditors of Trust, to the Holders of the Securities on a Pro Rata basis, the Debentures, and such distribution occurs.

If, upon any such Liquidation, the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then the amounts payable directly by the Trust on such Capital Securities shall be paid to the Holders of the Securities on a Pro Rata basis, except that if an Event of Default has occurred and is continuing, the Capital Securities shall have a preference over the Common Securities with regard to such distributions.

Upon any such Liquidation of the Trust involving a distribution of the Debentures, if at the time of such Liquidation, the Capital Securities were rated by at least one nationally recognized statistical

rating organization, the Debenture Issuer will use its reasonable best efforts to obtain from at least one such or other rating organization a rating for the Debentures.

After the date for any distribution of the Debentures upon dissolution of the Trust, (i) the Securities of the Trust will be deemed to be no longer outstanding, (ii) any certificates representing the Capital Securities will be deemed to represent undivided beneficial interests in such of the Debentures as have an aggregate principal amount equal to the aggregate stated liquidation amount of, with an interest rate identical to the distribution rate of, and bearing accrued and unpaid interest equal to accrued and unpaid distributions on, the Securities until such certificates are presented to the Debenture Issuer or its agent for transfer or reissuance (and until such certificates are so surrendered, no payments of interest or principal shall be made to Holders of Securities in respect of any payments due and payable under the Debentures) and (iii) all rights of Holders of Securities under the Capital Securities or the Common Securities, as applicable, shall cease, except the right of such Holders to receive Debentures upon surrender of certificates representing such Securities.

#### 4. Redemption and Distribution.

(a) The Debentures will mature on March 15, 2036. The Debentures may be redeemed by the Debenture Issuer, in whole or in part, on any March 15, June 15, September 15 or December 15 on or after March 15, 2011 at the Redemption Price, upon not less than 30 nor more than 60 days' notice to Holders of such Debentures. In addition, upon the occurrence and continuation of a Tax Event, an Investment Company Event or a Capital Treatment Event, the Debentures may be redeemed by the Debenture Issuer in whole or in part, at any time within 90 days following the occurrence of such Tax Event, Investment Company Event or Capital Treatment Event, as the case may be (the "Special Redemption Date"), at the Special Redemption Price, upon not less than 30 nor more than 60 days' notice to Holders of the Debentures so long as such Tax Event, Investment Company Event or Capital Treatment Event, as the case may be, is continuing. In each case, the right of the Debenture Issuer to redeem the Debentures is subject to the Debenture Issuer having received prior approval from any regulatory authority having jurisdiction over the Debenture Issuer, if such approval is then required under applicable capital guidelines or policies of such regulatory authority.

"Tax Event" means the receipt by the Debenture Issuer and the Trust of an opinion of counsel experienced in such matters to the effect that, as a result of any amendment to or change (including any announced prospective change) in the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement (including any private letter ruling, technical advice memorandum, regulatory procedure, notice or announcement) (an "Administrative Action") or judicial decision interpreting or applying such laws or regulations, regardless of whether such Administrative Action or judicial decision is issued to or in connection with a proceeding involving the Debenture Issuer or the Trust and whether or not subject to review or appeal, which amendment, clarification, change, Administrative Action or decision is enacted, promulgated or announced, in each case on or after the date of original issuance of the Debentures, there is more than an insubstantial risk that: (i) the Trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Debentures; (ii) interest payable by the Debenture Issuer on the Debentures is not, or within 90 days of the date of such opinion, will not be, deductible by the Debenture Issuer, in whole or in part, for United States federal income tax purposes; or (iii) the Trust is, or will be within 90 days of the date of such opinion, subject to more than a de minimis amount of other taxes (including withholding taxes), duties, assessments or other governmental charges.

"Investment Company Event" means the receipt by the Debenture Issuer and the Trust of an opinion of counsel experienced in such matters to the effect that, as a result of a change in law or regulation or written change in interpretation or application of law or regulation by any legislative body, court, governmental agency

or regulatory authority, there is more than an insubstantial risk that the Trust is or, within 90 days of the date of such opinion will be, considered an "investment company" that is required to be registered under the Investment Company Act, which change or prospective change becomes effective or would become effective, as the case may be, on or after the date of the original issuance of the Debentures.

"Capital Treatment Event" means, if the Debenture Issuer is organized and existing under the laws of the United States or any state thereof or the District of Columbia, the receipt by the Debenture Issuer and the Trust of an Opinion of Counsel experienced in such matters to the effect that, as a result of (a) any amendment to, or change in, the laws, rules or regulations of the United States or any political subdivision thereof or therein, or any rules, guidelines or policies of any applicable regulatory authority for the Debenture Issuer or (b) any official or administrative pronouncement or action or decision interpreting or applying such laws, rules or regulations, which amendment or change is effective or which pronouncement, action or decision is announced on or after the date of original issuance of the Debentures, there is more than an insubstantial risk that, within 90 days of the receipt of such opinion, the aggregate Liquidation Amount of the Capital Securities will not be eligible to be treated by the Debenture Issuer as "Tier 1 Capital" (or the then equivalent thereof) for purposes of the capital adequacy guidelines of the Federal Reserve (or any successor regulatory authority with jurisdiction over bank or financial holding companies), as then in effect and applicable to the Debenture Issuer (or if the Debenture Issuer is not a bank holding company, such guidelines applied to the Debenture Issuer as if the Debenture Issuer were subject to such guidelines); provided, however, that the inability of the Debenture Issuer to treat all or any portion of the aggregate Liquidation Amount of the Capital Securities as Tier 1 Capital shall not constitute the basis for a Capital Treatment Event, if such inability results from the Debenture Issuer having cumulative preferred stock, minority interests in consolidated subsidiaries, or any other class of security or interest which the Federal Reserve or OTS, as applicable, may now or hereafter accord Tier 1 Capital treatment in excess of the amount which may now or hereafter qualify for treatment as Tier 1 Capital under applicable capital adequacy guidelines; provided further, however, that the distribution of the Debentures in connection with the liquidation of the Trust by the Debenture Issuer shall not in and of itself constitute a Capital Treatment Event unless such liquidation shall have occurred in connection with a Tax Event or an Investment Company Event.

"Special Event" means any of a Capital Treatment Event, a Tax Event or an Investment Company Event. "Special Redemption Price" means, with respect to the redemption of any Debenture following a Special Event, an amount in cash equal to 103.525% of the principal amount of Debentures to be redeemed prior to March 15, 2007 and thereafter equal to the percentage of the principal amount of the Debentures that is specified below for the Special Redemption Date plus, in each case, unpaid interest accrued thereon to the Special Redemption Date:

<u>Special Redemption During the 12-Month Period Beginning March 15</u>	<u>Percentage of Principal Amount</u>
2007	103.140%
2008	102.355%
2009	101.570%
2010	100.785%
2011 and thereafter	100.000%

"Redemption Date" means the date fixed for the redemption of Capital Securities, which shall be any March 15, June 15, September 15 or December 15 on or after March 15, 2011.

"Redemption Price" means 100% of the principal amount of the Debentures being redeemed plus accrued and unpaid interest on such Debentures to the Redemption Date.

(b) Upon the repayment in full at maturity or redemption in whole or in part of the Debentures (other than following the distribution of the Debentures to the Holders of the Securities), the proceeds from such repayment or payment shall concurrently be applied to redeem Pro Rata at the applicable Redemption Price, Securities having an aggregate liquidation amount equal to the aggregate principal amount of the Debentures so repaid or redeemed; provided, however, that holders of such Securities shall be given not less than 30 nor more than

60 days' notice of such redemption (other than at the scheduled maturity of the Debentures).

(c) If fewer than all the outstanding Securities are to be so redeemed, the Common Securities and the Capital Securities will be redeemed Pro Rata and the Capital Securities to be redeemed will be as described in Section 4(e)(ii) below.

(d) The Trust may not redeem fewer than all the outstanding Capital Securities unless all accrued and unpaid Distributions have been paid on all Capital Securities for all quarterly Distribution periods terminating on or before the date of redemption.

(e) Redemption or Distribution Procedures.

(i) Notice of any redemption of, or notice of distribution of the Debentures in exchange for, the Securities (a "Redemption/Distribution Notice") will be given by the Trust by mail to each Holder of Securities to be redeemed or exchanged not fewer than 30 nor more than 60 days before the date fixed for redemption or exchange thereof which, in the case of a redemption, will be the date fixed for redemption of the Debentures. For purposes of the calculation of the date of redemption or exchange and the dates on which notices are given pursuant to this Section 4(e)(i), a Redemption/Distribution Notice shall be deemed to be given on the day such notice is first mailed by first-class mail, postage prepaid, to Holders of such Securities. Each Redemption/Distribution Notice shall be addressed to the Holders of such Securities at the address of each such Holder appearing on the books and records of the Registrar. No defect in the Redemption/Distribution Notice or in the mailing thereof with respect to any Holder shall affect the validity of the redemption or exchange proceedings with respect to any other Holder.

