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 EndedDecember 31, 2019

or

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

For the Transition Period From__________ To

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware **(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:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value	**HAFC**	**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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

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

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

As of June 30, 2019, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $ 598,155,000. 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, 2020 was 30,728,745 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant's Definitive Proxy Statement for its 2020 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2019, 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, 2019
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Cautionary Note Regarding Forward-Looking Statements

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

Part I

Item 1. Business

General

Hanmi Financial Corporation ("Hanmi Financial," the "Company," "we," "us" or "our") is a Delaware corporation incorporated on March 14, 2000 to be the holding company for Hanmi Bank (the "Bank") and is subject to the Bank Holding Company Act of 1956, as amended ("BHCA"). 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 ("California 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. The California Department of Business Oversight (the "DBO") is the Bank's primary state bank regulator and the Federal Deposit Insurance Corporation (the "FDIC") is its primary federal regulator. The Bank's headquarters are 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.

The Bank's revenues are derived primarily from interest and fees on loans and leases, interest and dividends on securities portfolio, and service charges on deposit accounts.

A summary of revenues for the periods indicated follows:

	Year Ended December 31,					
	2019		2018		2017	
Interest and fees on loans and leases	$ 229,402	83.6%	$ 219,590	84.8%	$ 195,790	80.7%
Interest and dividends on securities	15,808	5.8%	14,230	5.5%	13,082	5.4%
Other interest income	1,562	0.6%	577	0.2%	449	0.2%
Service charges, fees and other income	21,006	7.7%	19,907	7.7%	22,933	9.4%
Gain on sale of SBA loans	5,251	1.9%	4,954	1.9%	8,734	3.6%
Subtotal	273,029	99.5%	259,258	100.1%	240,988	99.3%
Net gain (loss) on sale of securities	1,295	0.5%	(341)	(0.1)%	1,748	0.7%
Total revenues	**$ 274,324**	**100.0%**	**$ 258,917**	**100.0%**	**$ 242,736**	**100.0%**

Market Area

The Bank historically has provided its banking services through its branch network to a wide variety of small- to medium-sized businesses. Throughout the Bank's service areas, competition is intense for both loans and deposits. While the market for banking services is dominated by a few nationwide banks with many offices operating over wide geographic areas, the Bank's primary competitors are other community banks that focus their marketing efforts on Korean-American and other Asian-American businesses in the Bank's service areas.

Lending Activities

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

Real Estate Loans

Real estate lending involves risks associated with the potential decline in the value of the underlying real estate collateral and the cash flows from income-producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including a decline 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, as well as compliance with the Uniform Standards of Professional Appraisal Practice (the “USPAP”). The Bank determines creditworthiness of a borrower by evaluating cash flow ability, asset and debt structure, as well as credit history. The purpose of the loan is also an important consideration that dictates loan structure and the 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, with 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. The Bank 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. In addition, the Bank seeks an adjustable rate of interest indexed to the prime rate appearing in *The Wall Street Journal* (“WSJ Prime Rate”) or the Bank’s prime rate (“Bank Prime Rate”), as adjusted from time to time. 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 in vacancy and interest rates. 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 commercial properties securing the Bank’s real estate loans before the loans are approved.

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

Construction

The Bank maintains a small construction portfolio for multifamily, low-income housing, and commercial and industrial properties within its market areas. 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 WSJ Prime Rate or the Bank Prime Rate;
- minimum cash equity consistent with high volatility commercial real estate guidelines;
- a reserve of anticipated interest costs during construction or an advance of fees;

- a first lien position on the underlying real estate;
- loan-to-value ratios at time of origination that do not exceed 75 percent; and
- recourse against the borrower or a guarantor in the event of default.

On a case-by-case basis, the Bank originates 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;
- the difficulty in accurately evaluating the market value of the completed project; and
- the disbursement of substantial funds with repayment dependent, in part, on the ultimate uncertain success of the project rather than the ability of the borrower or guarantor to repay principal and interest.

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 maintain 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 purchases and originates 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.

Commercial and Industrial Loans

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

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

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

Commercial Term

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

Commercial Lines of Credit

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

International

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

Leases Receivable

Equipment finance agreements have terms ranging from one to seven years. Commercial equipment leases are secured by the business assets being financed. The Bank also obtains a commercial guaranty of the business and generally a personal guaranty of the owner(s) of the business. Equipment finance leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial equipment leases may be substantially dependent on the success of the business itself, which in turn, is often dependent in part upon general economic conditions.

Consumer Loans

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

SBA Loans

The Bank originates loans that are guaranteed by the 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 and SBA express loans are 75 percent to 85 percent and 50 percent of the principal amount of the loan, respectively. 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 five 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 defaulted loan, the Bank will make a demand for the guaranteed portion of 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, 2019, the Bank had $6.0 million of SBA loans held for sale, $176.9 million of SBA loans in its loan portfolio, and was servicing $422.3 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 revolving lines of credit for seasonal working capital needs, commercial letters of credit or standby letters of credit. Commercial letters of credit facilitate import trade. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

Lending Procedures and Lending Limits

Individual lending authority is granted to the Chief Credit Administration Officer and certain additional designated officers. Loans and leases for which direct and indirect borrower liability exceeds an individual's lending authority are referred to the Bank's Management Credit Committee.

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual, entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank's stockholders' equity plus the allowance for loan and lease losses, capital notes and any debentures, or 25 percent on a secured and unsecured basis. At December 31, 2019, the Bank's authorized legal lending limits for loans to one borrower was $108.0 million for unsecured loans and an additional $72.0 million for secured and unsecured loans combined.

The Bank seeks to mitigate the risks inherent in its loan and lease portfolio by adhering to strict underwriting practices. The review of each loan and lease application includes analysis of the applicant's business, experience, prior credit history, income level, cash flows, 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, as well as compliance with the USPAP.

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

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

The Bank assesses its allowance for loan and lease losses for adequacy on a quarterly basis and more frequently as needed. The DBO and the FDIC may require the Bank to recognize additions to the allowance for loan and lease losses through a provision for loan and lease losses based upon their assessment of the information available to them at the time of their examinations.

Deposits

The Bank offers a traditional array of deposit products, including noninterest-bearing checking accounts, interest-bearing checking and savings accounts, negotiable order of withdrawal ("NOW") accounts, money market accounts, and certificates of deposit. These accounts, except for noninterest-bearing checking accounts, earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor 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, Current Reports on Form 8-K and any amendments thereto. The SEC maintains a website at *www.sec.gov*, which contains the reports, proxy and information statements and other information we file with the SEC.

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

Employees

As of December 31, 2019, the Bank had 633 full-time equivalent employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that its employee relations are good.

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

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

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

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

Economic, Legislative and Regulatory Developments

Future profitability, like that of most financial institutions, is primarily dependent on interest rate differentials and credit quality. In general, the difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by us on our interest-earning assets, such as loans and leases extended to our customers and securities held in our investment portfolio, will comprise the major portion of our earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, and the impact that future changes in domestic and foreign economic conditions might have on us.

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

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

Regulation and Supervision

(a) General

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

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

(b) Legislation and Regulatory Developments

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

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

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

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

(c) Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking regulators. The current capital rules (the "New Capital Rules") provide for a capital measure "Common Equity Tier 1"; narrowed the definition of regulatory capital; revise the capital levels at which banks and their parent companies would be subject to prompt corrective action; expand the scope of the deductions or adjustments from capital; exclude from Tier 1 capital non-exempt trust preferred securities and cumulative perpetual preferred stock; impose additional constraints on the inclusion in Tier 1 capital (and stricter risk-weights) for mortgage servicing rights, certain deferred tax assets, and minority interests; and impose stricter risk-weights for certain assets, including for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures. Under the New Capital Rules, the Company and the Bank made a one-time election to remove certain components of accumulated other comprehensive income from the computation of common equity regulatory capital.

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

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

At December 31, 2019, the Company and the Bank's total risk-based capital ratios were 15.11 percent and 14.64 percent, respectively; Tier 1 risk-based capital ratios were 11.78 percent and 13.39 percent, respectively; Common Equity Tier 1 capital ratios were 11.36 percent and 13.39 percent, respectively, and the Company's and Bank's Tier 1 leverage capital ratios were 10.15 percent and 11.56 percent, respectively, all of which ratios exceeded the minimum percentage requirements for the Bank to be deemed "well-capitalized" and for the Company to meet and exceed all applicable capital ratio requirements for regulatory purposes. The Bank's capital conservation buffer was 6.64 percent and 6.19 percent, and the Company's capital conservation buffer was 5.78 percent and 5.74 percent as of December 31, 2019 and 2018, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Capital Resources." The federal banking regulators may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

The federal banking agencies, including the Federal Reserve, adopted a rule, effective January 1, 2020, pursuant to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, for institutions with assets of less than $10 billion that meet other specified criteria, a "community bank leverage ratio" (the ratio of a bank's tangible Tier 1 equity capital to average total consolidated assets) of 9.0 percent, that such institution may elect to utilize in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. A "qualifying community bank" with capital exceeding 9.0 percent will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be "well capitalized".

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

Management believes that, as of December 31, 2019, the Company and the Bank met all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect.

(d) Final Volcker Rule

Under the Volcker Rule, and subject to certain exceptions, banking entities, including the Company and the Bank, are restricted in their ability to engage in activities that are considered short-term proprietary trading and their ability to invest in, and have relationships with, certain private investment funds, including hedge or private equity funds that are considered "covered funds." The Company and the Bank held no investment positions at December 31, 2019 and 2018 that were subject to the Volcker Rule. Therefore, while the Volcker Rule, including its implementing regulations, requires us to conduct certain internal analysis and reporting, it did not require any material changes in our operations or business. Bank holding companies with less than $10 billion in consolidated assets are exempt if its total trading assets or liabilities do not exceed 5.0 percent of total consolidated assets.

(e) Bank Holding Company Regulation

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

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

- Require periodic reports and such additional reports of information as the Federal Reserve may require;
- Limit the scope of bank holding companies' activities and investments;
- Require bank holding companies to meet or exceed certain levels of capital (See "Capital Adequacy Requirements" 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 restrict 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; and
- Require prior Federal Reserve approval to acquire substantially all the assets of a bank, to acquire more than 5.0 percent of a class of voting shares of a bank, or to merge with another bank holding company and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required.

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

(f) Bank Regulation

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

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

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the activities commonly conducted by national banks in operating subsidiaries. Further, the Bank may conduct certain "financial" activities permitted under the Gramm Leach Bliley Act of 1999 ("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 theCommunity Reinvestment Act ("CRA"). The Bank currently has no financial subsidiaries.

(g) Enforcement Authority

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

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

(h) Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions, and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. As a general matter, the maximum deposit insurance amount is $250,000 per depositor, per FDIC-insured bank, per ownership category. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by FDIC modeling, based on regulatory capital and other financial ratios as well as 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.

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.

(i) Prompt Corrective Action Provisions

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

The prompt corrective action standards were changed when the New Capital Rule ratios became effective. In order to be considered well-capitalized under the prompt corrective action standards, the Bank is required to meet the new Common Equity Tier 1 ratio of 6.5 percent, a Tier 1 capital ratio of 8.0 percent (increased from 6.0 percent), a total capital ratio of 10.0 percent (unchanged) and a Tier 1 leverage ratio of 5.0 percent (unchanged).

(j) Dividends

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

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

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

(k) Operations and Consumer Compliance Laws

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

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

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

(l) 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 7,300 community financial institutions 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 currently 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 $15.0 million; or (ii) an activity based stock requirement (2.7 percent of the member's outstanding advances). At December 31, 2019, the Bank was in compliance with the FHLBSF's stock ownership requirement, and our investment in FHLBSF capital stock was $16.4 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2019 were $1.11 billion and $878.4 million, respectively.

(m) Impact of Monetary Policies

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

(n) 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.

(o) Federal Securities Law

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information and proxy solicitation requirements, insider trading restrictions and other requirements under the Exchange Act.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Report and other documents we file 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

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

- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- Low cost or noninterest-bearing deposits may decrease;
- The value of our securities portfolio may decrease; and
- Collateral for loans and leases made by us, especially real estate, may decline in value.

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

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

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations. We are subject to extensive regulation, supervision and examination by our banking regulators. Such regulation and supervision govern the activities in which a financial institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of Hanmi Bank rather than for the protection of our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the ability to impose restrictions on our operations, classify our assets, and determine the level of our allowance for loan losses. These regulations, along with the currently existing tax, accounting, securities, deposit insurance and monetary laws, rules, standards, policies, and interpretations, control the ways financial institutions conduct business, implement strategic initiatives, and prepare financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and may involve judgment and discretion in their interpretation by us and our independent accounting firms. These changes could materially impact, potentially retroactively, how we report our financial condition and results of operations. Further, compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

Our concentrations of loans and leases in certain industries could have adverse effects on credit quality. As of December 31, 2019, the Bank's loan and lease portfolio included loans to: (i) lessors of non-residential buildings of $1.33 billion, or 28.9 percent of total loans and leases; and (ii) borrowers in the hospitality industry of $942.6 million, or 20.4 percent of total gross loans and leases. Because of these concentrations of loans in specific industries, a deterioration within these industries could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans and leases, which could have material and adverse consequences for the Bank.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk. Most of our commercial business and commercial real estate loans are made to small or middle market businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle and therefore does not provide us with a significant payment history from which to judge future collectability. As a result, it may be difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our future performance. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans and leases with us, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

Our loan and lease portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets, especially a downturn in the Southern California real estate market. A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate, predominantly in California. 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 natural disasters and pandemic virus or disease. If real estate values decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.

We are exposed to risk of environmental liabilities with respect to properties to which we take title. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our allowance for loan and lease losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. The allowance is also increased for new loan and lease growth. We make various assumptions and judgments about the collectability of loans in our portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the adequacy of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, and adjustments may be necessary to address different economic conditions or adverse developments in the loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase our provision for loan losses. In addition, the DBO and the FDIC review our allowance for loan losses and as a result of such reviews, they may require us to adjust our allowance for loan losses or recognize loan charge-offs. Material additions to the allowance would materially decrease our net income.

We are required to adopt a new accounting standard, which requires measurement of certain financial assets (including loans and certain investments) using the current expected credit losses ("CECL") beginning in calendar year 2020. Current U.S. generally accepted accounting principles ("GAAP") requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The Financial Accounting Standards Board's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. We are in the process of evaluating the impact of the adoption of this guidance on our financial statements; however, it is anticipated that the allowance will increase upon the adoption of CECL and that the increased allowance level will decrease shareholders' equity and the Company's and Bank's regulatory capital ratios.

Our earnings are affected by changing interest rates. Our profitability is dependent to a large extent on our net interest income. Like most financial institutions, we are affected by changes in general interest rate levels and by other economic factors beyond our control. Although we believe we have implemented strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial and prolonged change in market interest rates could adversely affect our operating results.

Net interest income may decline in a particular period if:

- in a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or
- in a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the short-term and long-term interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically. Increasing interest rates may also reduce the fair value of our fixed rate available-for-sale investment securities negatively impacting shareholders' equity.

Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. While we pursue an asset/liability strategy designed to mitigate our risk from changes in interest rates, changes in interest rates can still have a material adverse effect on our financial condition and results of operations. Changes in interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. Also, our interest rate risk modeling techniques and assumptions cannot fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

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

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.

Additional requirements imposed by Dodd-Frank and other regulations, including additional requirements imposed by the CFPB, 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 practices, interest rates for customers, and 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.

Dodd-Frank created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers.

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. 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 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 to obtain regulatory approvals to proceed with certain transactions, including conducting acquisitions or establishing new branches. 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.

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

The impact of the Basel III capital standards imposed enhanced capital adequacy standards on us. 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. The federal banking agencies have adopted a rule, effective January 1, 2020, that authorizes institutions with assets of less than $10 billion and that meet other specified criteria, to elect to comply with a “community bank leverage ratio” (the ratio of a bank’s Tier 1 equity capital to average total consolidated assets) of 9.0 percent in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. A “qualifying community bank” with capital exceeding 9.0 percent will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be “well capitalized.”

Competition may adversely affect our performance. The banking and financial services businesses in our market areas are highly competitive. We face competition in attracting deposits, making loans and leases, and attracting and retaining employees, particularly in the Korean-American community. Price competition for loans and deposits sometimes requires us to charge lower interest rates on our loans and pay higher interest rates on our deposits, and may reduce our net interest income. Many of our competitors have substantially greater resources and lending limits than we have and may offer services that we do not provide. If we are unable to effectively compete in our market area, our profitability would be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, new competitors in the market, and the pace of consolidation among financial services providers. Our results in the future may be materially and adversely impacted depending upon the nature and level of competition.

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

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

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

The occurrence of breaches or failures of our information security controls, cybersecurity-related incidents or data breaches could also have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to information security breaches and cybersecurity-related incidents that may be committed against us, our clients or our vendors, which may result in financial losses or increased costs to us, our clients or our vendors, disclosure or misuse of our information, our client or vendor information, misappropriation of assets, privacy breaches against our clients or our vendors, litigation, or damage to our reputation. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us, our clients or our vendors, denial or degradation of service attacks, and malware or other cyber attacks. We also may become subject to governmental enforcement actions or litigation in the even we do not comply with data privacy requirements or experience a data breach.

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

To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to enhance our internet banking and mobile banking channel strategies to serve our customers when and how they want to be served, and our expanded geographic footprint. There continues to be a rise in security breaches and cyber attacks within the financial services industry, especially in the commercial banking sector. For example, financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Consistent with industry trends, we are exposed to an increase in attempted security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients or vendors 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 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, customers or third parties, or cyber attacks or security breaches of the networks, systems or devices that our customers or third parties use to access our products and services could result in customer attrition, financial losses, the inability of our customers or vendors 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.

The failure to maintain current technologies and the costs to update technology could negatively impact our business and financial results. Our future success depends, in part, on our ability to effectively embrace technology to better serve customers and reduce costs. We may be required to expand additional resources to employ this technology. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition and results of operations.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability. We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

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

Uncertainty surrounding the future of LIBOR (London Interbank Offer Rate) may affect the fair value and return on our financial instruments that use LIBOR as a reference rate. We hold assets, liabilities, and derivatives that are indexed to the various tenors of LIBOR including but not limited to the one-month LIBOR, three-month LIBOR, one-year LIBOR, and the ten-year constant maturing swap rate. The LIBOR yield curve is also utilized in the fair value calculation of many of these instruments. The reform of major interest benchmarks led to the announcement of the United Kingdom's Financial Conduct Authority, the regulator of the LIBOR index, that LIBOR would not be supported in its current form after the end of 2021. We believe the U.S. financial sector will maintain an orderly and smooth transition to new interest rate benchmarks, which we will evaluate and adopt if appropriate. While in the U.S., the Alternative Rates Reference Committee of the FRB and Federal Reserve Bank of New York have identified the SOFR as an alternative U.S. dollar reference interest rate, it is too early to predict the financial impact this rate index replacement may have, if at all.

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

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

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

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

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

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

Changes to tax regulations could negatively impact our earnings. We are subject to income taxes in the U.S. In particular, although the passage of the Tax Cut and Jobs Act of 2017 reduced the U.S. tax rate to 21.0 percent effective January 1, 2018, our future earnings could be negatively impacted by changes in tax legislation including changing tax rates and tax base such as limiting, phasing-out or eliminating deductions or tax credits, taxing certain excess income from intellectual property and changing other tax laws in the U.S.

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

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

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. In particular, the economic disruption caused by the spread of the coronavirus/COVID-19 may adversely and materially effect our financial performance in future periods. 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 and global market disruptions A significant portion of our operations is concentrated in Southern California. California is in an earthquake-prone region. A major earthquake may result in material loss to us. A significant percentage of our loans and leases are and will be secured by real estate. Many of our borrowers may suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. Unlike a bank with a customer base that is more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.

Additionally, global markets may be adversely affected by natural disasters, the emergence of widespread health emergencies or pandemics, cyber attacks or campaigns, military conflict, terrorism or other geopolitical events. Global market disruptions may affect our business liquidity. Also, any sudden or prolonged market downturn in the U.S. or abroad, as a result of the above factors or otherwise could result in a decline in revenue and adversely affect our results of operations and financial condition, including capital and liquidity levels.

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. As of January 1, 2020, the Bank had the ability to pay $23.1 million of dividends without the prior approval of the Commissioner of Business Oversight.

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

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;

- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory or accounting 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 maintain 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, 2019, 156,438 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, 2019, 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 without stockholder approval. In addition, the BHCA, and the Change in Bank Control Act of 1978, as amended, together with applicable federal regulations, require that, depending on the particular circumstances, either Federal Reserve approval must be obtained or notice must be furnished to Federal Reserve and not disapproved prior to any person or entity acquiring "control" of a state nonmember bank, such as the Bank. Additional prior approvals from other federal or state bank regulators may also be necessary depending upon the particular circumstances. These provisions may prevent a merger or acquisition that would be attractive to stockholders and could limit the price investors would be willing to pay in the future for our common stock.