(ii) In the event that fewer than all the outstanding Securities are to be redeemed, the Securities to be redeemed shall be redeemed Pro Rata from each Holder of Capital Securities.

(iii) If the Securities are to be redeemed and the Trust gives a Redemption/Distribution Notice, which notice may only be issued if the Debentures are redeemed as set out in this Section 4 (which notice will be irrevocable), then, provided, that the Institutional Trustee has a sufficient amount of cash in connection with the related redemption or maturity of the Debentures, the Institutional Trustee will, with respect to Book-Entry Capital Securities, on the Redemption Date, irrevocably deposit with the Depository for such Book Entry Capital Securities, to the extent available therefore, funds sufficient to pay the relevant Redemption Price and will give such Depository irrevocable instructions and authority to pay the Redemption Price to the Owners of the Capital Securities. With respect to Capital Securities that are not Book-Entry Capital Securities, the Institutional Trustee will pay, to the extent available therefore, the relevant Redemption Price to the Holders of such Securities by check mailed to the address of each such Holder appearing on the books and records of the Trust on the redemption date. If a Redemption/Distribution Notice shall have been given and funds deposited as required, then immediately prior to the close of business on the date of such deposit, Distributions will cease to accrue on the Securities so called for redemption and all rights of Holders of such Securities so called for

redemption will cease, except the right of the Holders of such Securities to receive the applicable Redemption Price specified in Section

4(a). If any date fixed for redemption of Securities is not a Business Day, then payment of any such Redemption Price payable on such date will be made on the next succeeding day that is a Business Day except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the Redemption Price in respect of any Securities is improperly withheld or refused and not paid either by the Trust or by the Debenture Issuer as guarantor pursuant to the Guarantee, Distributions on such Securities will continue to accrue at the then applicable rate from the original redemption date to the actual date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the Redemption Price. In the event of any redemption of the Capital Securities issued by the Trust in part, the Trust shall not be required to (i) issue, register the transfer of or exchange any Security during a period beginning at the opening of business 15 days before any selection for redemption of the Capital Securities and ending at the close of business on the earliest date on which the relevant notice of redemption is deemed to have been given to all Holders of the Capital Securities to be so redeemed or (ii) register the transfer of or exchange any Capital Securities so selected for redemption, in whole or in part, except for the unredeemed portion of any Capital Securities being redeemed in part.

(iv) Redemption/Distribution Notices shall be sent by the Trust (A) in respect of the Capital Securities, to the Holders thereof: and (B) in respect of the Common Securities, to the Holder thereof.

(v) Subject to the foregoing and applicable law (including, without limitation, United States federal securities laws), and provided, that the acquiror is not the Holder of the Common Securities or the obligor under the Indenture, the Sponsor or any of its subsidiaries may at anytime and from time to time purchase outstanding Capital Securities by tender, in the open market or by private agreement.

##### 5. Voting Rights - Capital Securities.

(a) Except as provided under Sections 5(b) and 7 and as otherwise required by law and the Declaration, the Holders of the Capital Securities will have no voting rights. The Administrators are required to call a meeting of the Holders of the Capital Securities if directed to do so by Holders of not less than 10% in liquidation amount of the Capital Securities.

(b) Subject to the requirements of obtaining a tax opinion by the Institutional Trustee in certain circumstances set forth in the last sentence of this paragraph, the Holders of a Majority in liquidation amount of the Capital Securities, voting separately as a class, have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Institutional Trustee, or exercising any trust or power conferred upon the Institutional Trustee under the Declaration, including the right to direct the Institutional Trustee, as holder of the Debentures, to (i) exercise the remedies available under the Indenture as the holder of the Debentures, (ii) waive any past default that is waivable under the Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (iv) consent on behalf of all the Holders of the Capital Securities to any amendment, modification or termination of the Indenture or the Debentures where such consent shall be required; provided, however, that, where a consent or action under the Indenture would require the consent or act of the holders of greater than a simple majority in principal amount of Debentures (a "Super Majority") affected thereby, the Institutional Trustee may only give such consent or take such action at the written direction of the Holders of not less than the proportion in liquidation amount of the Capital Securities

outstanding which the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding. If the Institutional Trustee fails to enforce its rights under the Debentures after the Holders of a Majority or Super Majority, as the case may be, in liquidation amount of such Capital Securities have so directed the Institutional Trustee, to the fullest extent permitted by law, a Holder of the Capital Securities may institute a legal proceeding directly against the Debenture Issuer to enforce the Institutional Trustee's rights under the Debentures without first instituting any legal proceeding against the Institutional Trustee or any other person or entity. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Debenture Issuer to pay interest or premium, if any, on or principal of the Debentures on the date such interest, premium, if any, on or principal is payable (or in the case of redemption, the redemption date), then a Holder of record of the Capital Securities may directly institute a proceeding for enforcement of payment, on or after the respective due dates specified in the Debentures, to such Holder directly of the principal of or premium, if any, or interest on the Debentures having an aggregate principal amount equal to the aggregate liquidation amount of the Capital Securities of such Holder. The Institutional Trustee shall notify all Holders of the Capital Securities of any default actually known to the Institutional Trustee with respect to the Debentures unless (x) such default has been cured prior to the giving of such notice or (y) the Institutional Trustee determines in good faith that the withholding of such notice is in the interest of the Holders of such Capital Securities, except where the default relates to the payment of principal of or interest on any of the Debentures. Such notice shall state that such Indenture Event of Default also constitutes an Event of Default hereunder. Except with respect to directing the *time*, method and place of conducting a proceeding for a remedy, the Institutional Trustee shall not take any of the actions described in clause (i), (ii) or (iii) above unless the Institutional Trustee has obtained an opinion of tax counsel to the effect that, as a result of such action, the Trust will not be classified as other than a grantor trust for United States federal income tax purposes.

In the event the consent of the Institutional Trustee, as the holder of the Debentures is required under the Indenture with respect to any amendment, modification or termination of the Indenture, the Institutional Trustee may request the written direction of the Holders of the Securities with respect to such amendment, modification or termination and shall vote with respect to such amendment, modification or termination as directed by a Majority in liquidation amount of the Securities voting together as a single class; provided, however, that where a consent under the Indenture would require the consent of a Super Majority, the Institutional Trustee may only give such consent at the written direction of the Holders of not less than the proportion in liquidation amount of such Securities outstanding which the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding. The Institutional Trustee shall not take any such action in accordance with the written directions of the Holders of the Securities unless the Institutional Trustee has obtained an opinion of tax counsel to the effect that, as a result of such action, the Trust will not be classified as other than a grantor trust for United States federal income tax purposes.

A waiver of an Indenture Event of Default will constitute a waiver of the corresponding Event of Default hereunder. Any required approval or direction of Holders of the Capital Securities may be given at a separate meeting of Holders of the Capital Securities convened for such purpose, at a meeting of all of the Holders of the Securities in the Trust or pursuant to written consent. The Institutional Trustee will cause a notice of any meeting at which Holders of the Capital Securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of record of the Capital Securities. Each such notice will include a statement setting forth the following information (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought and (iii) instructions for the delivery of proxies or consents. No vote or consent of the Holders of the



Capital Securities will be required for the Trust to redeem and cancel Capital Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

Notwithstanding that Holders of the Capital Securities are entitled to vote or consent under any of the circumstances described above, any of the Capital Securities that are owned by the Sponsor or any Affiliate of the Sponsor shall not entitle the Holder thereof to vote or consent and shall, for purposes of such vote or consent, be treated as *if* such Capital Securities were not outstanding.

In no event will Holders of the Capital Securities have the right to vote to appoint, remove or replace the Administrators, which voting rights are vested exclusively in the Sponsor as the Holder of all of the Common Securities of the Trust. Under certain circumstances as more fully described in the Declaration, Holders of Capital Securities have the right to vote to appoint, remove or replace the Institutional Trustee and the Delaware Trustee.

#### 6. Voting Rights - Common Securities.

(a) Except as provided under Sections 6(b), 6(c) and 7 and as otherwise required by law and the Declaration, the Common Securities will have no voting rights.

(b) The Holders of the Common Securities are entitled, in accordance with Article IV of the Declaration, to vote to appoint, remove or replace any Administrators.

(c) Subject to Section 6.7 of the Declaration and only after each Event of Default (if any) with respect to the Capital Securities has been cured, waived or otherwise eliminated and subject to the requirements of the second to last sentence of this paragraph, the Holders of a Majority in liquidation amount of the Common Securities, voting separately as a class, may direct the time, method, and place of conducting any proceeding for any remedy available to the Institutional Trustee, or exercising any trust or power conferred upon the Institutional Trustee under the Declaration, including (i) directing the time, method, place of conducting any proceeding for any remedy available to the Debenture Trustee, or exercising any trust or power conferred on the Debenture Trustee with respect to the Debentures, (ii) waiving any past default and its consequences that are waivable under the Indenture, or (iii) exercising any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable, provided, however, that, where a consent or action under the Indenture would require a Super Majority, the Institutional Trustee may only give such consent or take such action at the written direction of the Holders of not less than the proportion in liquidation amount of the Common Securities which the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding. Notwithstanding this Section 6(c), the Institutional Trustee shall not revoke any action previously authorized or approved by a vote or consent of the Holders of the Capital Securities. Other than with respect to directing the time, method and place of conducting any proceeding for any remedy available to the Institutional Trustee or the Debenture Trustee as set forth above, the Institutional Trustee shall not take any action described in clause (i), (ii) or (iii) above, unless the Institutional Trustee has obtained an opinion of tax counsel to the effect that for the purposes of United States federal income tax the Trust will not be classified as other than a grantor trust on account of such action. If the Institutional Trustee fails to enforce its rights under the Declaration, to the fullest extent permitted by law any Holder of the Common Securities may institute a legal proceeding directly against any Person to enforce the Institutional Trustee's rights under the Declaration, without first instituting a legal proceeding against the Institutional Trustee or any other Person.

Any approval or direction of Holders of the Common Securities may be given at a separate meeting of Holders of the Common Securities convened for such purpose, at a meeting of all of the Holders of the Securities in the Trust or pursuant to written consent. The

Administrators will cause a notice of any meeting at which Holders of the Common Securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of the Common Securities. Each such notice will include a statement setting forth (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought and (iii) instructions for the delivery of proxies or consents.

No vote or consent of the Holders of the Common Securities will be required for the Trust to redeem and cancel Common Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

7. Amendments to Declaration and Indenture.

(a) In addition to any requirements under Section 11.1 of the Declaration, if any proposed amendment to the Declaration provides for, or the Trustees otherwise propose to effect, (i) any action that would adversely affect the powers, preferences or special rights of the Securities, whether by way of amendment to the Declaration or otherwise, or (ii) the Liquidation of the Trust, other than as described in Section 7.1 of the Declaration, then the Holders of outstanding Securities, voting together as a single class, will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of not less than a Majority in liquidation amount of the Securities affected thereby; provided, however, if any amendment or proposal referred to in clause (i) above would adversely affect only the Capital Securities or only the Common Securities, then only the affected class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of a Majority in liquidation amount of such class of Securities.

(b) In the event the consent of the Institutional Trustee as the holder of the Debentures is required under the Indenture with respect to any amendment, modification or termination of the Indenture or the Debentures, the Institutional Trustee shall request the written direction of the Holders of the Securities with respect to such amendment, modification or termination and shall vote with respect to such amendment, modification, or termination as directed by a Majority in liquidation amount of the Securities voting together as a single class; provided, however, that where a consent under the Indenture would require a Super Majority, the Institutional Trustee may only give such consent at the written direction of the Holders of not less than the proportion in liquidation amount of the Securities which the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding.

(c) Notwithstanding the foregoing, no amendment or modification may be made to the Declaration if such amendment or modification would (i) cause the Trust to be classified for purposes of United States federal income taxation as other than a grantor trust, (ii) reduce or otherwise adversely affect the powers of the Institutional Trustee or (iii) cause the Trust to be deemed an "investment company" which is required to be registered under the Investment Company Act.

(d) Notwithstanding any provision of the Declaration, the right of any Holder of the Capital Securities to receive payment of distributions and other payments upon redemption or otherwise, on or after their respective due dates, or to institute a suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder. For the protection and enforcement of the foregoing provision, each and every Holder of the Capital Securities shall be entitled to such relief as can be given either at law or equity.

8. Pro Rata. A reference in these terms of the Securities to any payment, distribution or treatment as being "Pro Rata" shall mean pro rata to each Holder of the Securities according to the aggregate liquidation amount of the Securities held by the relevant Holder in relation to the aggregate liquidation amount of all Securities outstanding unless, in relation to a payment, an Event of Default has occurred and is continuing, in which case any funds available to make such payment shall be paid first to each Holder of the Capital Securities Pro Rata according to the aggregate liquidation amount of the Capital Securities held by the relevant Holder relative to the aggregate liquidation amount of all Capital Securities outstanding, and only after satisfaction of all amounts owed to the Holders of the Capital Securities, to each Holder of the Common Securities Pro Rata according to the aggregate liquidation amount of the Common Securities held by the relevant Holder relative to the aggregate liquidation amount of all Common Securities outstanding.

9. Ranking. The Capital Securities rank pari passu with, and payment thereon shall be made Pro Rata with, the Common Securities except that, where an Event of Default has occurred and is continuing, the rights of Holders of the Common Securities to receive payment of Distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights of the Holders of the Capital Securities with the result that no payment of any Distribution on, or Redemption Price or Special Redemption Price of, any Common Security, and no other payment on account of redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions on all outstanding Capital Securities for all distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price or Special Redemption Price the full amount of such Redemption Price or the Special Redemption Price on all outstanding Capital Securities then called for redemption, shall have been made or provided for, and all funds immediately available to the Institutional Trustee shall first be applied to the payment in full in cash of all Distributions on, or the Redemption Price or the Special Redemption Price of, the Capital Securities then due and payable.

10. Acceptance of Guarantee and Indenture. Each Holder of the Capital Securities and the Common Securities, by the acceptance of such Securities, agrees to the provisions of the Guarantee, including the subordination provisions therein and to the provisions of the Indenture.

11. No Preemptive Rights. The Holders of the Securities shall have no, and the issuance of the Securities is not subject to, preemptive or similar rights to subscribe for any additional securities.

12. Miscellaneous. These terms constitute a part of the Declaration. The Sponsor will provide a copy of the Declaration, the Guarantee, and the Indenture to a Holder without charge on written request to the Sponsor at its principal place of business.

**EXHIBIT A-1**

**FORM OF CAPITAL SECURITY CERTIFICATE**

[FORM OF FACE OF SECURITY]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE DEBENTURE ISSUER OR THE TRUST, (B) PURSUANT TO RULE

144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THE HOLDER

REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO A "NON U.S. PERSON" IN A "OFFSHORE TRANSACTION" PURSUANT TO REGULATIONS UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT TO AN "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (a) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE DEBENTURE ISSUER'S AND THE TRUST'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM IN ACCORDANCE WITH THE AMENDED AND RESTATED DECLARATION OF TRUST, A COPY OF WHICH MAY BE OBTAINED FROM THE DEBENTURE ISSUER OR THE TRUST. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES, REPRESENTS AND WARRANTS THAT IT WILL NOT ENGAGE IN HEDGING TRANSACTIONS INVOLVING THIS SECURITY UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR THE EXEMPTION RELIEF

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AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF TIDS SECURITY IS NOT PROHIBITED BY SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF ERISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER OF THE CERTIFICATE WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS MAY BE REQUIRED BY THE AMENDED AND RESTATED DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING A LIQUIDATION AMOUNT OF NOT LESS THAN \$100,000 AND MULTIPLES OF \$1,000 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING A LIQUIDATION AMOUNT OF LESS THAN \$100,000

SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER. ANY

SUCH PURPORTED TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THIS SECURITY FOR ANY PURPOSE, INCLUDING, BUT NOT LIMITED TO, THE RECEIPT OF DISTRIBUTIONS ON THIS SECURITY, AND SUCH PURPORTED TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THIS SECURITY.

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Certificate Number [P-001]

Number of Capita] Securities: 26,000

Certificate Evidencing Capital Securities

of

Central Bancorp Statutory Trust I

TP Securities

(liquidation amount \$1,000 per Capital Security)

Central Bancorp Statutory Trust I, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Holder"), is the registered owner of 26,000 capital securities of the Trust representing undivided beneficial interests in the assets of the Trust, designated the TP Securities (liquidation amount \$1,000 per Capital Security) (the "Capital Securities"). Subject to the Declaration (as defined below), the Capital Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this Certificate duly endorsed and in proper form for transfer. The Capital Securities represented hereby are issued pursuant to, and the designation, rights, privileges, restrictions, preferences and other terms and provisions of the Capital Securities shall in all respects be subject to, the provisions of the Amended and Restated Declaration of Trust of the Trust, dated as of December 27, 2005, among Keith Ward and James D. Yoo, as Administrators, Chase Bank USA, National Association, as Delaware Trustee, JPMorgan Chase Bank, National Association, as Institutional Trustee, Central Bancorp, Inc., as Sponsor, and the holders from time to time of undivided beneficial interests in the assets of the Trust, including the designation of the terms of the Capital Securities as set forth in Annex I to the Declaration, as the same may be amended from time to time (the "Declaration"). Capitalized terms used herein but not defined shall have the meaning given them in the Declaration. The Holder is entitled to the benefits of the Guarantee to the extent provided therein. The Sponsor will provide a copy of the Declaration, the Guarantee, and the Indenture to the Holder without charge upon written request to the Sponsor at its principal place of business.

By acceptance of this Security, the Holder is bound by the Declaration and is entitled to the benefits thereunder.