Risks Relating to Acquisitions

We may experience adverse effects from acquisitions. We have acquired other banking companies in the past 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;
- 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;
- the risk that the acquired business will not perform according to management's expectations because of our inability to realize projected revenue increases, cost savings, improved geographic presence or other projected benefits;
- the possible loss of key employees of the target institution;
- difficulty in maintaining good relations with the loan and deposit customers of the acquired company;
- inability to maintain uniform standards, controls, procedures and policies, especially considering geographic diversification;
- potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and
- amortization of expenses related to acquired intangible assets that have finite lives.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Hanmi Financial's principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. As of December 31, 2019, we had 44 properties consisting of 35 branch offices and 9 loan production offices. We own 16 locations and the remaining properties are leased.

As of December 31, 2019, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, was $26.1 million. Our lease expense was $7.9 million for the year ended December 31, 2019. 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.

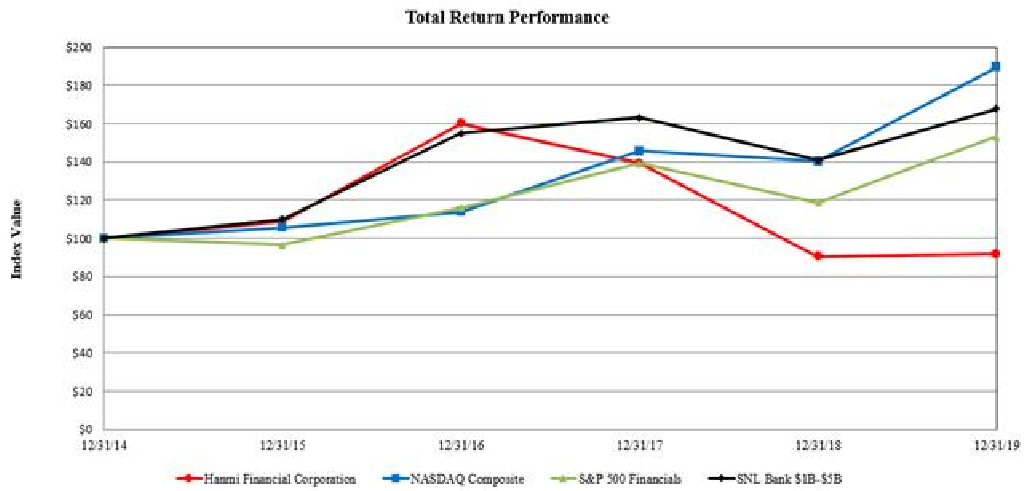
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Hanmi Financial's common stock is traded on the Nasdaq Global Select Market ("Nasdaq") under the symbol "HAFC." As of February 26, 2020, there were approximately 794 record holders of our common stock.

Performance Graph

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



	December 31,					
	2014	2015	2016	2017	2018	2019
Hanmi Financial Corporation	$ 100.00	$ 108.76	$ 160.02	$ 139.16	$ 90.33	$ 91.70
NASDAQ Composite	$ 100.00	$ 105.73	$ 113.66	$ 145.76	$ 140.10	$ 189.45
S&P 500 Financials	$ 100.00	$ 96.52	$ 115.96	$ 139.19	$ 118.77	$ 153.42
SNL Bank $1B-$5B	$ 100.00	$ 109.91	$ 155.04	$ 162.98	$ 140.71	$ 167.70

Source: S&P Global, New York, NY

Recent Unregistered Sales of Equity Securities

There were no unregistered sales of Hanmi Financial's equity securities during the year ended December 31, 2019.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During 2019, the Company acquired 26,846 shares from employees in connection with the satisfaction of income tax withholding obligations incurred through vesting of Company stock awards. In addition, the following table presents stock purchases made in respect of the stock repurchase program announced on January 24, 2019 that authorized the buy-back of up to 5.0 percent, or 1,500,000 of our shares outstanding. The program is ongoing as of December 31, 2019. The table below provides information on purchases made during the three months ended December 31, 2019:

Purchase Date:	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Shares That May Yet Be Purchased Under the Program
October 1, 2019 - October 31, 2019	$ —	—	—
November 1, 2019 - November 30, 2019	$ 19.63	310,000	1,190,000
December 1, 2019 - December 31, 2019	$ 19.61	65,000	1,125,000
Total	**$ 19.63**	**375,000**	**1,125,000**

Item 6. Selected Financial Data

The following table presents selected historical financial information. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical financial data as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019 was derived from our audited financial statements that appear in this Form 10-K. The selected historical financial data as of December 31, 2017, 2016 and 2015 and for the two-year period ended December 31, 2016 was derived from our audited financial statements that do not appear in this Form 10-K. 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,				
	2019	2018	2017	2016	2015
	(in thousands, except share and per share data)				
Summary statements of operations:					
Interest and dividend income	$ 246,772	$ 234,397	$ 209,321	$ 178,471	$ 164,226
Interest expense	70,900	53,384	32,519	18,274	16,109
Net interest income	175,872	181,013	176,802	160,197	148,117
Loan and lease loss provision (income)	30,170	3,990	831	(4,339)	(11,614)
Noninterest income	27,552	24,520	33,415	33,075	47,602
Noninterest expense	125,906	117,573	114,102	108,223	115,328
Income before provision for income taxes	47,348	83,970	95,284	89,388	92,005
Provision for income taxes	14,560	26,102	40,624	32,899	38,182
Net income	$ 32,788	$ 57,868	$ 54,660	$ 56,489	$ 53,823
Summary balance sheets:					
Cash and due from banks	$ 121,678	$ 155,376	$ 153,826	$ 147,235	$ 164,364
Securities	634,477	574,908	578,804	516,964	698,296
Loans and leases receivable, net *(1)*	4,548,739	4,568,566	4,273,415	3,812,340	3,140,381
Assets	5,538,184	5,502,219	5,210,485	4,701,346	4,234,521
Deposits	4,698,962	4,747,235	4,348,654	3,809,737	3,509,976
Liabilities	4,974,917	4,949,651	4,648,008	4,170,321	3,740,603
Stockholders' equity	563,267	552,568	562,477	531,025	493,918
Tangible equity *(4)*	551,394	540,386	549,933	518,136	492,217
Average loans and leases receivable *(2)*	4,507,975	4,456,202	4,039,346	3,423,292	2,901,698
Average securities	618,610	587,916	583,971	614,749	788,156
Average assets	5,475,935	5,357,965	4,952,466	4,372,698	4,076,669
Average deposits	4,690,959	4,461,045	4,160,072	3,607,585	3,502,886
Average stockholders' equity	565,314	574,764	548,135	518,867	476,401
Per share data:					
Earnings per share – basic	$ 1.06	$ 1.80	$ 1.70	$ 1.76	$ 1.69
Earnings per share – diluted	$ 1.06	$ 1.79	$ 1.69	$ 1.75	$ 1.68
Book value per share *(3)*	$ 18.29	$ 17.87	$ 17.34	$ 16.42	$ 15.45
Tangible book value per share *(4)*	$ 17.90	$ 17.47	$ 16.96	$ 16.03	$ 15.39
Cash dividends per share	$ 0.96	$ 0.96	$ 0.80	$ 0.66	$ 0.47
Common shares outstanding	30,799,624	30,928,437	32,431,627	32,330,747	31,974,359
Performance ratios:					
Return on average assets *(5) (12)*	0.60 %	1.08 %	1.10 %	1.29 %	1.32 %
Return on average stockholders' equity *(6) (12)*	5.80 %	10.07 %	9.97 %	10.89 %	11.30 %
Net interest margin *(7)*	3.37 %	3.57 %	3.82 %	3.95 %	3.90 %
Efficiency ratio *(8)*	61.89 %	57.20 %	54.28 %	56.00 %	58.93 %
Dividend payout ratio *(9)*	90.57 %	53.33 %	47.06 %	37.57 %	27.81 %
Average stockholders' equity to average assets	10.32 %	10.73 %	11.07 %	11.87 %	11.69 %
Asset quality ratios:					
Non-performing loans and leases to loans and leases, net *(10)*	1.40 %	0.34 %	0.37 %	0.30 %	0.60 %
Non-performing assets to assets *(11)*	1.15 %	0.29 %	0.34 %	0.40 %	0.65 %
Net loan and lease (charge-offs) recoveries to average loans and leases	(0.02)%	(0.07)%	(0.05)%	(0.18)%	0.06 %
Allowance for loan and lease losses to loans and leases	1.33 %	0.70 %	0.73 %	0.85 %	1.37 %
Allowance for loan and lease losses to nonperforming loans and leases	96.31 %	205.90 %	196.41 %	284.32 %	224.58 %
Capital ratios:					
Total risk-based capital:					
Hanmi Financial	15.11 %	14.54 %	15.50 %	13.86 %	14.91 %
Hanmi Bank	14.64 %	14.19 %	15.20 %	13.64 %	14.86 %
Tier 1 risk-based capital:					
Hanmi Financial	11.78 %	11.74 %	12.55 %	13.02 %	13.65 %
Hanmi Bank	13.39 %	13.47 %	14.47 %	12.80 %	13.60 %
Common equity tier 1 capital:					
Hanmi Financial	11.36 %	11.32 %	12.19 %	12.73 %	13.65 %
Hanmi Bank	13.39 %	13.47 %	14.47 %	12.80 %	13.60 %
Tier 1 leverage:					
Hanmi Financial	10.15 %	10.18 %	10.79 %	11.53 %	11.31 %
Hanmi Bank	11.56 %	11.67 %	12.44 %	11.33 %	11.27 %

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

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

(3) *Stockholders' equity divided by shares of common stock outstanding.*
(4) *Tangible equity divided by common shares outstanding. Tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.*
(5) *Net income divided by average assets.*
(6) *Net income divided by average stockholders' equity.*
(7) *Net interest income divided by average interest-earning assets. Computed on a tax-equivalent basis using the statutory federal tax rate.*
(8) *Noninterest expense divided by the sum of net interest income and noninterest income.*
(9) *Dividends declared per share divided by basic earnings per share.*
(10) *Nonperforming loans and leases, excluding loans held for sale, consist of nonaccrual loans and leases, and loans and leases past due 90 days or more still accruing interest.*
(11) *Nonperforming assets consist of nonperforming loans and leases and other real estate owned.*
(12) *Amounts calculated on net income.*

Non-GAAP Financial Measures

The Company calculates certain supplemental financial information determined by methods other than in accordance with U.S. GAAP, including tangible assets, tangible stockholders' equity and tangible book value per share. These non-GAAP measures are used by management in analyzing Hanmi Financial's capital strength without the impact of acquisitions.

Tangible equity is calculated by subtracting goodwill and other intangible assets from stockholders' equity. Banking and financial institution regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution.

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

Tangible Stockholders' Equity and Tangible Book Value Per Share

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

	Year Ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
	(in thousands, except per share data)				
Total assets	$ 5,538,184	$ 5,502,219	$ 5,210,485	$ 4,701,346	$ 4,234,521
Less goodwill and other intangible assets	(11,873)	(12,182)	(12,544)	(12,889)	(1,701)
Tangible assets	**$ 5,526,311**	**$ 5,490,037**	**$ 5,197,941**	**$ 4,688,457**	**$ 4,232,820**
Total stockholders' equity *(1)*	$ 563,267	$ 552,568	$ 562,477	$ 531,025	$ 493,918
Less goodwill and other intangible assets	(11,873)	(12,182)	(12,544)	(12,889)	(1,701)
Tangible stockholders' equity *(1)*	**$ 551,394**	**$ 540,386**	**$ 549,933**	**$ 518,136**	**$ 492,217**
Stockholders' equity to assets	10.17%	10.04%	10.80%	11.30%	11.66%
Tangible common equity to tangible assets *(1)*	9.98%	9.84%	10.58%	11.05%	11.63%
Common shares outstanding	30,799,624	30,928,437	32,431,627	32,330,747	31,974,359
Book value per share	$ 18.29	$ 17.87	$ 17.34	$ 16.42	$ 15.45
Effect of goodwill and other intangible assets	(0.39)	(0.40)	(0.38)	(0.39)	(0.06)
Tangible common equity per common share	**$ 17.90**	**$ 17.47**	**$ 16.96**	**$ 16.03**	**$ 15.39**

(1) There were no preferred shares outstanding at the periods indicated.

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, 2019, 2018 and 2017. 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 policy is critical.

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

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

Executive Overview

For the years ended December 31, 2019, 2018 and 2017, net income was $32.8 million, $57.9 million and $54.7 million, respectively. The decrease of $25.1 million, or 43.3 percent, in net income for the year ended December 31, 2019 as compared with the year ended December 31, 2018, was primarily due to a $26.2 million increase in the provision for loan and lease losses relating to a troubled loan relationship and impaired leases receivable.

The increase of $3.2 million, or 5.9 percent, in net income for the year ended December 31, 2018 as compared with the year ended December 31, 2017, was primarily due to an increase in interest and fees on loans and leases offset by a decrease in noninterest expenses. A decrease in income tax expense of $14.5 million, or 35.7 percent, mainly resulting from the Tax Cuts and Jobs Act enacted in December 2017 further increased net income.

For the years ended December 31, 2019, 2018 and 2017, our earnings per diluted share were $1.06, $1.79 and $1.69, respectively.

Significant financial highlights include:

- Loans and leases receivable decreased by $19.8 million, or 0.4 percent, to $4.55 billion as of December 31, 2019, compared with $4.57 billion as of December 31, 2018.
- Deposits were $4.70 billion at December 31, 2019 compared with $4.75 billion at December 31, 2018 as time deposits decreased $245.6 million, or 13.6 percent and interest-bearing demand deposits decreased $3.3 million, or 3.7 percent, offset by an increase in interest-bearing money market and savings accounts of $93.5 million, or 5.9 percent and noninterest-bearing demand deposits of $107.1 million, or 8.3 percent.
- Cash dividends of $0.96 per share of common stock were declared for the years ended December 31, 2019, and 2018 compared with $0.80 per share of common stock for the year ended December 31, 2017.

Results of Operations

Net Interest Income

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

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

	For the Year Ended								
	December 31, 2019			December 31, 2018			December 31, 2017		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
Assets				(dollars in thousands)					
Interest-earning assets:									
Loans and leases receivable *(1)*	$ 4,507,975	$ 229,402	5.09 %	$ 4,456,202	$ 219,590	4.93 %	$ 4,039,346	$ 195,790	4.85 %
Securities *(2)*	618,610	14,806	2.39 %	587,916	13,528	2.30 %	583,971	13,771	2.36 %
FHLB stock	16,385	1,147	7.00 %	16,385	1,413	8.62 %	16,385	1,232	7.52 %
Interest-bearing deposits in other banks	73,906	1,562	2.11 %	31,478	577	1.83 %	40,333	449	1.11 %
Total interest-earning assets	5,216,876	246,917	4.73 %	5,091,981	235,108	4.62 %	4,680,035	211,242	4.51 %
Noninterest-earning assets:									
Cash and due from banks	103,475			122,925			116,716		
Allowance for loan and lease losses	(41,933)			(31,880)			(33,277)		
Other assets	197,517			174,939			188,992		
Total assets	**$ 5,475,935**			**$ 5,357,965**			**$ 4,952,466**		
Liabilities and stockholders' equity									
Interest-bearing liabilities:									
Deposits:									
Demand: interest-bearing	$ 83,613	$ 116	0.14 %	$ 91,495	$ 106	0.12 %	$ 93,184	$ 74	0.08 %
Money market and savings	1,566,403	23,556	1.50 %	1,444,674	16,182	1.12 %	1,495,378	12,515	0.84 %
Time deposits	1,752,642	39,433	2.25 %	1,609,403	26,792	1.66 %	1,322,352	13,500	1.02 %
Total interest-bearing deposits	3,402,658	63,105	1.85 %	3,145,572	43,080	1.37 %	2,910,914	26,089	0.90 %
Borrowings	40,374	763	1.89 %	174,452	3,379	1.94 %	119,041	1,077	0.90 %
Subordinated debentures	118,079	7,032	5.96 %	117,524	6,925	5.88 %	95,811	5,353	5.57 %
Total interest-bearing liabilities	3,561,111	70,900	1.99 %	3,437,548	53,384	1.55 %	3,125,766	32,519	1.04 %
Noninterest-bearing liabilities and equity:									
Demand deposits: noninterest-bearing	1,288,301			1,315,473			1,249,158		
Other liabilities	61,209			30,180			29,407		
Stockholders' equity	565,314			574,764			548,135		
Total liabilities and stockholders' equity	**$ 5,475,935**			**$ 5,357,965**			**$ 4,952,466**		
Net interest income (taxable equivalent basis)		**$ 176,017**			**$ 181,724**			**$ 178,723**	
Cost of deposits *(3)*			**1.35 %**			**0.97 %**			**0.63 %**
Net interest spread (taxable equivalent basis) *(4)*			**2.74 %**			**3.07 %**			**3.47 %**
Net interest margin (taxable equivalent basis) *(5)*			**3.37 %**			**3.57 %**			**3.82 %**

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

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

(3) *Represents interest expense on deposits as a percentage of all interest-bearing and noninterest-bearing deposits.*
(4) *Represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
(5) *Represents net interest income as a percentage of average interest-earning assets.*

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

	Year Ended December 31,					
	2019 vs 2018			**2018 vs 2017**		
	Increases (Decreases) Due to Change In			**Increases (Decreases) Due to Change In**		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
	(in thousands)					
Interest and dividend income:						
Loans and leases receivable *(1)*	$ 2,573	$ 7,239	$ 9,812	$ 20,600	$ 3,200	$ 23,800
Securities *(2)*	722	556	1,278	95	(338)	(243)
FHLB stock	—	(266)	(266)	—	181	181
Interest-bearing deposits in other banks	885	100	985	(115)	243	128
Total interest and dividend income (taxable equivalent) *(2)*	**$ 4,180**	**$ 7,629**	**$ 11,809**	**$ 20,580**	**$ 3,286**	**$ 23,866**
Interest expense:						
Demand: interest-bearing	$ —	$ 10	$ 10	$ —	$ 32	$ 32
Money market and savings	1,457	5,917	7,374	143	3,524	3,667
Time	2,554	10,087	12,641	3,398	9,894	13,292
Borrowings	(2,536)	(80)	(2,616)	664	1,638	2,302
Subordinated debentures	27	80	107	1,265	307	1,572
Total interest expense	**$ 1,502**	**$ 16,014**	**$ 17,516**	**$ 5,470**	**$ 15,395**	**$ 20,865**
Change in net interest income (taxable equivalent) *(2)*	**$ 2,678**	**$ (8,385)**	**$ (5,707)**	**$ 15,110**	**$ (12,109)**	**$ 3,001**

(1) *Loans and leases include loans held for sale and exclude the allowance for loan and lease losses. Nonaccrual loans and leases are included in the average loan and lease balance.*
(2) *Amounts calculated on a fully equivalent basis using the current statutory federal tax rate.*

2019 Compared to 2018

Interest income, on a taxable equivalent basis, increased $11.8 million, or 5.0 percent, to $246.9 million for the year ended December 31, 2019 from $235.1 million for the year ended December 31, 2018. Interest expense increased $17.5 million or 32.8 percent, to $70.9 million in 2019 from $53.4 million in 2018. Net interest income, on a taxable equivalent basis, was $176.0 million and $181.7 million in 2019 and 2018, respectively. The decrease in net interest income was primarily due to the increase in interest expense on interest-bearing liabilities outpacing the increase in interest income on interest-earning assets. Average loans and leases were 86.4 percent of average interest earning assets for 2019, down from 87.5 percent for 2018. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2019 were 2.74 percent and 3.37 percent, respectively, compared with 3.07 percent and 3.57 percent, respectively, for the same period in 2018.

Average loans and leases increased $51.8 million, or 1.2 percent, to $4.51 billion in 2019 from $4.46 billion in 2018. Average securities increased $30.7 million, or 5.2 percent, to $618.6 million in 2019 from $587.9 million in 2018. Average interest earning assets increased $124.9 million, or 2.5 percent, to $5.22 billion for the year ended December 31, 2019 from $5.09 billion for 2018. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $123.6 million, or 3.6 percent, to $3.56 billion in 2019 compared to $3.44 billion in 2018. The increase in average interest-bearing liabilities resulted primarily from an increase in time deposits, money market and savings, offset mainly by a decrease in borrowings.

The average yield on loans and leases increased to 5.09 percent for the year ended December 31, 2019 from 4.93 percent in 2018, primarily due to an increase in market interest rates commencing in the second-half of 2018 and change in composition of the loan portfolio with a greater concentration of commercial and industrial loans and leases receivable, and a decrease in residential loans. The average yield on securities, on a taxable equivalent basis, increased to 2.39 percent in 2019 from 2.30 percent in 2018, attributable primarily to the shift away from lower taxable equivalent yields of the tax-exempt municipal securities resulting from the Tax Cuts and Jobs Act. The average yield on interest-earning assets, on a taxable equivalent basis, increased 11 basis points to 4.73 percent in 2019 from 4.62 percent in 2018, due mainly to the increase in the yields on the loan and lease portfolio. The average cost of interest-bearing liabilities increased by 44 basis points to 1.99 percent in 2019 from 1.55 percent in 2018. The increase was due to increases in the market interest rates and competition.

2018 Compared to 2017

Interest income, on a taxable equivalent basis, increased $23.9 million, or 11.3 percent, to $235.1 million for the year ended December 31, 2018 from $211.2 million for the year ended December 31, 2017. Interest expense increased $20.9 million or 64.2 percent, to $53.4 million in 2018 from $32.5 million in 2017. Net interest income, on a taxable equivalent basis, was $181.7 million and $178.7 million in 2018 and 2017, respectively. The increase in net interest income was primarily attributable to the growth in average loans and leases and the higher percentage of loans and leases in the mix of interest-earning assets. Average loans and leases were 87.5 percent of average interest earning assets for 2018, up from 86.3 percent for 2017. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2018 were 3.07 percent and 3.57 percent, respectively, compared with 3.47 percent and 3.82 percent, respectively, for the same period in 2017.

Average loans and leases increased $416.9 million, or 10.3 percent, to $4.46 billion in 2018 from $4.04 billion in 2017. Average securities increased $3.9 million, or 0.7 percent, to $587.9 million in 2018 from $584.0 million in 2017. Average interest earning assets increased $411.9 million, or 8.8 percent, to $5.09 billion for the year ended December 31, 2018 from $4.68 billion for 2017. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $311.8 million, or 10.0 percent, to $3.44 billion in 2018 compared to $3.13 billion in 2017. The increase in average interest-bearing liabilities resulted primarily from an increase in time deposits, borrowings and subordinated debentures, offset mainly by a decrease in money market and savings.

The average yield on loans and leases increased to 4.93 percent for the year ended December 31, 2018 from 4.85 percent in 2017, primarily due to an increase in market interest rates and change in composition of the loan portfolio. The average yield on securities, on a taxable equivalent basis, decreased to 2.30 percent in 2018 from 2.36 percent in 2017, attributable primarily to the lower taxable-equivalent yield of the tax-exempt municipal securities resulting from the Tax Cuts and Jobs Act. The average yield on interest-earning assets, on a taxable equivalent basis, increased 11 basis points to 4.62 percent in 2018 from 4.51 percent in 2017, due mainly to the increase in the yields on the loan and lease portfolio. The average cost of interest-bearing liabilities increased by 51 basis points to 1.55 percent in 2018 from 1.04 percent in 2017. The increase was due to increases in the market interest rates and competition.

Provision for Loan and Lease Losses

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

2019 Compared to 2018

A loan and lease loss provision of $30.2 million was recorded for the year ended December 31, 2019, compared with a loan and lease loss provision of $4.0 million for the year ended December 31, 2018. The increased provision primarily related to an increase in specific allowance allocations of $21.8 million in 2019 related to a $39.7 million troubled loan relationship, which was placed on non-accrual status in 2019 and was deemed impaired. The charge to other noninterest expense for losses on off-balance sheet items was $958,000 in 2019 compared to $143,000 for the same period in 2018.

Net loan and lease charge-offs were $736,000, or 0.02 percent of average loans and leases, for the year ended December 31, 2019 compared with net loan and lease charge-offs of $3.1 million, or 0.07 percent of average loans and leases, for the year ended December 31, 2018.

Classified loans and leases increased by $64.5 million, or 218.3 percent, to $94.0 million for the year ended December 31, 2019 from $29.5 million for the year ended December 31, 2018. The increase in classified loans reflected the addition of the previously-mentioned $39.7 million troubled loan relationship and the addition of a $10.7 million branded hotel construction loan due to project delays.

2018 Compared to 2017

A loan and lease loss provision of $4.0 million was recorded for the year ended December 31, 2018, compared with a loan and lease loss provision of $831,000 for the year ended December 31, 2017. The charge to other noninterest expense for losses on off-balance sheet items was $143,000 in 2018 compared to a credit of $112,000 for the same period in 2017.

Net loan and lease charge-offs were $3.1 million, or 0.07 percent of average loans and leases, for the year ended December 31, 2018 compared with net loan and lease charge-offs of $2.2 million, or 0.05 percent of average loans and leases, for the year ended December 31, 2017.

Classified loans and leases decreased by $1.7 million, or 5.3 percent, to $29.5 million for the year ended December 31, 2018 from $31.2 million for the year ended December 31, 2017.

See "Nonperforming Assets" and "Allowance for Loan and Lease Losses and Allowance for Off-Balance Sheet Items" for further details.

Noninterest Income

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

	Year Ended December 31, 2019	2018	2017
		(in thousands)	
Service charges on deposit accounts	$ 9,951	$ 10,000	$ 10,396
Trade finance and other service charges and fees	4,786	4,616	4,495
Servicing income	1,798	2,385	2,631
Bank-owned life insurance income	1,121	1,107	1,113
All other operating income	2,114	1,799	4,298
Service charges, fees and other	19,770	19,907	22,933
Gain on sale of SBA loans	5,252	4,954	8,734
Net gain (loss) on sales of securities	1,295	(341)	1,748
Gain on sale of bank premises	1,235	—	—
Total noninterest income	**$ 27,552**	**$ 24,520**	**$ 33,415**

2019 Compared to 2018

For the year ended December 31, 2019 noninterest income was $27.6 million, an increase of $3.0 million, or 12.4 percent, compared with $24.5 million in 2018. The increase was primarily attributable to increases in gain on sale of securities and gain on sale of bank premises. Sales of SBA loans resulted in a net gain of $5.3 million for the year ended December 31, 2019 compared with $5.0 million in 2018. Sale of securities resulted in a net gain of $1.3 million for the year ended December 31, 2019 compared to a net loss of $341,000 in 2018.

2018 Compared to 2017

For the year ended December 31, 2018 noninterest income was $24.5 million, a decrease of $8.9 million, or 26.6 percent, compared with $33.4 million in 2017. The decrease was primarily attributable to decreases in gain on sale of SBA loans, disposition gains on PCI loans and gain on sale of securities. Sales of SBA loans resulted in a net gain of $5.0 million for the year ended December 31, 2018 compared with $8.7 million in 2017. Securities resulted in a net loss of $341,000 for the year ended December 31, 2018 compared to gains of $1.7 million in 2017.

Noninterest Expense

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

	Year Ended December 31,		
	2019	2018	2017
		(in thousands)	
Salaries and employee benefits	$ 67,900	$ 69,435	$ 67,944
Occupancy and equipment	17,064	15,944	15,740
Data processing	8,755	6,870	6,960
Professional fees	9,060	6,178	5,464
Supplies and communications	2,936	3,003	2,912
Advertising and promotion	3,797	4,041	3,952
Merger and integration costs	—	846	(40)
All other operating expenses	13,263	11,606	10,756
Subtotal	122,774	117,923	113,688
Provision (income) for off-balance sheet items	958	143	112
Other real estate owned expense (income)	439	(493)	302
Impairment loss on bank premises	1,734	—	—
Total noninterest expense	**$ 125,906**	**$ 117,573**	**$ 114,102**

2019 Compared to 2018

For the year ended December 31, 2019, noninterest expense was $125.9 million, an increase of $8.3 million, or 7.1 percent, compared with $117.6 million in 2018. The increase was due primarily to increases in occupancy and equipment, data processing, professional fees, other operating expenses and an impairment loss on bank premises, offset by decreases in salaries and employee benefits and merger and integration costs.

2018 Compared to 2017

For the year ended December 31, 2018, noninterest expense was $117.6 million, an increase of $3.5 million, or 3.0 percent, compared with $114.1 million in 2017. The increase was due primarily to increases in salaries and employee benefits, merger and integration costs and other operating expenses, offset by a decrease in OREO expense.

Income Tax Expense

For the years ended December 31, 2019, 2018 and 2017, income tax expense was $14.6 million, $26.1 million and $40.6 million, respectively. The effective tax rate for the years ended December 31, 2019, 2018 and 2017 was 30.8 percent, 31.1 percent and 42.6 percent, respectively. The lower effective tax rate in 2019 and 2018 compared to 2017 was due mainly to the decreased federal statutory income tax rate to 21 percent from 35 percent. The higher effective tax rate in 2017 also included a $3.9 million charge arising from a one-time revaluation adjustment to reduce the Company's deferred tax asset due to a change in the Federal corporate tax in connection with the passage of the Tax Cuts and Jobs Act on December 22, 2017.

Income taxes are discussed in more detail in "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" and "Note 11 — 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, 2019 and 2018. 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, 2019, our securities portfolio was primarily composed of mortgage-backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored agencies. Most of the securities carried fixed interest rates. Other than holdings of U.S. governmentand agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2019, 2018 or 2017.

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

	December 31, 2019			December 31, 2018			December 31, 2017		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
					(in thousands)				
Securities available for sale:									
U.S. Treasury securities	$ 34,946	$ 35,205	$ 258	$ 39,768	$ 39,830	$ 62	$ 152	$ 152	$ —
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities	406,813	410,800	3,987	300,957	295,034	(5,923)	306,166	303,609	(2,557)
Collateralized mortgage obligations	164,232	164,592	360	124,550	122,292	(2,258)	119,658	117,768	(1,890)
Debt securities	23,733	23,879	146	7,499	7,402	(97)	7,499	7,414	(85)
Total U.S. government agency and sponsored agency obligations	594,778	599,272	4,494	433,006	424,728	(8,278)	433,323	428,791	(4,532)
Municipal bonds-tax exempt	—	—	—	110,670	110,350	(320)	125,601	127,475	1,874
Mutual funds	—	—	—	—	—	—	22,916	22,386	(530)
Total securities available for sale	**$ 629,725**	**$ 634,477**	**$ 4,752**	**$ 583,444**	**$ 574,908**	**$ (8,536)**	**$ 581,992**	**$ 578,804**	**$ (3,188)**

As of December 31, 2019, securities available for sale increased 10.4 percent to $634.5 million from $574.9 million as of December 31, 2018. The increase was mainly due to purchases of mortgage-backed securities and collateralized mortgage obligations. The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of December 31, 2019:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(dollars in thousands)					
Securities available for sale:										
U.S. Treasury securities	$ 24,954	2.57%	$ 9,993	2.67%	$ —	0.00%	$ —	0.00%	$ 34,946	2.60%
U.S. government agency and sponsored agency obligations:										
Mortgage-backed securities	9,956	2.30%	46,871	2.19%	136,144	2.49%	213,841	2.47%	406,813	2.44%
Collateralized mortgage obligations	—	0.00%	3,030	1.52%	23,735	2.09%	137,468	2.16%	164,232	2.14%
Debt securities	3,000	1.50%	17,730	2.08%	3,003	2.83%	—	—	23,733	2.10%
Total U.S. government agency and sponsored agency obligations	12,956	2.12%	67,631	2.13%	162,882	2.43%	351,309	2.35%	594,778	2.34%
Total securities available for sale	**$ 37,910**	**2.42%**	**$ 77,624**	**2.20%**	**$ 162,882**	**2.43%**	**$ 351,309**	**2.35%**	**$ 629,725**	**2.36%**

Loan and Lease Portfolio

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

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

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

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

	As of December 31,		
	2019	**2018**	**2017**
		(in thousands)	
Real estate loans:			
Commercial property			
Retail	$ 869,302	$ 906,260	$ 915,273
Hospitality	922,288	830,679	681,325
Other *(1)*	1,358,432	1,449,270	1,417,273
Total commercial property loans	3,150,022	3,186,209	3,013,871
Construction	76,455	71,583	55,190
Residential property	402,028	500,563	521,853
Total real estate loans	3,628,505	3,758,355	3,590,914
Commercial and industrial loans:			
Commercial term	227,652	206,691	182,685
Commercial lines of credit	228,033	194,032	181,894
International loans	28,409	29,180	34,622
Total commercial and industrial loans	484,093	429,903	399,201
Leases receivable	483,879	398,858	297,284
Consumer loans *(2)*	13,670	13,424	17,059
Loans and leases receivable	**4,610,147**	**4,600,540**	**4,304,458**
Allowance for loan and lease losses	(61,408)	(31,974)	(31,043)
Loans and leases receivable, net	**$ 4,548,739**	**$ 4,568,566**	**$ 4,273,415**

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

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

As of December 31, 2019, 2018 and 2017, loans and leases receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan and lease losses, were $4.55 billion, $4.57 billion and $4.27 billion, respectively, representing a decrease of $19.8 million or 0.4 percent in 2019, and an increase of $295.2 million, or 6.9 percent in 2018. The $19.8 million decrease in loans and leases in 2019 was attributable primarily to an increase in the allowance for loan and lease losses.

During the year ended December 31, 2019, total loan and lease disbursements consisted of $415.1 million in commercial real estate loans, $265.4 million in leases receivable, $228.5 million in commercial and industrial loans, $117.7 million in SBA loans and $4.2 million in consumer loans, offset by $1.02 billion in pay-offs and other net reductions.

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

	December 31, 2019	2018	2017
Real estate loans:			
Commercial property			
Retail	18.9 %	19.7 %	21.3 %
Hospitality	20.0 %	18.1 %	15.8 %
Other	29.5 %	31.4 %	33.0 %
Total commercial property loans	68.4 %	69.2 %	70.1 %
Construction	1.7 %	1.6 %	1.3 %
Residential property	8.7 %	10.9 %	12.1 %
Total real estate loans	78.8 %	81.7 %	83.5 %
Commercial and industrial loans:			
Commercial term	4.9 %	4.5 %	4.2 %
Commercial lines of credit	4.9 %	4.2 %	4.2 %
International loans	0.6 %	0.6 %	0.8 %
Total commercial and industrial loans	10.4 %	9.3 %	9.2 %
Leases receivable	10.5 %	8.7 %	6.9 %
Consumer loans	0.3 %	0.3 %	0.4 %
Loans and leases receivable	**100.0 %**	**100.0 %**	**100.0 %**

The table below shows the maturity distribution of outstanding loans and leases as of December 31, 2019. In addition, the table shows the distribution of such loans and leases between those with floating or variable interest rates and those with fixed or predetermined interest rates.

	Within One Year	After One Year but Within Five Years	After Five Years	Total
		(in thousands)		
Real estate loans:				
Commercial property				
Retail	$ 101,344	$ 635,573	$ 132,385	$ 869,302
Hospitality	84,627	681,904	155,758	922,288
Other	249,960	877,072	231,400	1,358,432
Total commercial property loans	435,931	2,194,549	519,543	3,150,022
Construction	76,454	2	—	76,455
Residential property	—	1,248	400,779	402,028
Total real estate loans	512,384	2,195,799	920,322	3,628,505
Commercial and industrial loans:				
Commercial term	20,841	139,975	66,836	227,652
Commercial lines of credit	145,776	82,256	—	228,033
International loans	28,409	—	—	28,409
Total commercial and industrial loans	195,026	222,232	66,836	484,093
Leases receivable	13,376	427,087	43,415	483,879
Consumer loans	5,264	210	8,196	13,670
Loans and leases receivable	**$ 726,051**	**$ 2,845,328**	**$ 1,038,769**	**$ 4,610,147**
Loans and leases with predetermined interest rates	**$ 409,725**	**$ 1,751,662**	**$ 226,814**	**$ 2,388,201**
Loans and leases with variable interest rates	**316,326**	**1,093,665**	**811,955**	**2,221,947**

As of December 31, 2019, the loan and leases portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of loans and leases receivable:

	Balance as of December 31, 2019	Percentage of Loans and Leases Outstanding
	(in thousands)	
Lessor of nonresidential buildings	$ 1,332,766	28.9 %
Hospitality	$ 942,622	20.4 %

Loan and Lease Quality Indicators

As of December 31, 2019 and 2018, pass/pass-watch, special mention and classified loan and leases, disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
		(in thousands)		
December 31, 2019				
Real estate loans:				
Commercial property				
Retail	$ 859,739	$ 2,835	$ 6,728	$ 869,302
Hospitality	915,834	939	5,515	922,288
Other	1,329,817	7,807	20,809	1,358,432
Total commercial property loans	3,105,390	11,580	33,052	3,150,022
Construction	36,956	1,613	37,886	76,455
Residential property	398,737	2,512	779	402,028
Total real estate loans	3,541,082	15,705	71,718	3,628,505
Commercial and industrial loans:				
Commercial term	210,026	2,139	15,487	227,652
Commercial lines of credit	222,348	5,485	200	228,033
International loans	25,810	2,598	—	28,409
Total commercial and industrial loans	458,184	10,222	15,687	484,093
Leases receivable	477,977	—	5,902	483,879
Consumer loans	12,247	705	718	13,670
Total loans and leases receivable	**$ 4,489,491**	**$ 26,632**	**$ 94,025**	**$ 4,610,147**
December 31, 2018				
Real estate loans:				
Commercial property				
Retail	$ 901,354	$ 16	$ 4,890	$ 906,260
Hospitality	821,542	168	8,969	830,679
Other	1,441,219	2,723	5,328	1,449,270
Total commercial property loans	3,164,115	2,907	19,187	3,186,209
Construction	71,583	—	—	71,583
Residential property	500,424	—	139	500,563
Total real estate loans	3,736,122	2,907	19,326	3,758,355
Commercial and industrial loans:				
Commercial term	197,992	4,977	3,722	206,691
Commercial lines of credit	172,338	21,107	587	194,032
International loans	29,180	—	—	29,180
Total commercial and industrial loans	399,510	26,084	4,309	429,903
Leases receivable	393,729	—	5,129	398,858
Consumer loans	12,454	191	779	13,424
Total loans and leases receivable	**$ 4,541,815**	**$ 29,182**	**$ 29,543**	**$ 4,600,540**

Classified loans and leases increased by $64.5 million, or 218.3 percent, to $94.0 million at December 31, 2019, from $29.5 million at December 31, 2018, principally due to the $39.7 million troubled loan relationship placed on nonaccrual status during the three months ended June 30, 2019. At December 31, 2019, the $76.5 million of construction loans included four land loans totaling $37.4 million ($27.2 million classified and $10.2 million pass/watch), one completed construction loan for $20.9 million (pass), and seven active construction loans totaling $18.2 million (one for $1.6 million categorized as special mention, one for $10.7 million categorized as classified and five totaling $5.9 million categorized as pass) with project completion ranging from 9 percent to 99 percent. In addition, two construction loans with outstanding commitments aggregating $1.7 million had no advances outstanding at December 31, 2019.

Nonperforming Assets

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

Except for nonperforming loans and leases set forth below, management is not aware of any loans and leases as of December 31, 2019 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan or lease repayment terms, or any known events that would result in the loan or lease being designated as nonperforming at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.

The following table provides information with respect to the components of nonperforming assets as of the dates indicated:

	As of December 31,		
	2019	2018	2017
		(in thousands)	
Nonperforming loans and leases:			
Real estate loans:			
Commercial property			
Retail	$ 277	$ 865	$ 224
Hospitality	225	3,625	5,263
Other	14,864	1,641	2,462
Total commercial property loans	15,366	6,131	7,949
Construction	27,201	—	—
Residential property	1,124	182	591
Total real estate loans	43,691	6,313	8,540
Commercial and industrial loans	13,479	3,337	1,892
Leases receivable	5,902	5,129	4,452
Consumer loans	689	746	921
Total nonperforming loans and leases	63,761	15,525	15,805
Loans and leases 90 days or more past due and still accruing	—	4	—
Total nonaccrual loans and leases *(1)*	**63,761**	**15,529**	**15,805**
Other real estate owned	63	663	1,946
Total nonperforming assets	**$ 63,824**	**$ 16,192**	**$ 17,751**
Nonperforming loans and leases as a percentage of loans and leases receivable	1.40 %	0.34 %	0.37 %
Nonperforming assets as a percentage of assets	1.15 %	0.29 %	0.34 %
Performing troubled debt restructured loans and leases	$ 830	$ 6,029	$ 7,259

(1) *Includes troubled debt restructured nonperforming loans of $55.5 million, $4.3 million and $8.1 million as of December 31, 2019, 2018 and 2017, respectively.*

Nonaccrual loans and leases were $63.8 million, $15.5 million and $15.8 million as of December 31, 2019, 2018 and 2017, respectively, representing an increase of $48.3 million, or 310.6 percent, in 2019 and a decrease of $280,000 or 1.8 percent, in 2018. The increase in nonaccrual loans in 2019 was primarily due to a $39.7 million troubled loan relationship and a $10.7 million branded hotel construction loan.

Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were $10.3 million, $10.7 million and $8.6 million as of December 31, 2019, 2018 and 2017, respectively, representing a decrease of $427,000 or 4.0 percent, in 2019 and an increase of $2.1 million, or 24.6 percent, in 2018.

The ratio of nonperforming loans and leases to loans and leases receivable increased to 1.40 percent at December 31, 2019 from 0.34 percent at December 31, 2018, and decreased from 0.37 percent at December 31, 2017. All of the $63.8 million nonperforming loans and leases as of December 31, 2019 were impaired and resulted in aggregate impairment allowances of $25.8 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 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, 2019, OREO consisted of two properties with a combined carrying value of $63,000. As of December 31, 2018, there were seven properties with a combined carrying value of $663,000 in OREO.

Impaired Loans and Leases

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

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

	As of December 31,					
	2019		2018		2017	
	Recorded Investment	Percentage	Recorded Investment	Percentage	Recorded Investment	Percentage
	(dollars in thousands)					
Real estate loans:						
Commercial property						
Retail	$ 434	0.7%	$ 2,166	8.6%	$ 1,403	5.2%
Hospitality	244	0.4%	4,282	17.0%	6,184	22.7%
Other	14,864	22.9%	7,525	30.1%	8,513	31.3%
Total commercial property loans	15,542	24.0%	13,973	55.7%	16,100	59.2%
Construction	27,201	42.0%	—	0.0%	—	0.0%
Residential property	1,124	1.7%	788	3.1%	2,563	9.4%
Total real estate loans	43,867	67.7%	14,761	58.8%	18,663	68.6%
Commercial and industrial loans	13,700	21.2%	4,396	17.5%	3,039	11.2%
Leases receivable	5,902	9.1%	5,129	20.4%	4,452	16.4%
Consumer loans	1,297	2.0%	839	3.3%	1,029	3.8%
Total	**$ 64,766**	**100.0%**	**$ 25,125**	**100.0%**	**$ 27,183**	**100.0%**

Impaired loans and leases were $64.8 million, $25.1 million and $27.2 million as of December 31, 2019, 2018 and 2017, respectively, representing an increase of $39.6 million, or 157.8 percent, in 2019, and a decrease of $2.1 million, or 7.6 percent, in 2018. Specific allowance allocations associated with impaired loans increased $24.0 million to $25.8 million as of December 31, 2019, compared with $1.8 million as of December 31, 2018.

During the year ended December 31, 2019, 2018 and 2017 interest income that would have been recognized had impaired loans performed in accordance with their original terms would have been $3.4 million, $2.8 million and $2.6 million, respectively. Of these amounts, actual interest recognized on impaired loans was $11 million, $1.7 million and $1.8 million for the year ended December 31, 2019, 2018 and 2017, respectively.

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

	As of December 31,								
	2019			2018			2017		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)								
Real estate loans	$ 41,798	$ —	$ 41,798	$ 2,059	$ 5,234	$ 7,293	$ 5,760	$ 6,033	$ 11,793
Commercial and industrial loans	12,991	222	13,213	1,471	702	2,173	1,529	1,118	2,647
Consumer loans	689	608	1,297	746	93	839	811	108	919
Total	**$ 55,478**	**$ 830**	**$ 56,308**	**$ 4,276**	**$ 6,029**	**$ 10,305**	**$ 8,100**	**$ 7,259**	**$ 15,359**

For the year ended December 31, 2019, we restructured monthly payments for eight loans, with a net carrying value of $54.1 million at the time of modification, which we subsequently classified as TDRs. For the year ended December 31, 2018, we restructured monthly payments for two loans, with a net carrying value of $664,000 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, 2019 and 2018, TDRs on accrual status were $830,000 and $6.0 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $29,000 and $57,000 allowance relating to these loans, respectively, was included in the allowance for loan and lease losses. As of December 31, 2019 and 2018, restructured loans on nonaccrual status were $55.5 million and $4.3 million, respectively, and a $22.7 million and $256,000 allowance relating to these loans, respectively, was included in the allowance for loan and lease losses.

As of December 31, 2017, TDRs on accrual status were $7.3 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $21,000 allowance relating to these loans was included in the allowance for loan and lease losses. As of December 31, 2017, restructured loans on nonaccrual status were $8.1 million and a $2.2 million allowance relating to these loans, was included in the allowance for loan and lease losses.

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

The Bank charges or credits the income statement for provisions to the allowance for loan and lease losses and the allowance for off-balance sheet items at least quarterly (and more frequently as needed) 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 allowances and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses and credits the allowance for recoveries on loans and leases previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of 2019, the Bank utilized a 35-quarter look-back period anchored to the first quarter of 2011, with equal weighting to all quarters. Management determined it was appropriate to anchor the look-back period in consideration of a prolonged period of low losses and the procyclical nature of provisioning. The anchoring will allow the Bank to better capture the economic cycle while improving the ability to measure losses. For the fourth quarters of 2018 and 2017, the Bank utilized 31- and 27-quarter look-back periods, respectively. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis was 2.5 years in 2019, 2018 and 2017. Moreover, the Bank reevaluated the qualitative adjustments, adjusting to current conditions in light of the lengthening of the business cycle and changes in credit metrics.

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

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

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

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

	As of December 31,								
	2019			2018			2017		
	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans
	(dollars in thousands)								
Real estate loans:									
Commercial property									
Retail	$ 4,911	8.0 %	$ 869,302	$ 3,652	11.4 %	$ 906,260	$ 2,729	8.8 %	$ 915,273
Hospitality	6,686	10.9 %	922,288	5,486	17.2 %	830,679	5,922	19.1 %	681,325
Other	8,060	13.1 %	1,358,432	6,723	21.0 %	1,449,270	5,722	18.4 %	1,417,273
Total commercial property loans	19,657	32.0 %	3,150,022	15,861	49.6 %	3,186,209	14,373	46.3 %	3,013,871
Construction	15,003	24.4 %	76,455	1,143	3.6 %	71,583	796	2.6 %	55,190
Residential property	1,695	2.8 %	402,028	1,380	4.3 %	500,563	1,843	5.9 %	521,853
Total real estate loans	36,355	59.2 %	3,628,505	18,384	57.5 %	3,758,355	17,012	54.8 %	3,590,914
Commercial and industrial loans:		0.0 %			0.0 %			0.0 %	
Commercial term	14,077	22.9 %	227,652	5,416	16.9 %	206,691	5,001	16.1 %	182,685
Commercial lines of credit	1,887	3.1 %	228,033	1,532	4.8 %	194,032	2,070	6.7 %	181,894
International loans	242	0.4 %	28,409	214	0.7 %	29,180	329	1.1 %	34,622
Total commercial and industrial loans	16,206	26.4 %	484,093	7,162	22.4 %	429,903	7,400	23.9 %	399,201
Leases receivable	8,767	14.3 %	483,879	6,303	19.7 %	398,858	6,279	20.2 %	297,284
Consumer loans	80	0.1 %	13,670	98	0.3 %	13,424	122	0.4 %	17,059
Unallocated	—	0.0 %	—	27	0.1 %	—	230	0.7 %	—
Total	**$ 61,408**	100.0 %	**$ 4,610,147**	**$ 31,974**	100.0 %	**$ 4,600,540**	**$ 31,043**	100.0 %	**$ 4,304,458**

The following table sets forth certain information regarding our allowance for loan and lease losses and allowance for off-balance sheet items for the periods presented. Allowance for off-balance sheet items is determined by applying loss 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,		
	2019	2018	2017
	(dollars in thousands)		
Allowance for loan and lease losses:			
Balance at beginning of period	$ 31,974	$ 31,043	$ 32,429
Loans and leases charged off	(4,588)	(7,310)	(5,899)
Recoveries on loans and leases previously charged off	3,852	4,251	3,682
Net (charge-offs) recoveries	(736)	(3,059)	(2,217)
Loan and lease loss provision	30,170	3,990	831
Balance at end of period	**$ 61,408**	**$ 31,974**	**$ 31,043**
Allowance for off-balance sheet items:			
Balance at beginning of period	$ 1,439	$ 1,296	$ 1,184
Loan and lease loss provision	958	143	112
Balance at end of period	**$ 2,397**	**$ 1,439**	**$ 1,296**
Ratios:			
Net (charge-offs) recoveries to average loans and leases	(0.02 %)	(0.07 %)	(0.05 %)
Net (charge-offs) recoveries to loans and leases	(0.02 %)	(0.07 %)	(0.05 %)
Allowance for loan and lease losses to average loans and leases	1.36 %	0.72 %	0.77 %
Allowance for loan and lease losses to loans and leases	1.33 %	0.70 %	0.72 %
Net (charge-offs) recoveries to allowance for loans and leases	(1.20 %)	(9.57 %)	(7.14 %)
Allowance for loan and lease losses to nonperforming loans and leases	96.31 %	205.90 %	196.42 %
Balance:			
Average loans and leases during period	$ 4,507,975	$ 4,456,202	$ 4,039,346
Loans and leases at end of period	$ 4,610,147	$ 4,600,540	$ 4,304,458
Nonperforming loans and leases at end of period	$ 63,761	$ 15,529	$ 15,805

The allowance for loan and lease losses was $61.4 million, $32.0 million and $31.0 million, respectively, as of December 31, 2019, 2018 and 2017, representing an increase of $29.4 million, or 92.1 percent, in 2019 and an increase of $931,000, or 3.0 percent, in 2018. The allowance for loan and lease losses as a percentage of loans and leases increased to 1.33 percent as of December 31, 2019 from 0.70 percent as of December 31, 2018. The increase in the allowance for loan and lease losses was mainly due to a $22.6 million specific allowance related to a $39.7 million troubled loan relationship as of December 31, 2019.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2019, 2018 and 2017 was $2.4 million, $1.4 million and $1.3 million, respectively, representing an increase of $958,000, or 66.6 percent, in 2019, and an increase of $143,000, or 11.0 percent, in 2018. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these allowances were adequate for losses inherent in the loan and lease portfolio and off-balance sheet exposure as of December 31, 2019.

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

	For the year ended December 31,								
	2019			2018			2017		
	Charge-offs	Recoveries	Net (Charge-offs) Recoveries	Charge-offs	Recoveries	Net (Charge-offs) Recoveries	Charge-offs	Recoveries	Net (Charge-offs) Recoveries
	(in thousands)								
Real estate loans	$ 131	$ 2,190	$ 2,059	$ 3,897	$ 2,511	$ (1,386)	$ 2,150	$ 1,527	$ (623)
Commercial and industrial loans	1,293	1,241	(53)	815	1,370	555	2,516	1,901	(615)
Leases receivable	3,162	422	(2,741)	2,598	368	(2,230)	1,233	239	(994)
Consumer loans	1	0	(1)	—	2	2	—	15	15
Total	**$ 4,588**	**$ 3,852**	**$ (736)**	**$ 7,310**	**$ 4,251**	**$ (3,059)**	**$ 5,899**	**$ 3,682**	**$ (2,217)**

For the year ended December 31, 2019, charge-offs were $4.6 million, a decrease of $2.7 million, or 37.2 percent, from $7.3 million for the same period in 2018, and recoveries were $3.9 million, a decrease of $399,000, or 9.4 percent, from $4.3 million in 2018. For the year ended December 31, 2019, net loan and lease charge-offs were $736,000, compared with net charge-offs of $3.1 million for 2018.

Deposits

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

	As of December 31,					
	2019		2018		2017	
	Balance	Percent	Balance	Percent	Balance	Percent
	(dollars in thousands)					
Demand – noninterest-bearing	$ 1,391,624	29.6 %	$ 1,284,530	27.1 %	$ 1,312,274	30.2 %
Interest-bearing:						
Demand	84,323	1.8 %	87,582	1.8 %	92,948	2.1 %
Money market and savings	1,667,096	35.5 %	1,573,622	33.2 %	1,527,100	35.1 %
Time deposits of $100,000 or more	1,402,063	29.8 %	1,601,648	33.7 %	1,131,789	26.0 %
Other time deposits	153,856	3.3 %	199,853	4.2 %	284,543	6.6 %
Total deposits	**$ 4,698,962**	**100.0 %**	**$ 4,747,235**	**100.0 %**	**$ 4,348,654**	**100.0 %**

Total deposits were $4.70 billion, $4.75 billion and $4.35 billion as of December 31, 2019, 2018 and 2017, respectively, representing a decrease of $48.3 million, or 1.0 percent, in 2019, and an increase of $398.6 million, or 9.2 percent, in 2018. The decrease in total deposits for 2019 was mainly attributable to a $199.1 million decrease in time deposits of $100,000 or more, offset by increases of $93.5 million in money market and savings accounts and $107.1 million in noninterest bearing demand accounts.

Time deposits of $100,000 or more were $1.40 billion, $1.60 billion and $1.13 billion as of December 31, 2019, 2018 and 2017, respectively, representing a decrease of $199.1 million, or 12.4 percent, in 2019 and an increase of $469.9 million, or 41.5 percent, in 2018. Noninterest-bearing demand deposits represented 29.6 percent of total deposits at December 31, 2019, compared with 27.1 percent and 30.2 percent of total deposits at December 31, 2018 and 2017, respectively.

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

	As of December 31,					
	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Demand – noninterest-bearing	$ 1,288,301		$ 1,315,473		$ 1,249,158	
Interest-bearing:						
Demand	83,613	0.14 %	91,495	0.12 %	93,184	0.08 %
Money market and savings	1,566,403	1.50 %	1,444,674	1.12 %	1,495,378	0.84 %
Time deposits of $100,000 or more	1,575,413	2.34 %	1,369,486	1.76 %	1,012,099	1.03 %
Other time deposits	177,229	1.45 %	239,917	1.12 %	310,253	0.98 %
Total deposits	**$ 4,690,959**	**1.35 %**	**$ 4,461,045**	**0.97 %**	**$ 4,160,072**	**0.63 %**

Average deposits for the years ended December 31, 2019, 2018 and 2017 were $4.69 billion, $4.46 billion and $4.16 billion, respectively. Average deposits increased 5.2 percent in 2019 and 7.2 percent in 2018.

The following table summarizes the maturity of time deposits of $100,000 or more at December 31, 2019, 2018 and 2017, respectively.

	As of December 31,		
	2019	2018	2017
	(in thousands)		
Three months or less	$ 376,661	$ 266,221	$ 237,683
Over three months through six months	303,287	284,125	402,535
Over six months through twelve months	572,184	723,827	359,314
Over twelve months	149,931	327,475	132,257
Total time deposits	**$ 1,402,063**	**$ 1,601,648**	**$ 1,131,789**

Borrowings and Subordinated Debentures

Borrowings mostly take the form of advances from the FHLB. At December 31, 2019, advances from the FHLB were $90.0 million, an increase of $35.0 million from $55.0 million at December 31, 2018. At December 31, 2019, the Bank had $75.0 million in term advances and $15.0 million in overnight advances from the FHLB. Borrowings increased during the second half of the year primarily due to favorable borrowing rates, as the Federal Reserve lowered the federal funds rate by 75 basis points, and to supplement the decrease in deposits.

The following is a summary of contractual maturities of FHLB advances:

	As of December 31,			
	2019		2018	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	(dollars in thousands)			
Overnight advances	$ 15,000	1.66 %	$ 55,000	2.56 %
Advances due within 12 months	25,000	1.75 %	—	—
Advances due over 12 months through 24 months	25,000	1.66 %	—	—
Advances due over 24 months through 36 months	25,000	1.72 %	—	—
Outstanding advances	**$ 90,000**	**1.70 %**	**$ 55,000**	**2.56 %**

The following is financial data pertaining to FHLB advances:

	As of December 31,		
	2019	2018	2017
	(dollars in thousands)		
Weighted-average interest rate at end of year	1.70 %	2.56 %	1.41 %
Weighted-average interest rate during the year	1.89 %	1.94 %	0.90 %
Average balance of FHLB advances	$ 40,374	$ 174,452	$ 119,041
Maximum amount outstanding at any month-end	$ 285,000	$ 300,000	$ 330,000

Subordinated debentures increased $569,000 to $118.4 million as of December 31, 2019, from $117.8 million as of December 31, 2018 due to the amortization of discount. Subordinated debentures are comprised of fixed-to-floating subordinated notes of $98.3 million and $98.1 million as of December 31, 2019 and 2018, respectively, and junior subordinated deferrable interest debentures of $20.0 million and $19.7 million as of December 31, 2019 and 2018, respectively. See “Note 10 - Subordinated Debentures” to the consolidated financial statements for more details.

Interest Rate Risk Management

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect our financial performance. We emphasize capital protection through stable earnings 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.

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

	Net Interest Income Simulation			
	1- to 12-Month Horizon		13- to 24-Month Horizon	
Change in Interest Rate	Dollar Change	Percentage Change	Dollar Change	Percentage Change
	(dollars in thousands)			
300%	$ 3,321	1.79%	$ 22,240	11.79%
200%	$ 2,231	1.21%	$ 14,920	7.91%
100%	$ 1,615	0.87%	$ 8,560	4.54%
(100%)	$ (6,074)	(3.28%)	$ (16,778)	(8.89%)

	Economic Value of Equity (EVE)	
Change in Interest Rate	Dollar Change	Percentage Change
	(dollars in thousands)	
300%	$ 54,074	10.23%
200%	$ 42,408	8.02%
100%	$ 29,246	5.53%
(100%)	$ (49,595)	(9.38%)

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

Capital Resources and Liquidity

Capital Resources

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, management 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, 2019, the Bank's total risk-based capital ratio of 14.64 percent, Tier 1 risk-based capital ratio of 13.39 percent, common equity Tier 1 capital ratio of 13.39 percent, and Tier 1 leverage capital ratio of 11.56 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.

At December 31, 2019, the Company's total risk-based capital ratio, Tier 1 risk-based capital ratio, common equity Tier 1 capital ratio and Tier 1 leverage capital ratio were 15.11 percent, 11.78 percent, 11.36 percent, and 10.15 percent, respectively, all of which exceeded all of the Company's regulatory capital ratio requirements.

For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Act, see "Note 13 — Regulatory Matters" of Notes to Consolidated Financial Statements in this Report.

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.

For a discussion of our liquidity position, see "Note 21 - Liquidity" of Notes to Consolidated Financial Statements in this Report.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see "Note 19 — 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, 2019 are as follows:

	Less Than One Year	More Than One Year and Less Than Three Years	More Than Three Years and Less Than Five Years	More Than Five Years	Total
			(in thousands)		
Time deposits	$ 1,390,606	$ 162,671	$ 2,643	$ —	$ 1,555,919
Federal Home Loan Bank advances	40,000	50,000	—	—	90,000
Commitments to extend credit	250,150	79,538	20,294	21,305	371,287
Standby letter of credit	29,267	2,105	—	—	31,372
Operating lease obligations	6,374	9,971	9,016	17,445	42,807
Total	**$ 1,716,398**	**$ 304,285**	**$ 31,952**	**$ 38,750**	**$ 2,091,386**

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

Recently Issued Accounting Standards Not Yet Effective

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

FASB ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The CECL model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses ("ECL") should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. ASU 2016-13 is effective for public entities for interim and annual periods beginning after December 15, 2019. On July 2, 2019, the FASB voted to delay CECL's effective date for non-public companies and Smaller Reporting Companies who are public filers. Due to the Company's categorization as a large accelerated filer, this delay will not have any impact on its adoption of ASU 2016-13. The Company has established a steering committee comprised of senior executives from the Accounting and Credit Risk functions and has engaged third party consultants to support CECL adoption activities.

The Company expects to adopt CECL during the first quarter of 2020. The Company is currently engaged in CECL implementation activities and has completed development of its methodologies, data/input gathering and validation, and initial testing of its designed models. The Company plans to leverage three loss rate methodologies across the Bank's four major loan and lease segments. In addition, the Company has devised risk documentation and policies and procedures associated with CECL to support the ongoing estimation activities and the continuous assessment of risks related to the methodology and its models, and data governance. The Company completed parallel processing and review of the model outputs during the three-month period ended June 30, 2019, September 30, 2019 and December 31, 2019.

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 58 through 110.

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, 2019, 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, the Company's principal executive officer and principal financial officer concluded that as of December 31, 2019, due to the identification of a material weakness in our internal control over financial reporting, as further described below, the Company's disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Principal Executive Officer and Principal Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Notwithstanding the identified material weakness related to the Company's control environment, the Company believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

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 such term is defined in Exchange Act Rule 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 the financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those 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. GAAP;
- 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 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 the Company's internal control over financial reporting as of December 31, 2019. 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 ("COSO"). 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 concluded that Hanmi Financial did not maintain effective internal control over financial reporting as of December 31, 2019 due to the fact that a material weakness existed in the Company's internal control over financial reporting as further described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weakness Identified Relating to Information Technology General Controls

During the fourth quarter of 2019, we identified a material weakness in internal control related to ineffective information technology general controls ("ITGCs") in the area of user access and segregation of duties over certain information technology ("IT") systems that support the Company's recording of transactions and financial reporting processes. We believe that this control deficiency was a result of insufficient training of personnel around changes in our IT environment. The material weakness did not result in any identified misstatements to the financial statements, and there were no changes to previously released financial results. Based on this material weakness, the Company's management concluded that at December 31, 2019, the Company's internal control over financial reporting was not effective.