By acceptance of this Security, the Holder agrees to treat, for United States federal income tax purposes, the Debentures as indebtedness and the Capital Securities as evidence of beneficial ownership in the Debentures.

This Capital Security is governed by, and shall be construed in accordance with, the laws of the State of Delaware, without regard to principles of conflict of laws.

IN WITNESS WHEREOF, the Trust has duly executed this certificate.

Central Bancorp Statutory Trust I

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Administrator

Dated: \_\_\_\_\_

CERTIFICATE OF AUTHENTICATION

This is one of the Capital Securities referred to in the within-mentioned Declaration.

JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, not in its individual capacity but solely as  
Institutional Trustee

By: \_\_\_\_\_

Authorized Signature

Dated: \_\_\_\_\_

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[FORM OF REVERSE OF SECURITY]

Distributions payable on each Capital Security will be payable at a fixed rate of 6.255% (the "Fixed Rate") per annum from December 27, 2005 until March 15, 2011 (the "Fixed Rate Period") and thereafter at a variable per annum rate of interest, reset quarterly, equal to LIBOR (as defined in the Declaration) plus 1.40% (the "Variable Rate" and together with the Fixed Rate, the "Coupon Rate") of the stated liquidation amount of \$1,000 per Capital Security (provided, however, that the Coupon Rate for any Distribution Payment Period may not exceed the highest rate permitted by New York law, as the same may be modified by United States law of general applicability), such Coupon Rate being the rate of interest payable on the Debentures to be held by the Institutional Trustee. Distributions in arrears for more than one quarterly period will bear interest thereon compounded quarterly at the then applicable Coupon Rate for each such quarterly period (to the extent permitted by applicable law). The term "Distributions" as used herein includes cash distributions, any such compounded distributions and any Additional Interest payable on the Debentures unless otherwise stated. A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Institutional Trustee and to the extent the Institutional Trustee has funds legally available in the Property Account therefor. During the Fixed Rate Period, the amount of Distributions payable for any Distribution Payment Period will be computed for any full quarterly Distribution Payment Period on the basis of a 360-day year of twelve 30-day months and the amount payable for any partial period shall be computed on the basis of the number of days elapsed in a 360-day year of twelve 30-day months. Upon expiration of the Fixed Rate Period, distributions will be computed on the basis of a 360-day year and the actual number of days elapsed in the relevant Distribution Payment Period.

Except as otherwise described below, Distributions on the Capital Securities will be cumulative, will accrue from the date of original issuance and will be payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on March 15, 2006 (each, a "Distribution Payment Date"). Upon submission of Notice, and so long as no Event of Default pursuant to paragraphs (c), (e) or (f) of Section 5.01 of the Indenture has occurred and is continuing the Debenture Issuer has the right under the Indenture to defer payments of interest on the Debentures by extending the interest distribution period for up to 20 consecutive quarterly periods (each, an "Extension Period") at any time and from time to time on the Debentures, subject to the conditions described below, during which Extension Period no interest shall be due and payable (except any Additional Interest that may be due and payable). During any Extension Period, interest will continue to accrue on the Debentures, and interest on such accrued interest (such accrued interest and interest thereon referred to herein as "Deferred Interest") will accrue at an annual rate equal to the Coupon Rate in effect for each such Extension Period, compounded quarterly from the date such Deferred Interest would have been payable were it not for the Extension Period, to the extent permitted by law. No Extension Period may end on a date other than a Distribution Payment Date. At the end of any such Extension Period, the Debenture Issuer shall pay all Deferred Interest then accrued and unpaid on the Debentures; provided, however, that no Extension Period may extend beyond the Maturity Date. Prior to the termination of any Extension Period, the Debenture Issuer may further extend such period; provided, that such period together with all such previous and further consecutive extensions thereof shall not exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date, Redemption Date (to the extent redeemed) or Special Redemption Date. Upon the termination of any Extension Period and upon the payment of all Deferred Interest, the Debenture Issuer may commence a new Extension Period, subject to the foregoing requirements. No interest or Deferred Interest (except any Additional Amounts that may be due and payable) shall be due and payable during an Extension Period, except at the end thereof, but Deferred Interest shall accrue upon each installment of interest that would otherwise have been due and payable during such Extension Period until such installment is paid. If Distributions are deferred, the Distributions due shall be paid on the date that the related Extension Period terminates to Holders of the Securities as they appear on the books and records of the Trust on the record date immediately preceding such date. Distributions on the Securities must be paid on the dates payable (after giving effect to any Extension Period) to the extent that the Trust has funds legally available for the payment of such distributions in the Property Account



of the Trust. The Trust's funds available for Distribution to the Holders of the Securities will be limited to payments received from the Debenture Issuer. The payment of Distributions out of moneys held by the Trust is guaranteed by the Guarantor pursuant to the Guarantee.

The Capital Securities shall be redeemable as provided in the Declaration.

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ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Capital Security Certificate to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Insert assignee's social security or tax identification number)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Insert address and zip code of assignee),  
and irrevocably appoints \_\_\_\_\_  
as agent to transfer this Capital Security Certificate on the books of the Trust. The agent may  
substitute another to act for it, him or her.

Date: \_\_\_\_\_  
Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Capital Security Certificate)

Signature Guarantee:<sup>1</sup> \_\_\_\_\_

<sup>1</sup> Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Security registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

**EXHIBIT A-2**

**FORM OF COMMON SECURITY CERTIFICATE**

THIS COMMON SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION.

EXCEPT AS SET FORTH IN SECTION 8.1(b) OF THE DECLARATION {AS DEFINED BELOW}, THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE

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Certificate Number [C-001]

Number of Common Securities: 805

Certificate Evidencing Common Securities  
of  
Central Bancorp Statutory Trust I

Central Bancorp Statutory Trust I, a statutory trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Central Bancorp, Inc. (the "Holder") is the registered owner of 805 common securities of the Trust representing undivided beneficial interests in the assets of the Trust (liquidation amount \$1,000 per Common Security) (the "Common Securities"). The Common Securities represented hereby are issued pursuant to, and the designation, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities shall in all respects be subject to, the provisions of the Amended and Restated Declaration of Trust of the Trust, dated as of December 27, 2005, among Keith Ward and James D. Yoo, as Administrators, Chase Bank USA, National Association, as Delaware Trustee, JPMorgan Chase Bank, National Association, as Institutional Trustee, the Holder, as Sponsor, and the holders from time to time of undivided beneficial interests in the assets of the Trust, including the designation of the terms of the Common Securities as set forth in Annex I to the Declaration, as the same may be amended from time to time (the "Declaration"). Capitalized terms used herein but not defined shall have the meaning given them in the Declaration. The Sponsor will provide a copy of the Declaration and the Indenture to the Holder without charge upon written request to the Sponsor at its principal place of business.

As set forth in the Declaration, when an Event of Default has occurred and is continuing, the rights of Holders of Common Securities to payment in respect of Distributions and payments upon Liquidation, redemption or otherwise are subordinated to the rights of payment of Holders of the Capital Securities.

By acceptance of this Certificate, the Holder is bound by the Declaration and is entitled to the benefits thereunder.

By acceptance of this Certificate, the Holder agrees to treat, for United States federal income tax purposes, the Debentures as indebtedness and the Common Securities as evidence of undivided beneficial ownership in the Debentures.

This Common Security is governed by, and shall be construed in accordance with, the laws of the State of Delaware, without regard to principles of conflict of laws.

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IN WITNESS WHEREOF, the Trust has executed this certificate December 27, 2005.

Central Bancorp Statutory Trust I

By:

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Title: Administrator

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[FORM OF REVERSE OF SECURITY]

Distributions payable on each Common Security will be payable at a fixed rate of 6.255% (the "Fixed Rate") per annum from December 27, 2005 until March 15, 2011 (the "Fixed Rate Period") and thereafter at a variable per annum rate of interest, reset quarterly, equal to LIBOR (as defined in the Declaration) plus 1.40% (the "Variable Rate" and together with the Fixed Rate, the "Coupon Rate") of the stated liquidation amount of \$1,000 per Capital Security (provided, however, that the Coupon Rate for any Distribution Payment Period may not exceed the highest rate permitted by New York law, as the same may be modified by United States law of general applicability), such Coupon Rate being the rate of interest payable on the Debentures to be held by the Institutional Trustee. Distributions in arrears for more than one quarterly period will bear interest thereon compounded quarterly at the then applicable Coupon Rate (defined to include the Fixed Rate and Variable Rate, as applicable) for each such quarterly period (to the extent permitted by applicable law). The term "Distributions" as used herein includes cash distributions, any such compounded distributions and any Additional Interest payable on the Debentures unless otherwise stated. A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Institutional Trustee and to the extent the Institutional Trustee has funds legally available in the Property Account therefor. During the Fixed Rate Period, the amount of Distributions payable for any period will be computed for any full quarterly Distribution period on the basis of a 360-day year of twelve 30-day months and the amount payable for any partial period shall be computed on the basis of the number of days elapsed in a 360-day year of twelve 30-day months. Upon expiration of the Fixed Rate Period, distribution will be computed on the basis of a 360-day year and the actual number of days elapsed in the relevant Distribution Payment Period.