The Company's independent registered public accounting firm, Crowe LLP has issued an adverse audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 which appears in Item 8 of this Form 10-K.

Following identification of the material weakness and prior to filing this Annual Report on Form 10-K, we completed procedures for the year ended December 31, 2019. Based on these procedures, management believes that our consolidated financial statements included in this Form 10-K have been prepared in accordance with U.S. GAAP. Our Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K. Crowe LLP has issued an unqualified opinion on our financial statements, which is included in Item 8 of this Form 10-K.

Remediation

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include: (i) changing access to impacted financial systems to ensure access is limited to appropriate users with appropriate functionality; (ii) enhancing the IT management review and testing plan to monitor ITGCs, with a specific focus on systems supporting our financial reporting processes; (iii) developing a training program addressing ITGCs and policies that enforce segregation of duties, including educating control owners concerning the principles and requirements of each control, with a focus on those related to user access over IT system changes impacting financial reporting; and (iv) enhancing quarterly reporting on the remediation measures to the Audit Committee of the Board of Directors.

We believe that these actions will remediate the material weakness. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal 2020.

Material Weakness Identified Relating to Inadequate Review of the Fair Value of Collateral Dependent Impaired Loans

As disclosed in our 10-Q, as of June 30, 2019, our management determined the lack of operating effectiveness of a control that allowed for the inadequate review of the fair value of collateral dependent impaired loans gave rise to a material weakness. The material weakness was identified through evaluation of a non-real estate collateral dependent impaired loan. Specifically, our existing control for determining whether a fair value review of collateral dependent impaired loans should occur to facilitate the timely measurement of a specific allowance did not operate effectively.

During 2019, management implemented our previously disclosed remediation plan that included strengthening our policy documentation describing the criteria for when collateral dependent impaired loan fair value review is required, developing and implementing additional training on our collateral dependent impaired loan review process, and reinforcing the required documentation when concluding a fair value review is not warranted.

During the fourth quarter of 2019, we completed our testing of the operating effectiveness of the implemented controls and found them to be effective. As a result we have concluded this material weakness has been remediated as of December 31, 2019.

Changes in Internal Control Over Financial Reporting

Except for the material weakness identified during the quarter ended December 31, 2019, and the remediation of the material weakness identified as of June 30, 2019, there have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Attestation Report of the Company’s Independent Registered Public Accounting Firm

Crowe LLP, the independent registered public accounting firm that audited and reported on the Consolidated Financial Statements of Hanmi Financial and its subsidiaries, has issued an audit report on the effectiveness of Hanmi Financial’s internal control over financial reporting as of December 31, 2019 in accordance with the standards of Public Company Accounting Oversight Board (United States).

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Hanmi Financial Corporation and Subsidiaries
Los Angeles, California

Opinion on Internal Control Over Financial Reporting

We have audited Hanmi Financial Corporation and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effects of the material weakness discussed in the following paragraph, the Company has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to ineffective information technology general controls in the area of user access and segregation of duties over certain information technology systems that support the Company's recording of transactions and financial reporting processes was identified and included in Management's Report on Internal Control over Financial Reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements") and our report dated March 2, 2020 expressed an unqualified opinion. We considered the material weakness identified above in determining the nature, timing, and extent of audit procedures applied in our audit of the 2019 financial statements, and this report on Internal Control over Financial Reporting does not affect such report on the financial statements.

Basis for Opinion

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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Crowe LLP

Los Angeles, California
March 2, 2020

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement to be filed with the SEC in connection with its 2020 Annual Meeting of Stockholders (the "Proxy Statement") entitled "Election of Directors," "Corporate Governance Principles and Board Matters," "Executive Compensation — Officers" and "Beneficial Ownership of Principal Stockholders and Management — Delinquent Section 16(a) Reports."

The Company maintains in effect a Code of Business Conduct and Ethics for all employees, executive officers and directors. The codes of conduct are available on the Company's website www.hanmi.com on the "Investors Relations" page and is also available to any person without charge by sending a request to the Corporate Secretary at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled "Corporate Governance and Board Matters — Director Compensation," "— CHR Committee Interlocks and Insider Participation" and "Executive Compensation."

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

Information concerning security ownership of certain beneficial owners and management not otherwise included herein is incorporated by reference to the 2020 Proxy Statement under the heading "Beneficial Ownership of Principal Stockholders and Management."

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth the total number of shares available for issuance under the Company's equity compensation plans as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	156,438	$ 18.84	348,922
Equity compensation plans not approved by security holders	—	—	—
Total equity compensation plans	**156,438**	**$ 18.84**	**348,922**

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

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled "Corporate Governance and Board Matters — Director Independence" and "Certain Relationships and Related Transactions."

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section of the 2020 Proxy Statement entitled "Ratification of the Appointment of the Independent Registered Public Accounting Firm" and "Audit and Non-Audit Fees."

Part IV

Item 15. Exhibits and Financial Statement Schedules

(1) The financial statements are listed in the Index to consolidated financial statements on page 63 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 111-112.

Item 16. Form 10-K Summary

None.

Hanmi Financial Corporation and Subsidiaries

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Hanmi Financial Corporation and Subsidiaries
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Hanmi Financial Corporation and Subsidiaries (the "Company") as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2020 expressed an adverse opinion.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Qualitative Adjustments

As described in Notes 1 and 3 to the consolidated financial statements, the Company's allowance for loan and lease losses is a valuation account that reflects the Company's estimation of probable losses inherent in the loan and lease portfolio. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general allowances and individual impairment calculations for specific allocations. The Company's consolidated allowance for loan and lease losses was $61,408,000 at December 31, 2019, which consists of $35,631,000 in general allowances.

The allowance for loan and lease losses 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; size and composition of the loan portfolio; the value of collateral and current economic conditions. Changes in these assumptions could have a material effect on the Company's financial results.

When determining the appropriate level for allowance for loan and lease losses, management considers qualitative adjustments for any factors that are likely to cause estimated losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan and lease trends. We identified the qualitative adjustments within the general allowances as a critical audit matter. Auditing management's qualitative adjustments involved our especially subjective judgment because management relies on a qualitative analysis to determine the quantitative impact the factors have on the allowance. Management's analysis of these factors required their significant judgment.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the qualitative adjustments within the general allowances, including controls addressing
  - The completeness and accuracy of the data used as the basis for the qualitative adjustments within the general allowances,
  - The mathematical accuracy of the underlying credit risk matrices against which the qualitative adjustments to the general allowances are calculated, and
  - Management's judgments related to the data used in the determination of qualitative adjustments within the general allowances and the overall reasonableness of the adjustments.
- Substantively testing management's process, including evaluating their judgments and assumptions, for determining the qualitative adjustments within the general allowances, including:
  - Evaluation of the completeness and accuracy of the data used as a basis for the qualitative adjustments within the general allowances,
  - Evaluation of the mathematical accuracy of the underlying credit risk matrices against which the qualitative adjustments to the general allowances are calculated,
  - Evaluation of the reasonableness of management's judgments related to the data used in the determination of qualitative adjustments within the general allowances,
  - Analytical evaluation of the directional consistency of the qualitative adjustments within the general allowances, with respect to the underlying trends, and
  - Analytical evaluation of the overall adequacy of the allowance for loan and lease losses, including the qualitative adjustments to the general allowances.

Impaired Loan Identification and Specific Allowance

As described in Notes 1 and 3 to the consolidated financial statements, management identifies and classifies loans 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 Company considers whether the borrower is experiencing problems such as operating losses, marginal working capital, inadequate cash flows or business deterioration in realizable value. 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 (less costs to sell) if the loan is collateral dependent. In addition, management has an ongoing monitoring process and assigns a grade to reflect the identified credit risk. The grades are pass and pass watch, special mention, substandard, doubtful and loss and are defined in Note 3 to the consolidated financial statements. Determining the loan grade classification, when to classify a loan as impaired, determination of impairment methodology, and estimating a specific allocation requires significant management judgment. A difference in the timing and valuation of impairment and loan grade classification could have a material impact on the Company's financial results and disclosures.

During June 2019, management graded a loan substandard and classified it as impaired. This was a single $40.7 million credit relationship (comprised of a $28.0 million construction loan and a $12.7 million commercial and industrial loan). The impairment classification was made as of June 30, 2019 resulting in a specific allowance on the relationship of $15.7 million. At December 31, 2019 the loan relationship has a recorded investment of $39.7 million and a specific allowance of $22.6 million.

Auditing the appropriateness of the timing of the impairment classification required evaluation of the Company's ability to collect all amounts according to the contractual terms of the loan agreement, including scheduled interest payments. This evaluation involved especially challenging and subjective auditor judgment due to the nature of the credits, the sources of repayment (including liquidation of collateral), and the significant judgment necessary in evaluating the audit evidence obtained.

Auditing the adequacy of the established specific allocation also involved especially challenging and subjective auditor judgment as the underlying collateral backing the commercial and industrial loan was unique in nature, has a limited resale market, and variability in the estimated fair value. Further, at the time of the impairment classification (June 30, 2019), management concluded a material weakness in their internal control over financial reporting existed. The material weakness resulted from the lack of operating effectiveness that allowed for the inadequate review of the fair value of collateral dependent impaired loans. In addition, the evaluation of repayment sources also involved especially challenging and subjective auditor judgment.

The primary procedures we performed to address this critical audit matter involved substantively testing management's assertions, including evaluating their judgments and assumptions, when classifying the loan as substandard, identifying the impaired loan relationship, and developing its specific allocation estimate, including:

- Verification of the liquidity of the borrower and occurrence, or lack thereof, for certain events to generate additional liquidity.
- Utilization of an internal credit risk specialist to evaluate the history of the loan relationship and conclude on the appropriateness of the timing of the classification as substandard.
- Evaluation of management's methodology for determining impairment.
- Testing of the appropriateness and consistency of management's judgments related to the classification of the loan relationship as collateral dependent.
- Testing the completeness and accuracy of data used as the basis for management's calculation of the specific allowance.
- Testing the mathematical accuracy of management's calculation of the specific allocation.
- Engaging a specialist (auditor engaged specialist) to evaluate the reasonableness of the appraisal obtained by management to support the collateral value of the construction loan.
- Engaging a specialist to independently value the unique collateral supporting the commercial and industrial loan at the point of the impairment decision.
- Evaluation of confirming and disconfirming evidence.

Audit Response to Material Weakness

As discussed in Management's Annual Report on Internal Control Over Financial Reporting, the Company identified a material weakness in internal control related to ineffective information technology general controls (ITGCs) in the area of user access and segregation of duties over certain information technology (IT) systems that support the Company's recording of transactions and financial reporting processes.

This material weakness impacts the Company's controls over access to IT systems and financial reporting processes related to the recording of transactions in all the financial statement accounts and required us to increase the extent of our audit effort. Significant auditor judgment was required to design and execute the incremental audit procedures and to assess the sufficiency of the procedures performed and the audit evidence obtained.

Addressing the matter involved performing expanded audit procedures beyond what would have been performed had the controls been designed and operating effectively and evaluating the audit evidence in connection with forming our overall opinion on the financial statements which included:

- Evaluation of other controls impacting the processing of transactions recorded in the financial statements.
- Performing incremental substantive audit procedures to address the identified risks for financial statement accounts impacted.
- Performing computer assisted audit techniques at the transaction level to identify and test transactions that met certain risk characteristics for specific populations of transactions.

/s/ Crowe LLP

We have served as the Company's auditor since 2019.

Los Angeles, California
March 2, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Hanmi Financial Corporation:

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheet of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion
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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2001 to 2019.

Los Angeles, California
March 1, 2019

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

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 121,678	$ 155,376
Securities available for sale, at fair value (amortized cost of $629,725 as of December 31, 2019 and $583,444 as of December 31, 2018)	634,477	574,908
Loans held for sale, at the lower of cost or fair value	6,020	9,390
Loans and leases receivable, net of allowance for loan and lease losses of $61,408 as of December 31, 2019 and $31,974 as of December 31, 2018	4,548,739	4,568,566
Accrued interest receivable	11,742	13,331
Premises and equipment, net	26,070	27,752
Customers' liability on acceptances	66	173
Servicing assets	6,956	8,520
Goodwill and other intangible assets, net	11,873	12,182
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Deferred tax assets	36,787	27,441
Current tax assets	-	8,314
Bank-owned life insurance	52,782	51,661
Prepaid expenses and other assets	64,609	28,220
Total assets	**$ 5,538,184**	**$ 5,502,219**
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,391,624	$ 1,284,530
Interest-bearing	3,307,338	3,462,705
Total deposits	4,698,962	4,747,235
Accrued interest payable	11,215	11,379
Bank's liability on acceptances	66	173
Borrowings	90,000	55,000
Subordinated debentures	118,377	117,808
Accrued expenses and other liabilities	56,297	18,056
Total liabilities	**4,974,917**	**4,949,651**
Stockholders' equity:		
Preferred Stock, $0.001 par value; authorized 10,000,000 shares; no shares issued as of December 31, 2019 and December 31, 2018	—	—
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,475,402 shares (30,799,624 shares outstanding) as of December 31, 2019 and 33,202,369 shares (30,928,437 shares outstanding) as of December 31, 2018	33	33
Additional paid-in capital	575,816	569,712
Accumulated other comprehensive income (loss), net of tax benefit (expense) of ($1,370) as of December 31, 2019 and $2,457 as of December 31, 2018	3,382	(6,079)
Retained earnings	100,551	97,539
Less: treasury stock; 2,675,778 shares as of December 31, 2019 and 2,273,932 shares as of December 31, 2018	(116,515)	(108,637)
Total stockholders' equity	**563,267**	**552,568**
Total liabilities and stockholders' equity	**$ 5,538,184**	**$ 5,502,219**

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,		
	2019	**2018**	**2017**
Interest and dividend income:			
Interest and fees on loans and leases	$ 229,402	$ 219,590	$ 195,790
Interest on securities	14,661	12,817	11,850
Dividends on FHLB stock	1,147	1,413	1,232
Interest on deposits in other banks	1,562	577	449
Total interest and dividend income	246,772	234,397	209,321
Interest expense:			
Interest on deposits	63,105	43,080	26,089
Interest on borrowings	763	3,379	1,077
Interest on subordinated debentures	7,032	6,925	5,353
Total interest expense	70,900	53,384	32,519
Net interest income before provision for loan and lease losses	175,872	181,013	176,802
Loan and lease loss provision	30,170	3,990	831
Net interest income after provision for loan and lease losses	145,702	177,023	175,971
Noninterest income:			
Service charges on deposit accounts	9,951	10,000	10,396
Trade finance and other service charges and fees	4,786	4,616	4,495
Gain on sale of Small Business Administration ("SBA") loans	5,251	4,954	8,734
Net gain (loss) on sales of securities	1,295	(341)	1,748
Other operating income	6,269	5,291	8,042
Total noninterest income	27,552	24,520	33,415
Noninterest expense:			
Salaries and employee benefits	67,900	69,435	67,944
Occupancy and equipment	17,064	15,944	15,740
Data processing	8,755	6,870	6,960
Professional fees	9,060	6,178	5,464
Supplies and communications	2,936	3,003	2,912
Advertising and promotion	3,797	4,041	3,952
Merger and integration costs (income)	—	846	(40)
Other operating expenses	16,394	11,256	11,170
Total noninterest expense	125,906	117,573	114,102
Income before income taxes	47,348	83,970	95,284
Income tax expense	14,560	26,102	40,624
Net income	**$ 32,788**	**$ 57,868**	**$ 54,660**
Basic earnings per share	$ 1.06	$ 1.80	$ 1.70
Diluted earnings per share	$ 1.06	$ 1.79	$ 1.69
Weighted-average shares outstanding:			
Basic	30,725,376	31,924,863	32,071,585
Diluted	30,760,422	32,051,333	32,249,918

See Accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 32,788	$ 57,868	$ 54,660
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss) arising during period	14,583	(5,790)	2,649
Less: reclassification adjustment for net gain included in net income	(1,295)	(87)	(1,748)
Income tax (expense) benefit related to items of other comprehensive income	(3,827)	1,684	(376)
Other comprehensive income (loss), net of tax	9,461	(4,193)	525
Comprehensive income	**$ 42,249**	**$ 53,675**	**$ 55,185**

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)	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2017	**32,946,197**	**(615,450)**	**32,330,747**	**$ 33**	**$ 562,446**	**$ (2,394)**	**$ 41,726**	**$ (70,786)**	**$ 531,025**
Stock options exercised	23,813	—	23,813	—	288	—	—	—	288
Restricted stock awards, net of forfeitures	113,123	—	113,123	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,893	—	—	—	2,893
Restricted stock surrendered due to employee tax liability	—	(36,056)	(36,056)	—	—	—	—	(1,103)	(1,103)
Cash dividends declared (common stock, $0.80/share)	—	—	—	—	—	—	(25,811)	—	(25,811)
Net income	—	—	—	—	—	—	54,660	—	54,660
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	525	—	—	525
Balance at December 31, 2017	**33,083,133**	**(651,506)**	**32,431,627**	**$ 33**	**$ 565,627**	**$ (1,869)**	**$ 70,575**	**$ (71,889)**	**$ 562,477**
Adjustments related to adoption of new accounting standards:									
ASU 2016-01 (See Notes 1 and 3)	—	—	—	—	—	382	(382)	—	—
ASU 2018-02 (See Notes 1 and 11)	—	—	—	—	—	(399)	399	—	—
Adjusted balance at January 1, 2018	**33,083,133**	**(651,506)**	**32,431,627**	**$ 33**	**$ 565,627**	**$ (1,886)**	**$ 70,592**	**$ (71,889)**	**$ 562,477**
Stock options exercised	25,750	—	25,750	—	570	—	—	—	570
Restricted stock awards, net of forfeitures	93,486	—	93,486	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	3,515	—	—	—	3,515
Restricted stock surrendered due to employee tax liability	—	(22,426)	(22,426)	—	—	—	—	(680)	(680)
Repurchase of common stock	—	(1,600,000)	(1,600,000)	—	—	—	—	(36,068)	(36,068)
Cash dividends declared (common stock, $0.96/share)	—	—	—	—	—	—	(30,921)	—	(30,921)
Net income	—	—	—	—	—	—	57,868	—	57,868
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	(4,193)	—	—	(4,193)
Balance at December 31, 2018	**33,202,369**	**(2,273,932)**	**30,928,437**	**$ 33**	**$ 569,712**	**$ (6,079)**	**$ 97,539**	**$ (108,637)**	**$ 552,568**
Stock options exercised	181,900	—	181,900	—	2,979	—	—	—	2,979
Restricted stock awards, net of forfeitures	91,133	—	91,133	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	3,125	—	—	—	3,125
Restricted stock surrendered due to employee tax liability	—	(26,846)	(26,846)	—	—	—	—	(517)	(517)
Repurchase of common stock	—	(375,000)	(375,000)	—	—	—	—	(7,362)	(7,362)
Cash dividends declared (common stock, $0.96/share)	—	—	—	—	—	—	(29,776)		(29,776)
Net income	—	—	—	—	—	—	32,788	—	32,788
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	9,461	—	—	9,461
Balance at December 31, 2019	**33,475,402**	**(2,675,778)**	**30,799,624**	**$ 33**	**$ 575,816**	**$ 3,382**	**$ 100,551**	**$ (116,515)**	**$ 563,267**

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 32,788**	**$ 57,868**	**$ 54,660**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,532	11,111	12,854
Share-based compensation expense	3,125	3,515	2,893
Loan and lease loss provision	30,170	3,990	831
(Gain) loss on sales of securities	(1,295)	341	(1,748)
Gain on sales of SBA loans	(5,251)	(4,954)	(8,734)
Origination of SBA loans held for sale	(76,765)	(79,146)	(109,111)
Proceeds from sales of SBA loans	74,866	82,133	117,780
Increase in cash surrender value of bank-owned life insurance	(1,121)	(1,107)	(1,114)
Change in prepaid expenses and other assets	(5,770)	404	98
Change in current tax assets	8,314	(2,490)	(4,109)
Change in deferred tax assets	(13,173)	6,698	13,501
Change in accrued expenses and other liabilities	3,376	(1,728)	3,855
Net cash provided by operating activities	**58,796**	**76,635**	**81,656**
Cash flows from investing activities:			
Purchases of securities available for sale	(320,815)	(141,351)	(242,369)
Proceeds from matured, called and repayment of securities	159,942	99,253	79,878
Proceeds from sales of securities available for sale	113,306	34,751	97,271
Purchases of loans and leases receivable	—	(66,966)	(266,275)
Purchases of premises and equipment	(1,579)	(3,696)	(843)
Proceeds from disposition of premises and equipment	5,655	—	—
Proceeds from sales of other real estate owned ("OREO")	716	2,173	5,711
Change in loans and leases receivable, excluding purchases	(1,770)	(235,731)	(193,557)
Net cash used in investing activities	**(44,545)**	**(311,567)**	**(520,184)**
Cash flows from financing activities:			
Change in deposits	(48,273)	398,581	538,917
Change in overnight borrowings	(75,000)	(95,000)	(165,000)
Proceeds from borrowings	110,000	—	—
Issuance of subordinated debentures	—	—	97,828
Proceeds from exercise of stock options	2,979	570	288
Cash paid for surrender of vested shares due to employee tax liability	(517)	(680)	(1,103)
Repurchase of common stock	(7,362)	(36,068)	—
Cash dividends paid	(29,776)	(30,921)	(25,811)
Net cash (used in) provided by financing activities	**(47,949)**	**236,482**	**445,119**
Net increase (decrease) in cash and due from banks	**(33,698)**	**1,550**	**6,591**
Cash and due from banks at beginning of year	155,376	153,826	147,235
Cash and due from banks at end of period	**$ 121,678**	**$ 155,376**	**$ 153,826**
Supplemental disclosures of cash flow information:			
Interest expense paid	$ 71,064	$ 47,314	$ 32,519
Income taxes paid	$ 15,570	$ 20,792	$ 28,135
Non-cash activities:			
Transfer of loans receivable to other real estate owned	$ 248	$ 938	$ 143
Income tax (expense) benefit related to items of other comprehensive income	$ (3,827)	$ 1,684	$ (376)
Change in unrealized (gain) loss in accumulated other comprehensive income	$ 14,583	$ 5,790	$ (2,649)
Right-of-use asset obtained in exchange for lease liability	$ 43,085	$ -	$ -

See Accompanying Notes to Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Summary of Operations

Hanmi Financial Corporation ("Hanmi Financial," the "Company," "we," "us" or "our") was formed as a holding company of Hanmi Bank (the "Bank") and registered with the Securities and Exchange Commission under the Securities Act on March 17, 2001. The Bank's primary operations are related to traditional banking activities, including the acceptance of deposits and originating loans and investing in securities.