Except as otherwise described below, Distributions on the Common Securities will be cumulative, will accrue from the date of original issuance and will be payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on March 15, 2006 (each, a "Distribution Payment Date"). Upon submission of Notice, and so long as no Event of Default pursuant to paragraphs (c), (e) or (f) of Section 5.01 of the Indenture has occurred and is continuing the Debenture Issuer has the right under the Indenture to defer payments of interest on the Debentures by extending the interest distribution period for up to 20 consecutive quarterly periods (each, an "Extension Period") at any time and from time to time on the Debentures, subject to the conditions described below, during which Extension Period no interest shall be due and payable (except any Additional Interest that may be due and payable). During any Extension Period, interest will continue to accrue on the Debentures, and interest on such accrued interest (such accrued interest and interest thereon referred to herein as "Deferred Interest") will accrue at an annual rate equal to the Coupon Rate in effect for each such Extension Period, compounded quarterly from the date such Deferred Interest would have been payable were it not for the Extension Period, to the extent permitted by law. No Extension Period may end on a date other than a Distribution Payment Date. At the end of any such Extension Period, the Debenture Issuer shall pay all Deferred Interest then accrued and unpaid on the Debentures; provided, however, that no Extension Period may extend beyond the Maturity Date, Redemption Date (to the extent redeemed) or Special Redemption Date. Prior to the termination of any Extension Period, the Debenture Issuer may further extend such period, provided, that such period together with all such previous and further consecutive extensions thereof shall not exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date, Redemption Date (to the extent redeemed), or Special Redemption Date. Upon the termination of any Extension Period and upon the payment of all Deferred Interest, the Debenture Issuer may commence a new Extension Period, subject to the foregoing requirements. No interest or Deferred Interest (except any Additional Interest that may be due and payable) shall be due and payable during an Extension Period, except at the end thereof, but Deferred Interest shall accrue upon each installment of interest that would otherwise have been due and payable during such Extension Period until such installment is paid. If Distributions are deferred, the Distributions due shall be paid on the date that the related Extension

Period terminates to Holders of the Securities as they appear on the books and records of the Trust on the record date immediately preceding such date.

Distributions on the Securities must be paid on the dates payable (after giving effect to any Extension Period) to the extent that the Trust has funds legally available for the payment of such distributions in the Property Account of the Trust. The Trust's funds legally available for Distribution to the Holders of the Securities will be limited to payments received from the Debenture Issuer. The payment of Distributions out of moneys held by the Trust is guaranteed by the Guarantor pursuant to the Guarantee.

The Common Securities shall be redeemable as provided in the Declaration.

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ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Common Security Certificate to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Insert assignee's social security or tax identification number)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Insert address and zip code of assignee),  
and irrevocably appoints \_\_\_\_\_  
as agent to transfer this Common Security Certificate on the books of the Trust. The agent may substitute another to act for him or her.

Date: \_\_\_\_\_  
Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Capital Security Certificate)

Signature Guarantee:<sup>1</sup> \_\_\_\_\_

<sup>1</sup> Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union, meeting the requirements of the Security registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.



GUARANTEE AGREEMENT

Central Bancorp, Inc.

Dated as of December 27, 2005

(10) Austin\143382  
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## GUARANTEE AGREEMENT

This GUARANTEE AGREEMENT (the "Guarantee"), dated as of December 27, 2005, is executed and delivered by Central Bancorp, Inc., incorporated in Texas (the "Guarantor"), and JPMorgan Chase Bank, National Association, as trustee (the "Guarantee Trustee"), for the benefit of the Holders (as defined herein) from time to time of the Capital Securities (as defined herein) of Central Bancorp Statutory Trust I, a Delaware statutory trust (the "Issuer").

WHEREAS, pursuant to an Amended and Restated Declaration of Trust (the "Declaration"), dated as of December 27, 2005, among the trustees named therein of the Issuer, Central Bancorp, Inc., as sponsor, and the Holders from time to time of undivided beneficial interests in the assets of the Issuer, the Issuer is issuing on the date hereof securities, having an aggregate liquidation amount of up to \$26,000,000, designated the TP Securities (the "Capital Securities"); and

WHEREAS, as incentive for the Holders to purchase the Capital Securities, the Guarantor desires irrevocably and unconditionally to agree, to the extent set forth in this Guarantee, to pay to the Holders of Capital Securities the Guarantee Payments (as defined herein) and to make certain other payments on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the purchase by each Holder of the Capital Securities, which purchase the Guarantor hereby agrees shall benefit the Guarantor, the Guarantor executes and delivers this Guarantee for the benefit of the Holders.

### ARTICLE I DEFINITIONS AND INTERPRETATION

#### SECTION 1.1. Definitions and Interpretation.

In this Guarantee, unless the context otherwise requires:

- (a) capitalized terms used in this Guarantee but not defined in the preamble above have the respective meanings assigned to them in this Section 1.1;
- (b) a term defined anywhere in this Guarantee has the same meaning throughout;
- (c) all references to "the Guarantee" or "this Guarantee" are to this Guarantee as modified, supplemented or amended from time to time;
- (d) all references in this Guarantee to Articles and Sections are to Articles and Sections of this Guarantee, unless otherwise specified;
- (e) terms defined in the Declaration as of the date of execution of this Guarantee have the same meanings when used in this Guarantee, unless otherwise defined in this Guarantee or unless the context otherwise requires; and
- (f) a reference to the singular includes the plural and vice versa.

"Beneficiaries" means any Person to whom the Issuer is or hereafter becomes indebted or liable.

"Corporate Trust Office" means the office of the Guarantee Trustee at which the corporate trust business of the Guarantee Trustee shall, at any particular time, be principally administered.

"Covered Person" means any Holder of Capital Securities.

"Debentures" means the junior subordinated debentures of Central Bancorp, Inc., designated the Junior Subordinated Debt Securities due 2035, held by the Institutional Trustee (as defined in the Declaration) of the Issuer.

"Event of Default" has the meaning set forth in Section 2.4.

"Guarantee Payments" means the following payments or distributions, without duplication, with respect to the Capital Securities, to the extent not paid or made by the Issuer: (i) any accrued and unpaid Distributions (as defined in the Declaration) which are required to be paid on such Capital Securities to the extent the Issuer has funds available in the Property Account (as defined in the Declaration) therefor at such time, (ii) the Redemption Price (as defined in the Indenture) to the extent the Issuer has funds available in the Property Account therefor at such time, with respect to any Capital Securities called for redemption by the Issuer, (iii) the Special Redemption Price (as defined in the Indenture) to the extent the Issuer has funds available in the Property Account therefor at such time, with respect to Capital Securities called for redemption upon the occurrence of a Special Event (as defined in the Indenture), and (iv) upon a voluntary or involuntary liquidation, dissolution, winding-up or termination of the Issuer (other than in connection with the distribution of Debentures to the Holders of the Capital Securities in exchange therefor as provided in the Declaration), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid Distributions on the Capital Securities to the date of payment, to the extent the Issuer has funds available in the Property Account therefor at such time, and (b) the amount of assets of the Issuer remaining available for distribution to Holders in liquidation of the Issuer after satisfaction of liabilities to creditors of the Issuer as required by applicable law (in either case, the "Liquidation Distribution").

"Guarantee Trustee" means JPMorgan Chase Bank, National Association, until a Successor Guarantee Trustee has been appointed and has accepted such appointment pursuant to the terms of this Guarantee and thereafter means each such Successor Guarantee Trustee.

"Holder" means any holder, as registered on the books and records of the Issuer, of any Capital Securities; provided, however, that, in determining whether the holders of the requisite percentage of Capital Securities have given any request, notice, consent or waiver hereunder, "Holder" shall not include the Guarantor or any Affiliate of the Guarantor.

"Indemnified Person" means the Guarantee Trustee (including in its individual capacity), any Affiliate of the Guarantee Trustee, or any officers, directors, shareholders, members, partners, employees, representatives, nominees, custodians or agents of the Guarantee Trustee.

"Indenture" means the Indenture, dated as of December 27, 2005, between the Guarantor and JPMorgan Chase Bank, National Association, not in its individual capacity but solely as trustee, and any indenture supplemental thereto pursuant to which the Debentures are to be issued to the Institutional Trustee of the Issuer.

"Liquidation Distribution" has the meaning set forth in the definition of "Guarantee Payments" herein.

"Majority in liquidation amount of the Capital Securities" means Holder(s) of outstanding Capital Securities, voting together as a class, but separately from the holders of Common Securities, of more than 50% of the aggregate liquidation amount (including the stated amount that would be paid on

redemption, liquidation or otherwise, plus accrued and unpaid Distributions to, but excluding, the date upon which the voting percentages are determined) of all Capital Securities then outstanding.