The Bank is a California state-chartered financial institution insured by the FDIC. The Bank is a state nonmember bank and the FDIC is its primary federal bank regulator. The California Department of Business Oversight is the Bank's primary state bank regulator.

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American and other ethnic communities. 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. As of December 31, 2019, the Bank maintained a network of 35 full-service branch offices and 9 loan production offices in California, Texas, Illinois, Virginia, New Jersey, New York, Colorado, Georgia 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 its wholly-owned subsidiary, the Bank and Hanmi Financial Corporation Statutory Trust I. 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. Actual results could differ from those estimates.

Reclassifications

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

Segment Reporting

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

Securities

Securities are classified into four 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;

(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; and

(iv) Equity Securities, such as mutual funds, which would be classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of income.

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.

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

Loans and leases receivable

Originated loans and leases: Loans and leases are originated by the Bank with the intent to hold them for investment and are stated at the principal amount outstanding, net of unearned income. Net deferred fees and costs include nonrefundable loan fees, direct loan origination costs and initial indirect 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. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business.

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

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

Allowance for Loan and Lease Losses

Management believes the allowance for loan and lease losses is appropriate to provide for probable incurred losses inherent in the loan and lease portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on: previous loss experience; volume, growth, size 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 and lease losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance for loan and lease losses is maintained at a level considered adequate by management to absorb probable incurred losses in the loan and lease portfolio. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general allowances and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses on loans and leases and credits the allowance for recoveries on loans and leases previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of 2019, the Bank utilized a 35-quarter look-back period, anchored to the first quarter of 2011, with equal weighting to all quarters. Management determined it was appropriate to anchor the look-back period, in consideration for a prolonged period of low losses and the procyclical nature of provisioning. The anchoring will allow the Bank to better capture the economic cycle while improving the ability to measure losses. For the fourth quarters of 2018 and 2017, the Bank utilized 31- and 27-quarter look-back periods, respectively. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 and remained unchanged in 2018 and 2019. Moreover, the Bank reevaluated the qualitative adjustments, adjusting to current condition in light of the lengthening of the business cycle and the continued improvement in credit metrics.

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

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

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

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

The Bank follows the *"Interagency Policy Statement on the Allowance for Loan and Lease Losses"* and, as an integral part of the quarterly credit review process, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The California Department of Business Oversight and/or the Federal Deposit Insurance Corporation may 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, possible sources of repayment are analyzed, including the potential for future cash flows 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.

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; and 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 flows 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 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 value 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 analysis when determining the amount of the general 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 review long-lived assets and certain identifiable intangibles 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. 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 servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation cost, for the estimated life of the loan, using a discount rate and a constant prepayment rate. Management periodically evaluates the servicing assets and servicing liabilities for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

Goodwill and Other Intangible Assets

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

Goodwill and other intangible assets are assessed for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company performed its annual impairment test and determined no impairment existed as of December 31, 2019.

Federal Home Loan Bank Stock

The Bank is a member of the 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.

Bank-Owned Life Insurance

We have purchased single premium life insurance policies ("bank-owned life insurance") on certain officers. The Bank and named beneficiaries of various current covered officers are the beneficiaries under each policy. In the event of the death of a covered officer, the Bank and named beneficiaries of the covered officer 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. Under the Split Dollar Death Benefit Agreement, upon death of an active employee, the designated beneficiary(ies) are eligible to receive benefits, which in the aggregate, total $3.9 million.

Income Tax

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

The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision.

Share-Based Compensation

The Company provides awards of options, stock appreciation rights, restricted stock awards, restricted stock unit awards, shares 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. Plan participants include executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its related entities. 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 generally vest based on three to five years of continuous service and expire 10 years from the date of grant. Restricted stock awards under the Plans become fully vested after a certain number of years or after certain performance criteria are met. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock are treated as canceled shares.

Excess tax benefits from exercise or vesting of share-based awards are included as a reduction in provision for income tax expense in the period in which the exercise or vesting occurs.

Earnings per Share

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

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

Treasury Stock

In January 2019, the Company's Board of Directors adopted a stock repurchase program. Under this repurchase program, the Company may repurchase up to 5.0 percent of its outstanding shares or approximately 1.5 million shares of its common stock. The program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate the Company to purchase any particular number of shares. During the year ended December 31, 2019, the Company repurchased 375,000 shares of common stock at a cost of $7.4 million under this program.

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.

Accounting Standards Adopted in 2019

FASB ASU 2017-08, ***Receivables-Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities***, shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. ASU 2017-08 applies to securities that have explicit, non-contingent call features that are callable at fixed prices and on preset dates. Securities purchased at a discount and mortgage-backed securities in which early repayment is based on prepayment of the underlying assets of the security are outside the scope of ASU 2017-08. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period, and applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this ASU did not have a material impact on its consolidated financial statements.

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

Under the new lease guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term, the Company is required to recognize right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting standards. This impacted the Company's Consolidated Balance Sheet by grossing up the assets and the liabilities to report the leases as an asset and a liability instead of reporting it as an expense to the income statement. The original opening amount of the right-of-use asset was $40.9 million, which had no impact to equity from the adoption of the standard.

FASB ASU 2017-12, ***Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities***, was issued in August 2017 with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in this update make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The ASU requires certain hedging instrument to be presented in the same line item as the hedged item and also requires expanded disclosures. This ASU's mandatory effective date for calendar year-end public companies is January 1, 2019, but the amendments may be early adopted in any interim or annual period after issuance. The Company does not currently have hedging transactions that are impacted by this ASU.

Recently Issued Accounting Standards Not Yet Effective

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

FASB ASU 2016-13, ***Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments***, introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Current expected credit losses ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses ECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. ASU 2016-13 is effective for public entities for interim and annual periods beginning after December 15, 2019. On July 2, 2019, the FASB voted to delay CECL's effective date for non-public companies and Smaller Reporting Companies who are public filers. Due to the Company's categorization as a large accelerated filer, this delay will not have any impact on its adoption of ASU 2016-13. The Company has established a steering committee comprised of senior executives from the Accounting and Credit Risk functions and has engaged third party consultants to support CECL adoption activities.

The Company expects to adopt CECL during the three-month period ending March 31, 2020. The Company is currently engaged in CECL implementation activities and has completed development of its methodologies, data/input gathering and validation, and testing of its designed models. The Company plans to leverage three loss rate methodologies across the Bank's four major loan and lease segments. In addition, the Company has devised risk documentation, policies and procedures associated with CECL to support the ongoing estimation activities and the continuous assessment of risks related to the model, its methodologies, and data governance.

The Company performed parallel runs and assessments of the model outputs during the three-month periods ended June 30, September 30, and December 31, 2019. This assisted the Company in identifying an expected coverage ratio of allowance for credit losses ranging from 1.63 percent to 1.88 percent of total loans and leases. Given the existing allowance for loan and lease losses of $61.4 million and a coverage ratio of 1.33 percent at December 31, 2019, the expected increase to this ratio of22.6 percent to 41.4 percent will cause the Company to record a material adjustment to the allowance and a corresponding after-tax charge to retained earnings in the first quarter of 2020.

Note 2 — Securities

The following is a summary of securities available for sale as of December 31, 2019 and 2018:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
December 31, 2019				
U.S. Treasury securities	$ 34,946	$ 259	$ —	$ 35,205
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	406,813	4,334	(347)	410,800
Collateralized mortgage obligations	164,232	792	(432)	164,592
Debt securities	23,733	168	(22)	23,879
Total U.S. government agency and sponsored agency obligations	594,778	5,294	(801)	599,272
Total securities available for sale	**$ 629,725**	**$ 5,553**	**$ (801)**	**$ 634,477**
December 31, 2018				
U.S. Treasury securities	$ 39,768	$ 69	$ (7)	$ 39,830
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	300,957	61	(5,984)	295,034
Collateralized mortgage obligations	124,550	74	(2,332)	122,292
Debt securities	7,499	—	(97)	7,402
Total U.S. government agency and sponsored agency obligations	433,006	135	(8,413)	424,728
Municipal bonds-tax exempt	110,670	197	(517)	110,350
Total securities available for sale	**$ 583,444**	**$ 401**	**$ (8,937)**	**$ 574,908**

The amortized cost and estimated fair value of securities as of December 31, 2019, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$ 38,285	$ 38,381
Over one year through five years	140,066	140,619
Over five years through ten years	209,985	212,473
Over ten years	241,389	243,004
Total	**$ 629,725**	**$ 634,477**

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, 2019.

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, 2019 and 2018:

	Holding Period								
	Less than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
December 31, 2019									
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities	$ (186)	$ 51,261	17	$ (161)	$ 18,757	14	$ (347)	$ 70,018	31
Collateralized mortgage obligations	(112)	41,419	14	(320)	39,936	36	(432)	81,355	50
Debt securities	(20)	8,235	2	(3)	2,997	1	(22)	11,233	3
Total U.S. government agency and sponsored agency obligations	(318)	100,916	33	(483)	61,690	51	(801)	162,606	84
Total	**$ (318)**	**$ 100,916**	**33**	**$ (483)**	**$ 61,690**	**51**	**$ (801)**	**$ 162,606**	**84**
December 31, 2018									
U.S. Treasury securities	$ (7)	$ 14,797	2	$ —	$ —	—	$ (7)	$ 14,797	2
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities	(226)	41,527	10	(5,758)	244,550	106	(5,984)	286,077	116
Collateralized mortgage obligations	(59)	13,732	3	(2,273)	92,532	49	(2,332)	106,264	52
Debt securities	—	—	—	(97)	7,402	3	(97)	7,402	3
Total U.S. government agency and sponsored agency obligations	(285)	55,259	13	(8,128)	344,484	158	(8,413)	399,743	171
Municipal bonds-tax exempt	(29)	8,196	5	(488)	65,644	30	(517)	73,840	35
Total	**$ (321)**	**$ 78,252**	**20**	**$ (8,616)**	**$ 410,128**	**188**	**$ (8,937)**	**$ 488,380**	**208**

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

The Company does not intend to sell these securities and it is more likely than not that it will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal securities 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, 2019 and December 31, 2018 were not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2019 and December 31, 2018 were warranted.

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

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Gross realized gains on sales of securities	$ 1,359	$ 87	$ 1,891
Gross realized losses on sales of securities	(64)	(957)	(143)
Net realized gains (losses) on sales of securities	**$ 1,295**	**$ (870)**	**$ 1,748**
Proceeds from sales of securities	$ 113,306	34,751	97,271

In January 2016, FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). This new guidance, among other provisions, amends accounting related to the classification and measurement of investments in equity securities. We adopted this guidance, as required, in the first quarter of 2018. ASU 2016-01 requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale be reclassified to retained earnings. The Company reduced the balance of securities by $529,000 as of January 1, 2018, representing the loss related to all of our mutual fund equity securities, which resulted in a net reduction of retained earnings of $382,000 and an increase of $147,000 in net deferred tax assets based on the transition requirements of this standard.

For the year ended December 31, 2019, the Company recorded $1.3 million in net realized gain from sale of securities that had previously been recognized as net unrealized gains of $586,000 in comprehensive income. This included the sale of all of the Company's tax-exempt municipal bond securities.

For the year ended December 31, 2018, the Company recorded $870,000 in net realized losses from sale of securities that had previously been recognized as net unrealized losses of $413,000 in comprehensive income. This included sale of all of the Company's mutual fund equity securities with gross realized losses of $957,000. The Company recorded a $428,000 net loss in earnings resulting from the sale of these securities. The remaining loss of $529,000 related to these sold securities was recorded as a transition adjustment upon adoption of ASU 2016-01 as of the beginning of the period as described in the preceding paragraph. For the year ended December 31, 2017, there was a $1.7 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $1.3 million in comprehensive income.

Securities available for sale with market values of $30.2 million and $29.9 million as of December 31, 2019 and 2018, respectively, were pledged to secure advances from the Federal Reserve Bank, Discount Window facility, and for other purposes as required or permitted by law.

Note 3 — Loans and Leases

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

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, Small Business Administration ("SBA") and international loans. Leases receivable include equipment finance agreements, which are typically secured by the business assets being financed. Consumer loans consist of auto loans, personal loans, and home equity lines of credit. We maintain management loan review and monitoring departments that review and monitor pass graded loans as well as problem loans to prevent further deterioration.

Concentrations of Credit: The majority of the Bank's loan and lease portfolio consists of commercial real estate loans.

Loans and leases receivable, net

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

	December 31, 2019	December 31, 2018
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 869,302	$ 906,260
Hospitality	922,288	830,679
Other *(1)*	1,358,432	1,449,270
Total commercial property loans	3,150,022	3,186,209
Construction	76,455	71,583
Residential property	402,028	500,563
Total real estate loans	3,628,505	3,758,355
Commercial and industrial loans:		
Commercial term	227,652	206,691
Commercial lines of credit	228,033	194,032
International loans	28,409	29,180
Total commercial and industrial loans	484,093	429,903
Leases receivable	483,879	398,858
Consumer loans *(2)*	13,670	13,424
Loans and leases receivable	**4,610,147**	**4,600,540**
Allowance for loan and lease losses	(61,408)	(31,974)
Loans and leases receivable, net	**$ 4,548,739**	**$ 4,568,566**

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

(2) Consumer loans include home equity lines of credit of $ 8.2 million and $ 10.3 million as of December 31, 2019 and 2018, respectively.

Accrued interest on loans and leases receivable was $10.0 million and $10.9 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, $1.35 billion and $1.10 billion of loans and leases receivable, respectively, were pledged to secure advances from the FHLB.

Loans Held for Sale

The following table details the information on SBA loans held for sale by portfolio segment for the years ended December 31, 2019 and 2018:

	Real Estate	Commercial and Industrial	Total
		(in thousands)	
December 31, 2019			
Balance at beginning of period	$ 5,194	$ 4,196	$ 9,390
Originations	43,001	33,764	76,765
Sales	(45,251)	(34,865)	(80,116)
Principal paydowns and amortization	(1)	(18)	(19)
Balance at end of period	**$ 2,943**	**$ 3,077**	**$ 6,020**
December 31, 2018			
Balance at beginning of period	$ 3,746	$ 2,648	$ 6,394
Originations	39,243	39,903	79,146
Sales	(37,790)	(38,161)	(75,951)
Principal paydowns and amortization	(5)	(194)	(199)
Balance at end of period	**$ 5,194**	**$ 4,196**	**$ 9,390**

Allowance for Loan and Lease Losses

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

	As of and for the Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Allowance for loan losses:			
Balance at beginning of period	$ 31,974	$ 31,043	$ 32,429
Loans and leases charged off	(4,588)	(7,310)	(5,899)
Recoveries on loans and leases previously charged off	3,852	4,251	3,682
Net charge-offs	(736)	(3,059)	(2,217)
Loan and lease loss provision	30,170	3,990	831
Balance at end of period	**$ 61,408**	**$ 31,974**	**$ 31,043**

The following table details the information on the allowance for loan and lease losses by portfolio segment for the years ended December 31, 2019 and 2018:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(in thousands)			
December 31, 2019						
Allowance for loan and lease losses:						
Beginning balance	$ 18,384	$ 7,162	$ 6,303	$ 98	$ 27	$ 31,974
Less loans and leases charged off	(131)	(1,293)	(3,162)	(1)	—	(4,588)
Recoveries on loans and leases previously charged off	2,190	1,241	422	0	—	3,852
Loan and lease loss provision	15,913	9,097	5,205	(17)	(27)	30,170
Ending balance	**$ 36,355**	**$ 16,206**	**$ 8,767**	**$ 80**	**$ —**	**$ 61,408**
Individually evaluated for impairment	$ 14,028	$ 8,885	$ 2,863	$ 1	$ —	$ 25,778
Collectively evaluated for impairment	$ 22,327	$ 7,321	$ 5,904	$ 79	$ —	$ 35,631
Loans and leases receivable	**$ 3,628,505**	**$ 484,093**	**$ 483,879**	**$ 13,670**	**$ —**	**$ 4,610,147**
Individually evaluated for impairment	$ 43,867	$ 13,700	$ 5,902	$ 1,297	$ —	$ 64,766
Collectively evaluated for impairment	$ 3,584,638	$ 470,393	$ 477,977	$ 12,373	$ —	$ 4,545,382
December 31, 2018						
Allowance for loan and lease losses:						
Beginning balance	$ 17,012	$ 7,400	$ 6,279	$ 122	$ 230	$ 31,043
Less loans and leases charged off	(3,897)	(815)	(2,598)	—	—	(7,310)
Recoveries on loans and leases previously charged off	2,512	1,369	368	2	—	4,251
Loan and lease loss provision	2,757	(792)	2,254	(26)	(203)	3,990
Ending balance	**$ 18,384**	**$ 7,162**	**$ 6,303**	**$ 98**	**$ 27**	**$ 31,974**
Individually evaluated for impairment	$ 1	$ 428	$ 1,383	$ —	$ —	$ 1,812
Collectively evaluated for impairment	$ 18,383	$ 6,734	$ 4,920	$ 98	$ 27	$ 30,162
Loans and leases receivable	**$ 3,758,355**	**$ 429,903**	**$ 398,858**	**$ 13,424**	**$ —**	**$ 4,600,540**
Individually evaluated for impairment	$ 14,761	$ 4,396	$ 5,129	$ 839	$ —	$ 25,125
Collectively evaluated for impairment	$ 3,743,594	$ 425,507	$ 393,729	$ 12,585	$ —	$ 4,575,415

Loan and Lease Quality Indicators

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

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

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

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

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

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

As of December 31, 2019 and 2018, the recorded investment in pass/pass-watch, special mention and classified (substandard, doubtful and loss) loans and leases, disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
		(in thousands)		
December 31, 2019				
Real estate loans:				
Commercial property				
Retail	$ 859,739	$ 2,835	$ 6,728	$ 869,302
Hospitality	915,834	939	5,515	922,288
Other	1,329,817	7,807	20,809	1,358,432
Total commercial property loans	3,105,390	11,580	33,052	3,150,022
Construction	36,956	1,613	37,886	76,455
Residential property	398,737	2,512	779	402,028
Total real estate loans	3,541,082	15,705	71,718	3,628,505
Commercial and industrial loans:				
Commercial term	210,026	2,139	15,487	227,652
Commercial lines of credit	222,348	5,485	200	228,033
International loans	25,810	2,598	—	28,409
Total commercial and industrial loans	458,184	10,222	15,687	484,093
Leases receivable	477,977	—	5,902	483,879
Consumer loans	12,247	705	718	13,670
Total loans and leases receivable	**$ 4,489,491**	**$ 26,632**	**$ 94,025**	**$ 4,610,147**
December 31, 2018				
Real estate loans:				
Commercial property				
Retail	$ 901,354	$ 16	$ 4,890	$ 906,260
Hospitality	821,542	168	8,969	830,679
Other	1,441,219	2,723	5,328	1,449,270
Total commercial property loans	3,164,115	2,907	19,187	3,186,209
Construction	71,583	—	—	71,583
Residential property	500,424	—	139	500,563
Total real estate loans	3,736,122	2,907	19,326	3,758,355
Commercial and industrial loans:				
Commercial term	197,992	4,977	3,722	206,691
Commercial lines of credit	172,338	21,107	587	194,032
International loans	29,180	—	—	29,180
Total commercial and industrial loans	399,510	26,084	4,309	429,903
Leases receivable	393,729	—	5,129	398,858
Consumer loans	12,454	191	779	13,424
Total loans and leases receivable	**$ 4,541,815**	**$ 29,182**	**$ 29,543**	**$ 4,600,540**