"Obligations" means any costs, expenses or liabilities (but not including liabilities related to taxes) of the Issuer, other than obligations of the Issuer to pay to holders of any Trust Securities the amounts due such holders pursuant to the terms of the Trust Securities.

"Officer's Certificate" means, with respect to any Person, a certificate signed by one Authorized Officer of such Person. Any Officer's Certificate delivered with respect to compliance with a condition or covenant provided for in this Guarantee shall include:

- (a) a statement that each officer signing the Officer's Certificate has read the covenant or condition and the definitions relating thereto;
- (b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officer's Certificate;
- (c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

"Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Responsible Officer" means, with respect to the Guarantee Trustee, any officer within the Corporate Trust Office of the Guarantee Trustee with direct responsibility for the administration of any matters relating to this Guarantee, including any vice president, any assistant vice president, any secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer or other officer of the Corporate Trust Office of the Guarantee Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Successor Guarantee Trustee" means a successor Guarantee Trustee possessing the qualifications to act as Guarantee Trustee under Section 3.1.

"Trust Securities" means the Common Securities and the Capital Securities.

## ARTICLE II POWERS, DUTIES AND RIGHTS OF THE GUARANTEE TRUSTEE

### SECTION 2.1. Powers and Duties of the Guarantee Trustee.

- (a) This Guarantee shall be held by the Guarantee Trustee for the benefit of the Holders of the Capital Securities, and the Guarantee Trustee shall not transfer this Guarantee to any Person except a Holder of Capital Securities exercising his or her rights pursuant to Section 4.4(b) or to a Successor Guarantee Trustee on acceptance by such Successor Guarantee Trustee of its appointment to act as Successor Guarantee Trustee. The right, title and interest of the Guarantee Trustee shall

automatically vest in any Successor Guarantee Trustee, and such vesting and cessation of title shall be effective whether or not conveyancing documents have been executed and delivered pursuant to the appointment of such Successor Guarantee Trustee.

(b) If an Event of Default actually known to a Responsible Officer of the Guarantee Trustee has occurred and is continuing, the Guarantee Trustee shall enforce this Guarantee for the benefit of the Holders of the Capital Securities.

(c) The Guarantee Trustee, before the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Guarantee, and no implied covenants shall be read into this Guarantee against the Guarantee Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.4(b)) and is actually known to a Responsible Officer of the Guarantee Trustee, the Guarantee Trustee shall exercise such of the rights and powers vested in it by this Guarantee, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(d) No provision of this Guarantee shall be construed to relieve the Guarantee Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(i) prior to the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred:

(A) the duties and obligations of the Guarantee Trustee shall be determined solely by the express provisions of this Guarantee, and the Guarantee Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Guarantee, and no implied covenants or obligations shall be read into this Guarantee against the Guarantee Trustee; and

(B) in the absence of bad faith on the part of the Guarantee Trustee, the Guarantee Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Guarantee Trustee and conforming to the requirements of this Guarantee; but in the case of any such certificates or opinions furnished to the Guarantee Trustee, the Guarantee Trustee shall be under a duty to examine the same to determine whether or not on their face they conform to the requirements of this Guarantee;

(ii) the Guarantee Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Guarantee Trustee, unless it shall be proved that such Responsible Officer of the Guarantee Trustee or the Guarantee Trustee was negligent in ascertaining the pertinent facts upon which such judgment was made;

(iii) the Guarantee Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the Holders of not less than a Majority in liquidation amount of the Capital Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee, or exercising any trust or power conferred upon the Guarantee Trustee under this Guarantee; and

(iv) no provision of this Guarantee shall require the Guarantee Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Guarantee Trustee shall have reasonable grounds for believing that the

repayment of such funds is not reasonably assured to it under the terms of this Guarantee, or security and indemnity, reasonably satisfactory to the Guarantee Trustee, against such risk or liability is not reasonably assured to it.

SECTION 2.2. Certain Rights of the Guarantee Trustee.

(a) Subject to the provisions of Section 2.1:

(i) The Guarantee Trustee may conclusively rely, and shall be fully protected in acting or refraining from acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties.

(ii) Any direction or act of the Guarantor contemplated by this Guarantee shall be sufficiently evidenced by an Officer's Certificate.

(iii) Whenever, in the administration of this Guarantee, the Guarantee Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting any action hereunder, the Guarantee Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officer's Certificate of the Guarantor which, upon receipt of such request, shall be promptly delivered by the Guarantor.

(iv) The Guarantee Trustee shall have no duty to see to any recording, filing or registration of any instrument or other writing (or any rerecording, refiling or reregistration thereof).

(v) The Guarantee Trustee may consult with counsel of its selection, and the advice or opinion of such counsel with respect to legal matters shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion. Such counsel may be counsel to the Guarantor or any of its Affiliates and may include any of its employees. The Guarantee Trustee shall have the right at any time to seek instructions concerning the administration of this Guarantee from any court of competent jurisdiction.

(vi) The Guarantee Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Guarantee at the request or direction of any Holder, unless such Holder shall have provided to the Guarantee Trustee such security and indemnity, reasonably satisfactory to the Guarantee Trustee, against the costs, expenses (including attorneys' fees and expenses and the expenses of the Guarantee Trustee's agents, nominees or custodians) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Guarantee Trustee; provided, however, that nothing contained in this Section 2.2(a)(vi) shall be taken to relieve the Guarantee Trustee, upon the occurrence of an Event of Default, of its obligation to exercise the rights and powers vested in it by this Guarantee.

(vii) The Guarantee Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Guarantee Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(viii) The Guarantee Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, nominees, custodians or attorneys, and the Guarantee Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder

(ix) Any action taken by the Guarantee Trustee or its agents hereunder shall bind the Holders of the Capital Securities, and the signature of the Guarantee Trustee or its agents alone shall be sufficient and effective to perform any such action. No third party shall be required to inquire as to the authority of the Guarantee Trustee to so act or as to its compliance with any of the terms and provisions of this Guarantee, both of which shall be conclusively evidenced by the Guarantee Trustee's or its agent's taking such action.

(x) Whenever in the administration of this Guarantee the Guarantee Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Guarantee Trustee (A) may request instructions from the Holders of a Majority in liquidation amount of the Capital Securities, (B) may refrain from enforcing such remedy or right or taking such other action until such instructions are received and (C) shall be protected in conclusively relying on or acting in accordance with such instructions.

(xi) The Guarantee Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Guarantee.

(b) No provision of this Guarantee shall be deemed to impose any duty or obligation on the Guarantee Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal or in which the Guarantee Trustee shall be unqualified or incompetent in accordance with applicable law to perform any such act or acts or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Guarantee Trustee shall be construed to be a duty.

#### SECTION 2.3. Not Responsible for Recitals or Issuance of Guarantee.

The recitals contained in this Guarantee shall be taken as the statements of the Guarantor, and the Guarantee Trustee does not assume any responsibility for their correctness. The Guarantee Trustee makes no representation as to the validity or sufficiency of this Guarantee.

#### SECTION 2.4. Events of Default; Waiver.

(a) An Event of Default under this Guarantee will occur upon the failure of the Guarantor to perform any of its payment or other obligations hereunder.

(b) The Holders of a Majority in liquidation amount of the Capital Securities may, voting or consenting as a class, on behalf of the Holders of all of the Capital Securities, waive any past Event of Default and its consequences. Upon such waiver, any such Event of Default shall cease to exist, and shall be deemed to have been cured, for every purpose of this Guarantee, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

#### SECTION 2.5. Events of Default; Notice.



(a) The Guarantee Trustee shall, within 90 days after the occurrence of an Event of Default, transmit by mail, first class postage prepaid, to the Holders of the Capital Securities, notices of all Events of Default actually known to a Responsible Officer of the Guarantee Trustee, unless such defaults have been cured before the giving of such notice; provided, however, that the Guarantee Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Guarantee Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of the Capital Securities.

(b) The Guarantee Trustee shall not be charged with knowledge of any Event of Default unless the Guarantee Trustee shall have received written notice thereof from the Guarantor or a Holder of the Capital Securities, or a Responsible Officer of the Guarantee Trustee charged with the administration of this Guarantee shall have actual knowledge thereof.

### ARTICLE III THE GUARANTEE TRUSTEE

#### SECTION 3.1. The Guarantee Trustee; Eligibility.

(a) There shall at all times be a Guarantee Trustee which shall: (i) not be an Affiliate of the Guarantor; and

(ii) be a corporation or national association organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia, or Person authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million U.S. dollars (\$50,000,000), and subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such corporation or national association publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then, for the purposes of this Section 3.1(a)(ii), the combined capital and surplus of such corporation or national association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Guarantee Trustee shall cease to be eligible to so act under Section 3.1(a), the Guarantee Trustee shall immediately resign in the manner and with the effect set forth in Section 3.2

(c) If the Guarantee Trustee has or shall acquire any "conflicting interest" within the meaning of Section 31 O(b) of the Trust Indenture Act, the Guarantee Trustee shall either eliminate such interest or resign to the extent and in the manner provided by, and subject to, this Guarantee.

#### SECTION 3.2. Appointment, Removal and Resignation of the Guarantee Trustee.

(a) Subject to Section 3.2(b), the Guarantee Trustee may be appointed or removed without cause at any time by the Guarantor except during an Event of Default.

(b) The Guarantee Trustee shall not be removed in accordance with Section 3.2(a) until a Successor Guarantee Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Guarantee Trustee and delivered to the Guarantor.

(c) The Guarantee Trustee appointed to office shall hold office until a Successor Guarantee Trustee shall have been appointed or until its removal or resignation. The Guarantee Trustee may resign from office (without need for prior or subsequent accounting) by an instrument

in writing executed by the Guarantee Trustee and delivered to the Guarantor, which resignation shall not take effect until a Successor Guarantee Trustee has been appointed and has accepted such appointment by an instrument in writing executed by such Successor Guarantee Trustee and delivered to the Guarantor and the resigning Guarantee Trustee.

(d) If no Successor Guarantee Trustee shall have been appointed and accepted appointment as provided in this Section 3.2 within 60 days after delivery of an instrument of removal or resignation, the Guarantee Trustee resigning or being removed may petition any court of competent jurisdiction for appointment of a Successor Guarantee Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Successor Guarantee Trustee.

(e) No Guarantee Trustee shall be liable for the acts or omissions to act of any Successor Guarantee Trustee.

(f) Upon termination of this Guarantee or removal or resignation of the Guarantee Trustee pursuant to this Section 3.2, the Guarantor shall pay to the Guarantee Trustee all amounts owing to the Guarantee Trustee under Sections 7.2 and 7.3 accrued to the date of such termination, removal or resignation.

## ARTICLE IV GUARANTEE

### SECTION 4.1. Guarantee.

(a) The Guarantor irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (without duplication of amounts theretofore paid by the Issuer), as and when due, regardless of any defense (except as defense of payment by the Issuer), right of set-off or counterclaim that the Issuer may have or assert. The Guarantor's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Guarantor to the Holders or by causing the Issuer to pay such amounts to the Holders.

(b) The Guarantor hereby also agrees to assume any and all Obligations of the Issuer and in the event any such Obligation is not so assumed, subject to the terms and conditions hereof, the Guarantor hereby irrevocably and unconditionally guarantees to each Beneficiary the full payment, when and as due, of any and all Obligations to such Beneficiaries. This Guarantee is intended to be for the Beneficiaries who have received notice hereof.

### SECTION 4.2. Waiver of Notice and Demand.

The Guarantor hereby waives notice of acceptance of this Guarantee and of any liability to which it applies or may apply, presentment, demand for payment, any right to require a proceeding first against the Issuer or any other Person before proceeding against the Guarantor, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

### SECTION 4.3. Obligations Not Affected.

The obligations, covenants, agreements and duties of the Guarantor under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

- (a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Capital Securities to be performed or observed by the Issuer;
- (b) the extension of time for the payment by the Issuer of all or any portion of the Distributions, Redemption Price, Special Redemption Price, Liquidation Distribution or any other sums payable under the terms of the Capital Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Capital Securities (other than an extension of time for the payment of the Distributions, Redemption Price, Special Redemption Price, Liquidation Distribution or other sums payable that results from the extension of any interest payment period on the Debentures or any extension of the maturity date of the Debentures permitted by the Indenture);
- (c) any failure, omission, delay or lack of diligence on the part of the Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Capital Securities, or any action on the part of the Issuer granting indulgence or extension of any kind;
- (d) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer;
- (e) any invalidity of, or defect or deficiency in, the Capital Securities;
- (f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred; or
- (g) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Section 4.3 that the obligations of the Guarantor hereunder shall be absolute and unconditional under any and all circumstances.

There shall be no obligation of the Holders to give notice to, or obtain consent of, the Guarantor with respect to the happening of any of the foregoing.

#### SECTION 4.4. Rights of Holders.

- (a) The Holders of a Majority in liquidation amount of the Capital Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of this Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under this Guarantee; provided, however, that (subject to Sections 2.1 and 2.2) the Guarantee Trustee shall have the right to decline to follow any such direction if the Guarantee Trustee shall determine that the actions so directed would be unjustly prejudicial to the Holders not taking part in such direction or if the Guarantee Trustee being advised by legal counsel determines that the action or proceeding so directed may not lawfully be taken or if the Guarantee Trustee in good faith by its board of directors or trustees, executive committee or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceeding so directed would involve the Guarantee Trustee in personal liability.
- (b) Any Holder of Capital Securities may institute a legal proceeding directly against the Guarantor to enforce the Guarantee Trustee's rights under this Guarantee, without first instituting a legal proceeding against the Issuer, the Guarantee Trustee or any other Person. The Guarantor waives any right or remedy to require that any such action be brought first against the Issuer, the Guarantee Trustee or any other Person before so proceeding directly against the Guarantor.

SECTION 4.5. Guarantee of Payment.

This Guarantee creates a guarantee of payment and not of collection .

SECTION 4.6. Subrogation.

The Guarantor shall be subrogated to all (if any) rights of the Holders of Capital Securities against the Issuer in respect of any amounts paid to such Holders by the Guarantor under this Guarantee; provided, however, that the Guarantor shall not (except to the extent required by applicable provisions of law) be entitled to enforce or exercise any right that it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Guarantee, if, after giving effect to any such payment, any amounts are due and unpaid under this Guarantee. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to hold such amount in trust for the Holders and to pay over such amount to the Holders.

SECTION 4.7. Independent Obligations.

The Guarantor acknowledges that its obligations hereunder are independent of the obligations of the Issuer with respect to the Capital Securities and that the Guarantor shall be liable as principal and as debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee notwithstanding the occurrence of any event referred to in subsections (a) through (g), inclusive, of Section 4.3 hereof.

SECTION 4.8. Enforcement.

A Beneficiary may enforce the Obligations of the Guarantor contained in Section 4.1(b) directly against the Guarantor, and the Guarantor waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Guarantor.

The Guarantor shall be subrogated to all rights (if any) of any Beneficiary against the Issuer in respect of any amounts paid to the Beneficiaries by the Guarantor under this Guarantee; provided, however, that the Guarantor shall not (except to the extent required by applicable provisions of law) be entitled to enforce or exercise any rights that it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Guarantee, if, after giving effect to such payment, any amounts are due and unpaid under this Guarantee.

ARTICLE V  
LIMITATION OF TRANSACTIONS; SUBORDINATION

SECTION 5.1. Limitation of Transactions.

So long as any Capital Securities remain outstanding, if (a) there shall have occurred and be continuing an Event of Default or (b) the Guarantor shall have selected an Extension Period as provided in the Declaration and such period, or any extension thereof, shall have commenced and be continuing, then the Guarantor may not (x) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Guarantor's capital stock or (y) make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any debt securities of the Guarantor that rank *pari passu* in all respects with or junior in interest to the Debentures (other than (i) payments under this Guarantee, (ii) repurchases, redemptions or other acquisitions of shares of capital stock of the Guarantor (A) in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors, or consultants, (B) in connection with a dividend reinvestment or stockholder stock purchase plan or (C) in connection with the

issuance of capital stock of the Guarantor (or securities convertible into or exercisable for such capital stock), as consideration in an acquisition transaction entered into prior to the occurrence of the Event of Default or the applicable Extension Period, (iii) as a result of any exchange, reclassification, combination or conversion of any class or series of the Guarantor's capital stock (or any capital stock of a subsidiary of the Guarantor) for any class or series of the Guarantor's capital stock or of any class or series of the Guarantor's indebtedness for any class or series of the Guarantor's capital stock, (iv) the purchase of fractional interests in shares of the Guarantor's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) any declaration of a dividend in connection with any stockholder's rights plan, or the issuance of rights, stock or other property under any stockholder's rights plan, or the redemption or repurchase of rights pursuant thereto, or (vi) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks *pari passu* with or junior to such stock).

#### SECTION 5.2. Ranking.

This Guarantee will constitute an unsecured obligation of the Guarantor and will rank subordinate and junior in right of payment to all present and future Senior Indebtedness (as defined in the Indenture) of the Guarantor. By their acceptance thereof, each Holder of Capital Securities agrees to the foregoing provisions of this Guarantee and the other terms set forth herein.

The right of the Guarantor to participate in any distribution of assets of any of its subsidiaries upon any such subsidiary's liquidation or reorganization or otherwise is subject to the prior claims of creditors of that subsidiary, except to the extent the Guarantor may itself be recognized as a creditor of that subsidiary. Accordingly, the Guarantor's obligations under this Guarantee will be effectively subordinated to all existing and future liabilities of the Guarantor's subsidiaries, and claimants should look only to the assets of the Guarantor for payments thereunder. This Guarantee does not limit the incurrence or issuance of other secured or unsecured debt of the Guarantor, including Senior Indebtedness of the Guarantor, under any indenture or agreement that the Guarantor may enter into in the future or otherwise

### ARTICLE VI TERMINATION

#### SECTION 6.1. Termination.

This Guarantee shall terminate as to the Capital Securities (i) upon full payment of the Redemption Price or the Special Redemption Price, as the case may be, of all Capital Securities then outstanding, (ii) upon the distribution of all of the Debentures to the Holders of all of the Capital Securities or (iii) upon full payment of the amounts payable in accordance with the Declaration upon dissolution of the Issuer. This Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any Holder of Capital Securities must restore payment of any sums paid under the Capital Securities or under this Guarantee.