The following is an aging analysis of recorded investment in loans and leases, disaggregated by loan class, as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
			(in thousands)			
December 31, 2019						
Real estate loans:						
Commercial property						
Retail	$ 6	$ 132	$ 111	$ 249	$ 869,053	$ 869,302
Hospitality	907	—	—	907	921,381	922,288
Other	51	—	38	89	1,358,344	1,358,432
Total commercial property loans	964	132	149	1,245	3,148,778	3,150,022
Construction	—	—	—	—	76,455	76,455
Residential property	540	1,627	309	2,477	399,551	402,028
Total real estate loans	1,504	1,759	458	3,721	3,624,784	3,628,505
Commercial and industrial loans:						
Commercial term	635	133	143	911	226,742	227,652
Commercial lines of credit	—	—	—	—	228,033	228,033
International loans	—	—	—	—	28,409	28,409
Total commercial and industrial loans	635	133	143	911	483,183	484,093
Leases receivable	5,358	2,138	3,493	10,990	472,889	483,879
Consumer loans	—	30	—	30	13,639	13,670
Total loans and leases receivable	**$ 7,497**	**$ 4,060**	**$ 4,094**	**$ 15,652**	**$ 4,594,496**	**$ 4,610,147**
December 31, 2018						
Real estate loans:						
Commercial property						
Retail	$ 221	$ —	$ 986	$ 1,207	$ 905,053	$ 906,260
Hospitality	65	1,203	1,893	3,161	827,518	830,679
Other	816	206	1,205	2,227	1,447,043	1,449,270
Total commercial property loans	1,102	1,409	4,084	6,595	3,179,614	3,186,209
Construction	—	—	—	—	71,583	71,583
Residential property	3,947	273	44	4,264	496,299	500,563
Total real estate loans	5,049	1,682	4,128	10,859	3,747,496	3,758,355
Commercial and industrial loans:						
Commercial term	334	49	1,117	1,500	205,191	206,691
Commercial lines of credit	—	—	587	587	193,445	194,032
International loans	—	—	—	—	29,180	29,180
Total commercial and industrial loans	334	49	1,704	2,087	427,816	429,903
Leases receivable	4,681	845	3,737	9,263	389,595	398,858
Consumer loans	146	—	—	146	13,278	13,424
Total loans and leases receivable	**$ 10,210**	**$ 2,576**	**$ 9,569**	**$ 22,355**	**$ 4,578,185**	**$ 4,600,540**

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

Impaired Loans and Leases

Loans and leases are considered impaired when: they are classified as 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; they are classified as TDR loans to offer terms not typically granted by the Bank; current information or events make it unlikely to collect in full according to the contractual terms of the loan or lease agreements; there is a deterioration in the borrower's financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan and lease impairment in accordance with GAAP. Impaired loans and leases are measured based on the present value of expected future cash flows discounted at the effective interest rate of the loan or lease, or, as a practical expedient, at the observable market price or the fair value of the collateral if the loan or lease is collateral dependent, less costs to sell. If the measure of the impaired loan or lease is less than the recorded investment, the deficiency will be charged off against the allowance for loan and lease receivable losses or, alternatively, a specific allocation will be established. Additionally, loans or leases that are considered impaired are specifically excluded from the analysis when determining the amount of the general allowance for loan and lease losses required for the period.

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

The following table provides information on impaired loans and leases, disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance	Average Recorded Investment	Interest Income Recognized
				(in thousands)			
December 31, 2019							
Real estate loans:							
Commercial property							
Retail	$ 434	$ 459	$ 111	$ 323	$ 19	$ 894	$ 13
Hospitality	244	400	22	223	24	1,683	—
Other	14,864	15,151	14,696	167	12	10,619	168
Total commercial property loans	15,542	16,010	14,829	713	55	13,196	181
Construction	27,201	28,000	—	27,201	13,973	18,421	249
Residential property	1,124	1,163	1,089	35	—	1,356	29
Total real estate loans	43,867	45,173	15,918	27,949	14,028	32,973	459
Commercial and industrial loans	13,700	14,090	143	13,557	8,885	19,361	512
Leases receivable	5,902	5,909	1,112	4,790	2,863	4,854	44
Consumer loans	1,297	1,588	1,220	77	1	1,489	37
Total	**$ 64,766**	**$ 66,760**	**$ 18,393**	**$ 46,373**	**$ 25,778**	**$ 58,677**	**$ 1,052**
December 31, 2018							
Real estate loans:							
Commercial property							
Retail	$ 2,166	$ 2,207	$ 1,894	$ 272	$ —	$ 2,001	$ 183
Hospitality	4,282	5,773	4,032	250	—	7,285	482
Other	7,525	8,016	6,253	1,272	1	7,978	601
Total commercial property loans	13,973	15,996	12,179	1,794	1	17,264	1,266
Construction	—	—	—	—	—	—	—
Residential property	788	929	788	—	—	1,932	91
Total real estate loans	14,761	16,925	12,967	1,794	1	19,196	1,357
Commercial and industrial loans	4,396	4,601	1,644	2,752	428	3,568	211
Leases receivable	5,129	5,162	1,256	3,873	1,383	5,229	46
Consumer loans	839	1,073	746	93	—	1,020	60
Total	**$ 25,125**	**$ 27,761**	**$ 16,613**	**$ 8,512**	**$ 1,812**	**$ 29,013**	**$ 1,674**
December 31, 2017							
Real estate loans:							
Commercial property							
Retail	$ 1,403	$ 1,423	$ 1,246	$ 157	$ 1	$ 1,528	$ 106
Hospitality	6,184	7,220	2,144	4,040	1,677	6,080	431
Other	8,513	9,330	7,569	944	394	9,551	842
Total commercial property loans	16,100	17,973	10,959	5,141	2,072	17,159	1,379
Construction	—	—	—	—	—	—	—
Residential property	2,563	2,728	824	1,739	21	2,771	122
Total real estate loans	18,663	20,701	11,783	6,880	2,093	19,930	1,501
Commercial and industrial loans	3,040	3,081	1,069	1,971	441	4,214	208
Leases receivable	4,452	4,626	455	3,997	3,334	4,464	47
Consumer loans	1,029	1,215	919	110	10	982	33
Total	**$ 27,184**	**$ 29,623**	**$ 14,226**	**$ 12,958**	**$ 5,878**	**$ 29,590**	**$ 1,789**

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

	Year Ended December 31,		
	2019	2018	2017
		(in thousands)	
Interest income that would have been recognized had impaired loans and leases performed in accordance with their original terms	$ 3,439	$ 2,808	$ 2,575
Less: Interest income recognized on impaired loans and leases	(1,279)	(1,674)	(1,790)
Interest foregone on impaired loans and leases	**$ 2,160**	**$ 1,134**	**$ 785**

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

Nonaccrual Loans and Leases

The following table details the recorded investment in nonaccrual loans and leases, disaggregated by loan class, as of the dates indicated:

	As of December 31,	
	2019	2018
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$ 277	$ 865
Hospitality	225	3,625
Other	14,864	1,641
Total commercial property loans	15,366	6,131
Construction	27,201	—
Residential property	1,124	182
Total real estate loans	43,691	6,313
Commercial and industrial loans	13,479	3,337
Leases receivable	5,902	5,129
Consumer loans	689	746
Total nonaccrual loans and leases	**$ 63,761**	**$ 15,525**

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

	As of December 31,	
	2019	2018
	(in thousands)	
Nonaccrual loans and leases	$ 63,761	$ 15,525
Loans and leases 90 days or more past due and still accruing	—	4
Total nonperforming loans and leases	63,761	15,529
Other real estate owned ("OREO")	63	663
Total nonperforming assets	**$ 63,824**	**$ 16,192**

OREO consisted of two properties with a combined carrying value of $63,000 as of December 31, 2019, and seven properties with a combined carrying value of $663,000 as of December 31, 2018.

Troubled Debt Restructuring

The following table details the recorded investment in TDRs, disaggregated by concession type and by loan type, as of December 31, 2019 and 2018:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and/or Interest	Reduction of Principal and/or Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and/or Interest	Reduction of Principal and/or Interest	Extension of Maturity	Total
					(in thousands)					
December 31, 2019										
Real estate loans	$ —	$ 132	$ 27,740	$ 13,926	$ 41,798	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans	—	153	12,527	312	12,991	—	36	71	114	222
Consumer loans	689	—	—	—	689	531	—	77	—	608
Total loans	**$ 689**	**$ 285**	**$ 40,266**	**$ 14,238**	**$ 55,478**	**$ 531**	**$ 36**	**$ 148**	**$ 114**	**$ 830**
December 31, 2018										
Real estate loans	$ 462	$ 1,423	$ 174	$ —	$ 2,059	$ 3,345	$ —	$ 1,148	$ 741	$ 5,234
Commercial and industrial loans	265	107	669	430	1,471	—	166	386	150	702
Consumer loans	746	—	—	—	746	—	—	93	—	93
Total loans	**$ 1,473**	**$ 1,530**	**$ 843**	**$ 430**	**$ 4,276**	**$ 3,345**	**$ 166**	**$ 1,627**	**$ 891**	**$ 6,029**

As of December 31, 2019 and 2018, total TDRs were $56.3 million, and $10.3 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured 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.

The following table presents the number of loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2019, 2018, and 2017 with their pre- and post-modification recorded amounts.

	December 31, 2019			December 31, 2018			December 31, 2017		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
					(in thousands except for number of loans)				
Real estate loans	5	$ 40,743	$ 41,798	-	$ -	$ -	2	$ 182	$ 184
Commercial and industrial loans	2	12,779	12,562	2	684	664	1	123	123
Consumer loans	1	549	531	-	-	-	1	820	811
Total loans	**8**	**$ 54,071**	**$ 54,892**	**2**	**$ 684**	**$ 664**	**4**	**$ 1,125**	**$ 1,118**

At December 31, 2019 and 2018, TDRs were subjected to specific impairment analysis. We determined impairment allowances of $22.7 million and $300,000, respectively, related to these loans and such allowances were included in the allowance for loan and lease losses.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the years ended December 31, 2019 and 2018, only one loan in the amount of $132,000, defaulted within the twelve-month period following modification in the year 2019.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Note 4 — Servicing Assets

The changes in servicing assets for the years ended December 31, 2019 and 2018 were as follows:

	As of December 31,	
	2019	2018
	(in thousands)	
Balance at beginning of period	**$ 8,520**	**$ 10,218**
Addition related to sale of SBA loans	1,699	1,589
Amortization	(3,263)	(3,287)
Balance at end of period	**$ 6,956**	**$ 8,520**

At December 31, 2019 and 2018, we serviced the loans sold to unaffiliated parties in the amount of $422.3 million and $448.6 million, respectively. These represent loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans being serviced were SBA loans.

The Company recorded servicing fee income of $4.4 million for the year ended December 31, 2019, and $4.7 million each of the years ended December 31, 2018 and 2017, respectively. Net amortization expense was $2.8 million, $2.6 million and $2.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Servicing fee income, net of amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income.

The fair value of servicing rights was $7.0 million at year-end 2019. Fair value at year-end 2019 was determined using the discount rates ranging from 7.7 percent to 21.4 percent, prepayment speeds ranging from 1.8 percent to 15.6 percent, depending on the stratification of the specific right.

Note 5 — Premises and Equipment

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

	As of December 31,	
	2019	2018
	(in thousands)	
Land	$ 7,980	$ 8,470
Building and improvements	14,120	17,252
Furniture and equipment	27,358	24,144
Leasehold improvements	12,715	11,671
Leased equipment	879	879
	63,052	62,416
Accumulated depreciation and amortization	(36,982)	(34,664)
Total premises and equipment, net	**$ 26,070**	**$ 27,752**

Depreciation and amortization expense related to premises and equipment was $3.3 million, $2.6 million and $2.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 6 — Leases

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

In determining whether a contract contained a lease, we determined whether an arrangement was or included a lease at contract inception. Operating lease right-of-use asset and liability were recognized at commencement date and initially measured based on the present value of lease payments over the defined lease term. The opening balance for both our right-of-use asset and lease liability were $40.9 million as of the adoption date of January 1, 2019 and the outstanding balances were $36.5 million and $37.2 million, respectively, as of December 31, 2019.

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

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

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

We lease our premises under non-cancelable operating leases. At December 31, 2019, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

		Amount
		(in thousands)
2020	$	6,374
2021		5,129
2022		4,843
2023		4,735
2024		4,281
Thereafter		17,445
Remaining lease commitments		42,807
Interest		(5,648)
Present value of lease liability	$	37,159

For the years ended December 31, 2019, 2018 and 2017, net rental expenses recorded under such leases amounted to $7.9 million, $7.4 million, and $7.0 million, respectively.

Weighted average remaining lease terms for the Company's operating leases were 8.57 years as of December 31, 2019. Weighted average discount rates used for the Company's operating leases were 3.24 percent as of December 31, 2019. Net lease expense recognized for the twelve months ended December 31, 2019 was $7.9 million. This includes operating lease costs of $8.0 million and sublease income of $132,000 for the twelve months ended December 31, 2019. The Company chose the practical expedients and reviewed the lease and non-lease components for any impairment or otherwise, subsequently determining that no cumulative-effect adjustment to equity was necessary as part of implementing the modified retrospective approach for its adoption of ASC 842**.**

Cash paid, and included in cash flows from operating activities, for amounts included in the measurement of the lease liability for the Company's operating leases for the twelve months ended December 31, 2019 was $7.2 million.

Note 7 — Goodwill and other intangibles

The third-party originators intangible of $483,000 and goodwill of $11.0 million were recorded as a result of the acquisition of a leasing portfolio in 2016. The core deposit intangible of $2.2 million was recognized for the core deposits acquired in a 2014 acquisition. The Company's intangible assets were as follows for the periods indicated:

		December 31, 2019						December 31, 2018					
	Amortization Period		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
							(in thousands)						
Core deposit intangible	10 years	$	2,213	$	(1,567)	$	646	$	2,213	$	(1,360)	$	853
Third-party originators intangible	7 years		483		(287)		196		483		(185)		298
Goodwill	N/A		11,031		—		11,031		11,031		—		11,031
Total intangible assets		**$**	**13,727**	**$**	**(1,854)**	**$**	**11,873**	**$**	**13,727**	**$**	**(1,545)**	**$**	**12,182**

Intangible assets amortization expense for the years ended December 31, 2019, 2018 and 2017 was $309,000, $362,000 and $345,000, respectively, and estimated future amortization expense related to the Core Deposit Intangible and the third-party originators intangible for each of the next five years is as follows:

	Amount
	(in thousands)
2020	$ 261
2021	216
2022	171
2023	126
2024	68
Thereafter	—
	$ 842

The Company performed its annual goodwill impairment analysis in the fourth quarter of 2019 and determinedno impairment existed as of December 31, 2019. As of December 31, 2019, management was not aware of any circumstances that would indicate impairment of goodwill or other intangible assets. There were no impairment charges related to intangible assets recorded in earnings in the three years ended December 31, 2019.

Note 8 — Deposits

Time deposits at or exceeding the FDIC insurance limit of $250,000 at year-end 2019 and 2018 were $299.9 million and $288.6 million, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	Time Deposits of $250,000 or More	Other Time Deposits	Total
		(in thousands)	
2020	$ 291,940	$ 1,098,666	$ 1,390,606
2021	7,186	130,331	137,517
2022	—	25,155	25,155
2023	789	1,185	1,974
2024	—	669	669
Total	**$ 299,914**	**$ 1,256,005**	**$ 1,555,919**

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

	Year Ended December 31,		
	2019	2018	2017
		(in thousands)	
Demand: interest-bearing	$ 116	$ 106	$ 74
Money market and savings	23,556	16,182	12,515
Time deposits of $100,000 or more	36,867	24,309	10,471
Other time deposits	2,566	2,483	3,029
Total interest expense on deposits	**$ 63,105**	**$ 43,080**	**$ 26,089**

Accrued interest payable on deposits was $11.2 million and $11.4 million at December 31, 2019 and 2018, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2019 and 2018 were $1.5 million, respectively.

Note 9 — Borrowings

Borrowings consisted of FHLB advances, which represent collateralized obligations with the FHLB.The following is a summary of contractual maturities of FHLB advances:

	December 31, 2019		December 31, 2018	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	(in thousands)			
Overnight advances	$ 15,000	1.66 %	$ 55,000	2.56 %
Advances due within 12 months	25,000	1.75 %	—	—
Advances due over 12 months through 24 months	25,000	1.66 %	—	—
Advances due over 24 months through 36 months	25,000	1.72 %	—	—
Outstanding advances	**$ 90,000**	**1.70 %**	**$ 55,000**	**2.56 %**

The following is financial data pertaining to FHLB advances:

	As of December 31,		
	2019	2018	2017
	(dollars in thousands)		
Weighted-average interest rate at end of year	1.70 %	2.56 %	1.41 %
Weighted-average interest rate during the year	1.89 %	1.94 %	0.90 %
Average balance of FHLB advances	$ 40,374	$ 174,452	$ 119,041
Maximum amount outstanding at any month-end	$ 285,000	$ 300,000	$ 330,000

We have pledged loans receivable with market values of $1.35 billion as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is $1.11 billion, of which $878.4 million remained available as of December 31, 2019. At December 31, 2019, we had $29.6 million available for use through the Federal Reserve Bank of San Francisco Discount Window, as we pledged securities with carrying values of $30.2 million, and there were no borrowings.

At December 31, 2019, advances from the FHLB were $90.0 million, an increase of $35.0 million from $55.0 million at December 31, 2018, and $15.0 million of the FHLB advances were overnight borrowings at December 31, 2019. For the years ended December 31, 2019, 2018 and 2017 interest expense on FHLB advances were $763,000, $3.4 million and $1.1 million, respectively, and the weighted-average interest rates were 1.89 percent, 1.94 percent and 0.90 percent, respectively.

Note 10 — Subordinated Debentures

The Company issued Fixed-to-Floating Subordinated Notes ("Notes") of $100.0 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes have an initial fixed interest rate of 5.45 percent per annum, payable semi-annually on March 30 and September 30 of each year. From and including March 30, 2022 and thereafter, the Notes bear interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315 percent payable quarterly. If the then current three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero. Debt issuance cost was $2.3 million, which is being amortized through the Note's maturity date. At December 31, 2019 and December 31, 2018, the balance of Notes included in the Company's Consolidated Balance Sheet, net of debt issuance cost, was $98.3 million and $98.1 million. The amortization of debt issuance cost was $193,000, $182,000 and $134,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company assumed Junior Subordinated Deferrable Interest Debentures ("Subordinated Debentures") as a result of an acquisition in 2014 with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount is being amortized to interest expense through the debentures' maturity date of March 15, 2036. A trust was formed in 2005 by the acquired entity and $26.0 million of Trust Preferred Securities ("TPS") was issued at a 6.26 percent fixed rate for the first five years and a variable rate at the three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At December 31, 2019 and December 31, 2018, the balance of Subordinated Debentures included in the Company's Consolidated Balance Sheets, net of discount of $6.8 million and $7.1 million, was $20.0 million and $19.7 million. The amortization of discount was $376,000, $356,000 and $329,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 11 — Income Taxes

In accordance with the provisions of 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,		
	2019	2018	2017
	(in thousands)		
Unrecognized tax benefits at beginning of year	$ 202	$ 1,039	$ 1,039
Gross decreases for tax positions of prior years	(202)	—	—
Lapse of statute of limitations	—	(837)	—
Gross increase for new tax positions	73	—	—
Unrecognized tax benefits (expense) at end of year	**$ 73**	**$ 202**	**$ 1,039**

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was $73,000, $202,000 and $1.0 million as of December 31, 2019, 2018 and 2017, respectively.

For the year ended December 31, 2019, unrecognized tax benefits decreased by $129,000 related to state taxes, primarily in connection with the settlement of the California Franchise Tax Board 2008 and 2009 examinations. For the year ended December 31, 2018, unrecognized tax benefits decreased by $837,000 in connection with California Enterprise Zone interest deductions as result of the lapse of the statute of limitations. For the year ended December 31, 2017, unrecognized tax benefits in connection with California Enterprise Zone interest deductions did not change.