### ARTICLE VII INDEMNIFICATION

#### SECTION 7.1. Exculpation.

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Guarantor or any Covered Person for any loss, damage or claim

incurred by reason of any act or omission of such Indemnified Person in good faith in accordance with this Guarantee and in a manner that such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Guarantee or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's negligence or willful misconduct with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Issuer or the Guarantor and upon such information, opinions, reports or statements presented to the Issuer or the Guarantor by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and who, if selected by such Indemnified Person, has been selected with reasonable care by such Indemnified Person, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which Distributions to Holders of Capital Securities might properly be paid.

#### SECTION 7.2. Indemnification.

(a) The Guarantor agrees to indemnify each Indemnified Person for, and to hold each Indemnified Person harmless against, any and all loss, liability, damage, claim or expense incurred without negligence or willful misconduct on the part of the Indemnified Person, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including but not limited to the costs and expenses (including reasonable legal fees and expenses) of the Indemnified Person defending itself against, or investigating, any claim or liability in connection with the exercise or performance of any of the Indemnified Person's powers or duties hereunder. The obligation to indemnify as set forth in this Section 7.2 shall survive the resignation or removal of the Guarantee Trustee and the termination of this Guarantee.

(b) Promptly after receipt by an Indemnified Person under this Section 7.2 of notice of the commencement of any action, such Indemnified Person will, if a claim in respect thereof is to be made against the Guarantor under this Section 7.2, notify the Guarantor in writing of the commencement thereof; but the failure so to notify the Guarantor (i) will not relieve the Guarantor from liability under paragraph (a) above unless and to the extent that the Guarantor did not otherwise learn of such action and such failure results in the forfeiture by the Guarantor of substantial rights and defenses and (ii) will not, in any event, relieve the Guarantor from any obligations to any Indemnified Person other than the indemnification obligation provided in paragraph (a) above. The Guarantor shall be entitled to appoint counsel of the Guarantor's choice at the Guarantor's expense to represent the Indemnified Person in any action for which indemnification is sought (in which case the Guarantor shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Person or Persons except as set forth below); provided, however, that such counsel shall be satisfactory to the Indemnified Person. Notwithstanding the Guarantor's election to appoint counsel to represent the Indemnified Person in any action, the Indemnified Person shall have the right to employ separate counsel (including local counsel), and the Guarantor shall bear the reasonable fees, costs and expenses of such separate counsel (and local counsel), if (i) the use of counsel chosen by the Guarantor to represent the Indemnified Person would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Person and the Guarantor and the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it and/or other Indemnified Persons which are different from or additional to those available to the Guarantor, (iii) the Guarantor shall not have employed counsel satisfactory to the Indemnified Person to represent the Indemnified Person within a reasonable time after notice of the institution of such action or (iv) the Guarantor shall authorize the Indemnified Person to employ separate counsel at the expense of the Guarantor. The Guarantor will not, without the prior written consent of the Indemnified Persons, which should not be

unreasonably withheld settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim , action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Indemnified Persons are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Indemnified Person from all liability arising out of such claim, action, suit or proceeding.

SECTION 7.3. Compensation; Reimbursement of Expenses.

Other than as provided in the Fee Agreement of e ven date herewith between Cohen Bros. & Company, the Guarantee Trustee and Delaware Trustee (as defined in the Declaration), the Guarantor agrees:

(a) to pay to the Guarantee Trustee from time to time such compensation for all services rendered by it hereunder as the parties shall agree to from time to time (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); and

(b) except as otherwise expressly provided herein, to reimburse the Guarantee Trustee upon request for all reasonable expenses , disbursements and advances incurred or made by it in accordance with any provision of this Guarantee (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct.

The provisions of this Section 7.3 shall survive the resignation or removal of the Guarantee Trustee and the termination of this Guarantee.

ARTICLE VIII  
MISCELLANEOUS

SECTION 8.1. Successors and Assigns.

All guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders of the Capital Securities then outstanding. Except in connection with any merger or consolidation of the Guarantor with or into another entity or any sale, transfer or lease of the Guarantor's assets or capital stock to another entity, in each case to the extent permitted under the Indenture, the Guarantor may not assign its rights or delegate its obligations under this Guarantee without the prior approval of the Holders of not less than a Majority in liquidation amount of the Capital Securities.

SECTION 8.2. Amendments.

Except with respect to any changes that do not adversely affect the rights of Holders of the Capital Securities in any material respect (in which case no consent of Holders will be required), this Guarantee may be amended only with the prior approval of the Holders of not less than a Majority in liquidation amount of the Capital Securities. The provisions of the Declaration with respect to amendments thereof shall apply equally with respect to amendments of the Guarantee.

SECTION 8.3. Notices.

All notices provided for in this Guarantee shall be in writing, duly signed by the party giving such not ice, and shall be delivered, telecopied or mailed by first class mail, as follows:

(a) If given to the Guarantee Trustee, at the Guarantee Trustee's mailing address set forth below (or such other address as the Guarantee Trustee may give notice of to the Holders of the Capital Securities):  
JPMorgan Chase Bank, National Association  
600 Travis Street, 50th Floor  
Houston, Texas 77002  
Attention: Worldwide Securities Services Central Bancorp Statutory Trust I  
Teletype: (713) 216-2101  
Telephone: (713) 216-4181

(b) If given to the Guarantor, at the Guarantor's mailing address set forth below (or such other address as the Guarantor may give notice of to the Holders of the Capital Securities and to the Guarantee Trustee):  
Central Bancorp, Inc.  
4555 W. Walnut Street  
Garland, Texas 75042  
Attention: Keith Ward  
Teletype: (972) 516-3680  
Telephone: (972) 485-7201

(c) If given to any Holder of the Capital Securities, at the address set forth on the books and records of the Issuer.

All such notices shall be deemed to have been given when received in person, teletyped with receipt confirmed, or mailed by first class mail, postage prepaid, except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

**SECTION 8.4. Benefit.**

This Guarantee is solely for the benefit of the Holders of the Capital Securities and, subject to Section 2.1(a), is not separately transferable from the Capital Securities.

**SECTION 8.5. Governing Law.**

THIS GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF {OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW).

**SECTION 8.6. Counterparts.**

This Guarantee may contain more than one counterpart of the signature page and this Guarantee may be executed by the affixing of the signature of the Guarantor and the Guarantee Trustee to any of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.





THIS GUARANTEE is executed as of the day and year first above written.

**CENTRAL BANCORP, INC.,  
as Guarantor**

By: J. Yoo  
Name: James D. Yoo  
Title: President

**JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, as Guarantee Trustee**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THIS GUARANTEE is executed as of the day and year first above written.

**CENTRAL BANCORP, INC.,  
as Guarantor**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION, as Guarantee Trustee**

By: \_\_\_\_\_  
Name: RAFAEL HERRERA  
Title: VICE PRESIDENT

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors

Hanmi Financial Corporation:

We consent to the incorporation by reference in the registration statement (Nos. 333-177996, 333-164690, and 333-163206) on Form S-3 and (Nos. 333-115753, 333-149858, and 333-191855) on Form S-8 of Hanmi Financial Corporation of our reports dated February xx, 2016, with respect to the consolidated statement of financial condition of Hanmi Financial Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the effectiveness of internal control over financial reporting as of December 31, 2015, which reports appear in the December 31, 2015 annual report on Form 10-K of Hanmi Financial Corporation.

/s/ **KPMG LLP**

Los Angeles, California

February xx, 2016

### Certification of Chief Executive Officer

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

1. I have reviewed this Annual Report on Form 10-K of Hanmi Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016 /s/ C. G. Kum

C. G. Kum

*President and Chief Executive Officer*

### Certification of Chief Financial Officer

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

1. I have reviewed this Annual Report on Form 10-K of Hanmi Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:

February 29, 2016 /s/ Romolo C. Santarosa

Romolo C. Santarosa

*Senior Executive Vice President and Chief Financial Officer*

**Certification**  
**Certification Pursuant to**  
**18 U.S.C. Section 1350,**  
**As Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report (the "Report") of Hanmi Financial Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof, I, C. G. Kum, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016 /s/ C. G. Kum  
C. G. Kum  
*President and Chief Executive Officer*

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

**Certification**  
**Certification Pursuant to**  
**18 U.S.C. Section 1350,**  
**As Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report (the "Report") of Hanmi Financial Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof, I, Romolo C. Santarosa, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016 /s/ Romolo C. Santarosa  
Romolo C. Santarosa  
*Senior Executive Vice President and Chief Financial Officer*

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