In 2019, 2018 and 2017, the Company accrued interest of $0, $10,000 and $34,000 for uncertain tax benefits, respectively. As of December 31, 2019, 2018 and 2017, the total amounts of accrued interest related to uncertain tax positions, were $0, $57,000 and $132,000, 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 accrued expenses and other liabilities on the Consolidated Balance Sheets.

Unrecognized tax benefit primarily includes state tax exposure. The Company expects the currently open uncertain tax positions to be settled in the next twelve months.

As of December 31, 2019, the Company is subject to examination by federal and various tax authorities for certain years ending December 31, 2015 through 2018.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). This ASU eliminates the stranded tax effects in other comprehensive income resulting from the Tax Cuts and Jobs Act (the "Tax Act"). Because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations was not affected. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The Company adopted this standard as of January 1, 2018, and recorded the impact as an adjustment, which increased retained earnings by $399,000 as of the date of adoption.

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

	Year Ended December 31, 2019	2018	2017
	(in thousands)		
Current expense:			
Federal	$ 18,737	$ 13,415	$ 20,924
State	9,377	5,293	6,804
Total current expense	28,114	18,708	27,728
Deferred expense (benefit):			
Federal	(10,515)	3,428	14,623
State	(3,039)	3,966	(1,727)
Total deferred expense	(13,554)	7,394	12,896
Provision for income taxes	**$ 14,560**	**$ 26,102**	**$ 40,624**

Deferred tax assets and liabilities were as follows:

	Year Ended December 31, 2019	2018	2017
	(in thousands)		
Deferred tax assets:			
Allowance for loan and lease losses	$ 18,401	$ 10,035	$ 9,282
Depreciation	—	—	192
Purchase accounting	3,912	2,724	4,685
Net operating loss carryforward	15,453	17,609	18,648
Unrealized (gain) loss on securities available for sale	—	2,457	919
Mark to market	261	—	—
Indemnified assets	1,120	1,151	701
Lease liability	10,716	—	—
Tax credits	198	561	1,241
State taxes	1,739	1,138	1,489
Other	2,646	1,804	3,724
Total deferred tax assets	54,446	37,479	40,881
Deferred tax liabilities:			
Mark to market	—	(4,719)	(4,879)
Depreciation	(388)	(467)	—
Unrealized (gain) loss on securities available for sale	(1,370)	—	—
Leases - right of use assets	(10,517)	—	—
Other	(532)	—	(797)
Total deferred tax liabilities	(12,807)	(5,186)	(5,676)
Valuation allowance	(4,852)	(4,852)	(2,750)
Net deferred tax assets	**$ 36,787**	**$ 27,441**	**$ 32,455**

As of December 31, 2019, the Company’s net deferred tax assets, which primarily consists of net operating loss carryforwards and the allowance for loan and lease losses, increased by $9.3 million from 2018 primarily due to the increase in the allowance for loan and lease losses. As of December 31, 2018, the Company’s net deferred tax assets, which primarily consists of net operating loss carryforwards and the allowance for loan and lease losses, decreased by $5.0 million from 2017 primarily due to the reduction in purchase accounting and an increase in the valuation allowance related to state net operating losses.

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, 2019, management determined that a valuation allowance of $4.9 million was appropriate against certain state net operating losses and certain state tax credits. For all other deferred tax assets, management believes it was more likely than not that these deferred tax assets will be realized principally through future taxable income and reversal of existing taxable temporary differences. As of December 31, 2018, management determined a valuation allowance of $4.9 million was appropriate against certain state net operating losses and certain state tax credits. Therefore the valuation allowance did not change in 2019.

As of December 31, 2019, the Company had net operating loss carryforwards of $17.3 million and $216.4 million for federal and state income tax purposes, respectively. The federal net operating loss carryforwards of $17.3M expire at various dates from 2034 to 2035. The material state net operating loss carryforwards include California of $152.3M which expire at various dates from 2026 through 2035, and Illinois of $63.7M which expire at various dates from 2024 to 2025. Management determined a valuation allowance was required against the Illinois net operating loss carryforwards. As of December 31, 2019, the Company had state low income housing tax credit carryforwards of approximately $251,000. The state low income housing tax credits carry forward indefinitely.

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

	Year Ended December 31,		
	2019	2018	2017
Federal statutory income tax rate	21.00%	21.00%	35.00%
State taxes, net of federal tax benefits	9.39%	9.50%	6.64%
Tax-exempt municipal securities	(0.29)%	(0.16)%	(0.24)%
Tax credit - federal	(3.49)%	(2.37)%	(2.37)%
Federal rate adjustment, net of federal benefits of state	(—)%	1.32%	4.18%
Low income housing amortization	4.17%	2.40%	2.52%
Other	(0.03)%	(0.60)%	(3.10)%
Effective tax rate	**30.75%**	**31.09%**	**42.63%**

The Tax Act was enacted into U.S. tax law on December 22, 2017. The Tax Act makes numerous changes to the U.S. tax code, including (although not limited to) reducing the U.S. federal corporate tax rate to 21 percent, eliminating the corporate alternative minimum tax ("AMT"), limiting deductible interest expense, increasing limitations on certain executive compensation, and enhancing bonus depreciation to provide for full expensing of qualified property. On that same date, the SEC staff also issued Staff Accounting Bulletin ("SAB") 118, which provided guidance regarding financial statement accounting of the Tax Act. SAB 118 provides for the completion of the accounting related effects of the Tax Act in accordance with a measurement period of one year from the Tax Act enactment date.

In 2017, the Company reported certain provisional amounts based on reasonable estimates as permitted under SAB 118 for which the accounting under ASC 740 was incomplete. Upon filing the 2017 income tax returns in 2018, the Company recorded a change of $1.1 million to the provisional amount related to the re-measurement of the ending deferred tax assets and liabilities from 35.0 percent to 21.0 percent. During the fourth quarter of 2018, the Company completed the accounting required under ASC 740.

Note 12 — Accumulated Other Comprehensive Income (Loss)

Activity in accumulated other comprehensive income for the year ended December 31, 2019, 2018 and 2017 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Tax Benefit (Expense)	Total
		(in thousands)	
For the year ended December 31, 2019			
Balance at beginning of period	$ (8,536)	$ 2,457	$ (6,079)
Other comprehensive income (loss) before reclassification	14,583	(3,827)	10,756
Reclassification from accumulated other comprehensive income	(1,295)	—	(1,295)
Net current period other comprehensive income	13,288	(3,827)	9,461
Balance at end of period	**$ 4,752**	**$ (1,370)**	**$ 3,382**
For the year ended December 31, 2018			
Balance at beginning of period	$ (3,188)	$ 1,319	$ (1,869)
Other comprehensive income (loss) before reclassification	(5,790)	1,684	(4,106)
Reclassification from accumulated other comprehensive income	(87)	—	(87)
Adjustments to accumulated other comprehensive income	529	(546)	(17)
Net current period other comprehensive income	(5,348)	1,138	(4,210)
Balance at end of period	**$ (8,536)**	**$ 2,457**	**$ (6,079)**
For the year ended December 31, 2017			
Balance at beginning of period	$ (4,089)	$ 1,695	$ (2,394)
Other comprehensive income (loss) before reclassification	2,649	(376)	2,273
Reclassification from accumulated other comprehensive income	(1,748)	—	(1,748)
Net current period other comprehensive income	901	(376)	525
Balance at end of period	**$ (3,188)**	**$ 1,319**	**$ (1,869)**

The Company recorded a net $17,000 adjustment related to adoption of two new accounting standards (ASU 2016-01 and ASU 2018-02) effective January 1, 2018. The $17,000 adjustment includes a $529,000 reduction of unrealized losses related to the Company's mutual funds equity securities upon adoption of ASU 2016-01 and a $546,000 reduction in tax benefits upon adoption of ASU 2016-01 and ASU 2018-02. All mutual fund equity securities were sold during the three months ended March 31, 2018. See Notes 3 and 11 to the Consolidated Financial Statements for additional information on adoption of ASU 2016-01 and ASU 2018-02, respectively.

For the year ended December 31, 2019, there was a $1.3 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $1.3 million reclassification adjustment from accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized gain of $586,000 related to these sold securities had previously been recorded in accumulated other comprehensive income or loss.

For the year ended December 31, 2018, there was a $87,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $87,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of $413,000 related to these sold securities had previously been recorded in accumulated other comprehensive income or loss. For the year ended December 31, 2017, there was a $1.7 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $1.7 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of $1.3 million related to these sold securities had previously been recorded in accumulated other comprehensive income or loss.

Note 13 — 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 6.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 4.0 percent.

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

At December 31, 2019, the Bank's capital ratios exceeded the minimum requirements to place the Bank in the "well capitalized" category and the Company exceeded all of its applicable minimum regulatory capital ratio requirements.

A capital conservation buffer of 2.5 percent became effective on January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 6.64 percent and 6.19 percent and the Company's capital conservation buffer was 5.78 percent and 5.74 percent as of December 31, 2019 and 2018, respectively.

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

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
December 31, 2019						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 714,288	15.11 %	$ 378,059	8.00 %	N/A	N/A
Hanmi Bank	$ 691,024	14.64 %	$ 377,516	8.00 %	$ 471,895	10.00 %
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 556,820	11.78 %	$ 283,544	6.00 %	N/A	N/A
Hanmi Bank	$ 631,978	13.39 %	$ 283,137	6.00 %	$ 377,516	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	$ 536,781	11.36 %	$ 212,658	4.50 %	N/A	N/A
Hanmi Bank	$ 631,978	13.39 %	$ 212,353	4.50 %	$ 306,732	6.50 %
Tier 1 capital (to average assets):						
Hanmi Financial	$ 556,820	10.15 %	$ 219,367	4.00 %	N/A	N/A
Hanmi Bank	$ 631,978	11.56 %	$ 218,748	4.00 %	$ 273,435	5.00 %
December 31, 2018						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 682,398	14.54 %	$ 375,449	8.00 %	N/A	N/A
Hanmi Bank	$ 664,195	14.19 %	$ 374,538	8.00 %	$ 468,173	10.00 %
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 550,839	11.74 %	$ 281,587	6.00 %	N/A	N/A
Hanmi Bank	$ 630,782	13.47 %	$ 280,904	6.00 %	$ 374,538	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	$ 531,177	11.32 %	$ 211,190	4.50 %	N/A	N/A
Hanmi Bank	$ 630,782	13.47 %	$ 210,678	4.50 %	$ 304,312	6.50 %
Tier 1 capital (to average assets):						
Hanmi Financial	$ 550,839	10.18 %	$ 216,526	4.00 %	N/A	N/A
Hanmi Bank	$ 630,782	11.67 %	$ 216,265	4.00 %	$ 270,331	5.00 %

Note 14 — Fair Value Measurements

Fair Value Measurements

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

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

Loans held for sale – All loans held for sale are SBA loans carried at the lower of cost or fair value. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At December 31, 2019 and 2018, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Impaired loans and leases – Nonaccrual loans and leases and performing restructured loans and leases are considered impaired for reporting purposes and are measured and recorded at fair value on a non-recurring basis. All impaired loans with a carrying balance over $250,000 are reviewed individually for the amount of impairment, if any. Impaired loans and leases with a carrying balance of $250,000 or less are evaluated for impairment collectively. The Company does not record loans and leases at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans and leases 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 3 classification of the inputs for determining fair value. Appraisals are required annually and may be updated more frequently as circumstances require and the fair value adjustments are made to OREO based on the updated appraised value of the property.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2019 and 2018, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	**Significant Observable Inputs with No Active Market with Identical Characteristics**	**Significant Unobservable Inputs**	**Total Fair Value**
			(in thousands)	
December 31, 2019				
Assets:				
Securities available for sale:				
U.S. Treasury securities	$ 35,205	$ —	$ —	$ 35,205
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	—	410,800	—	410,800
Collateralized mortgage obligations	—	164,592	—	164,592
Debt securities	—	23,879	—	23,879
Total U.S. government agency and sponsored agency obligations	—	599,272	—	599,272
Total securities available for sale	**$ 35,205**	**$ 599,272**	**$ —**	**$ 634,477**
December 31, 2018				
Assets:				
Securities available for sale:				
U.S. Treasury securities	$ 39,830	$ —	$ —	$ 39,830
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	—	295,034	—	295,034
Collateralized mortgage obligations	—	122,292	—	122,292
Debt securities	—	7,402	—	7,402
Total U.S. government agency and sponsored agency obligations	—	424,728	—	424,728
Municipal bonds-tax exempt	—	110,350	—	110,350
Total securities available for sale	**$ 39,830**	**$ 535,078**	**$ —**	**$ 574,908**

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

As of December 31, 2019 and 2018, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs
		(in thousands)		
December 31, 2019				
Assets:				
Impaired loans and leases (1)	$ 31,049	$ —	$ —	$ 31,049
Other real estate owned	63	—	—	63
Bank-owned premises	1,900	—	—	1,900
December 31, 2018				
Assets:				
Impaired loans and leases (2)	$ 5,210	$ —	$ 3,253	$ 1,957
Other real estate owned	663	—	663	—

(1) Includes real estate loans of $ 41.4 million and commercial and industrial loans of $ 12.5 million.
(2) Includes real estate loans of $ 3.5 million and commercial and industrial loans of $ 1.7 million.

The following table represents quantitative information about Level 3 fair value comments for assets measured at fair value on a non-recurring basis at December 31, 2019 and 2018:

	Fair Value	Valuation Techniques	Unobservable Input(s)	Range (Weighted Average)
	(in thousands)			
December 31, 2019				
Impaired loans and leases:				
Real estate loans:				
Commercial property				
Other	$ 13,926	Market approach	Market data comparison	(1)
Construction	13,228	Market approach	Market data comparison	(3)% to 43% /21% (2)
Total real estate loans	27,154			
Commercial and industrial loans:				
Commercial lines of credit	3,895	Market approach	Market data comparison	(8)% to 42% /18% (2)
Total	**$ 31,049**			
Bank-owned premises	1,900	Market approach	Market data comparison	(30)% to 55% /(2)% (2)

(1) The values were estimated by current market data comparison, supplemented by cost information. The properties compared when possible, with others for sale and that have sold in the general time period. Adjustments are made for differences in equipment, mileage, cosmetics, conversions, originality, condition as well as sale terms and current economic conditions at time of sale.

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

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

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

Effective January 1, 2018, the Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). This standard, among other provisions, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Other than certain financial instruments for which we have concluded that the carrying amounts approximate fair value, the fair value estimates shown below are based on an exit price notion as of December 31, 2019 and 2018, as required by ASU 2016-01. The financial instruments for which we have concluded that the carrying amounts approximate fair value include: cash and due from banks, accrued interest receivable and payable, and noninterest-bearing deposits.

The estimated fair values of financial instruments were as follows:

	December 31, 2019			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 121,678	$ 121,678	$ —	$ —
Securities available for sale	634,477	35,205	599,272	—
Loans held for sale	6,020	—	6,382	—
Loans and leases receivable, net of allowance for loan and lease losses	4,548,739	—	—	4,520,322
Accrued interest receivable	11,742	11,742	—	—
Financial liabilities:				
Noninterest-bearing deposits	1,391,624	—	1,391,624	—
Interest-bearing deposits	3,307,338	—	—	3,317,867
Borrowings and subordinated debentures	208,377	—	89,831	118,807
Accrued interest payable	11,215	11,215	—	—

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

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

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

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

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

Loans and leases receivable, net of allowance for loan and lease losses – The fair value of loans and leases receivable is estimated based on the discounted cash flow approach. To estimate the fair value of the loans and leases, certain loan and lease characteristics such as account types, remaining terms, annual interest rates or coupons, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan-to-value ratios, loss exposures, and remaining balances are considered. Additionally, the Company's prior charge-off rates and loss ratios as well as various other assumptions relating to credit, interest, and prepayment risks are used as part of valuing the loan and lease portfolio. Subsequently, the loans and leases were individually valued by sorting and pooling them based on loan and lease types, credit risk grades, and payment types. Consistent with the requirements of ASU 2016-01 which was adopted by the Company on January 1, 2018, the fair value of the Company's loans and leases receivable is considered to be an exit price notion as of December 31, 2019 (Level 3).

The fair value of impaired 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).

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

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

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

Borrowings and subordinated debentures – Borrowings consist of FHLB advances, subordinated debentures and other borrowings. Discounted cash flows based on current market rates for borrowings with similar remaining maturities are used to estimate the fair value of borrowings (Level 2 and 3).

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

Note 15 — Share-based Compensation

At December 31, 2019, we had two incentive plans; the 2007 Equity Compensation Plan (the "2007 Plan") and the 2013 Equity Compensation Plan (the "2013 Plan" and with 2007 Plan, the "Plans") which replaced the 2007 Plan.

The Company provides awards of options, stock appreciation rights, restricted stock awards, restricted stock unit awards, shares 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. Plan participants include 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 earlier plans, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2007 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, 2019,348,922 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,		
	2019	2018	2017
Share-based compensation expense	$ 3,125	$ 3,515	$ 2,893
Related tax benefits	$ 941	$ 984	$ 1,179

As of December 31, 2019, unrecognized share-based compensation expense was $4.5 million with an average expected recognition period of2.0 years.

2013 and 2007 Equity Compensation Plans

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 generally vest based on three to five years of continuous service and expire 10 years from the date of grant. New shares of common stock are issued or treasury shares are utilized upon the exercise of stock options. There were no options granted during the three years ended December 31, 2019.

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

	Year Ended December 31,		
	2019	2018	2017
Fair value of options vested	$ —	$ 184	$ 820
Total intrinsic value of options exercised *(1)*	$ 842	$ —	$ 432
Cash received from options exercised	$ 2,979	$ —	$ 288

(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,					
	2019		2018		2017	
	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	338,338	$ 17.52	364,088	$ 17.86	387,901	$ 17.49
Options granted	—	$ —	—	$ —	—	$ —
Options exercised	(181,900)	$ 16.38	(25,750)	$ 22.06	(23,813)	$ 12.21
Options forfeited	—	$ —	—	$ —	—	$ —
Options expired	—	$ —	—	$ —	—	$ —
Options outstanding at end of period	**156,438**	**$ 18.84**	**338,338**	**$ 17.52**	**364,088**	**$ 17.86**
Options exercisable at end of period	156,438	$ 18.84	338,338	$ 17.52	354,753	$ 17.71

As of December 31, 2019 there wasno unrecognized compensation cost related to nonvested stock options granted under the plan.

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

	Year Ended December 31,					
	2019		2018		2017	
	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	—	$ —	9,335	$ 23.47	46,340	$ 22.42
Options granted	—	$ —	—	$ —	—	$ —
Options vested	—	$ —	(9,335)	$ 23.47	(37,005)	$ 22.16
Options forfeited	—	$ —	—	$ —	—	$ —
Non-vested options outstanding at end of period	**—**	**$ —**	**—**	**$ —**	**9,335**	**$ 23.47**

As of December 31, 2019, stock options outstanding under the Plans were as follows:

	Options Outstanding				Options Exercisable			
	Number of Shares	Intrinsic Value *(1)*	Weighted-Average 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
$10.80 to $14.99	10,438	$ 78	$ 12.54	2.9 years	10,438	$ 78	$ 12.54	2.9 years
$15.00 to $19.99	85,000	270	16.82	3.8 years	85,000	270	16.82	3.8 years
$20.00 to $24.83	61,000	—	22.73	4.8 years	61,000	—	22.73	4.8 years
	156,438	**$ 348**	**$ 18.84**		**156,438**	**$ 924**	**$ 18.84**	

(1) *Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was $ 20.00 as of December 31, 2019, and the exercise price, multiplied by the number of options. This value is presented in thousands.*

Restricted Stock Awards

Restricted stock awards under the Plans become fully vested after a certain number of years or after certain performance criteria are met. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock are treated as canceled shares.

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

	2019			2018			2017		
	Number of Shares		Weighted-Average Grant Date Fair Value Per Share	Number of Shares		Weighted-Average Grant Date Per Share	Number of Shares		Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	304,595	$	21.98	317,783	$	21.09	343,958	$	16.60
Restricted stock granted	181,204	$	22.05	156,771	$	25.02	127,239	$	31.06
Restricted stock vested	(99,527)	$	27.56	(106,674)	$	27.11	(139,298)	$	18.73
Restricted stock forfeited	(90,071)	$	13.78	(63,285)	$	15.38	(14,116)	$	24.73
Restricted stock at end of period	**296,201**	**$**	**22.91**	**304,595**	**$**	**21.98**	**317,783**	**$**	**21.09**

As of December 31, 2019, there was $4.5 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of shares vested during the years ended December 31, 2019, 2018, and 2017 was $2.1 million, $3.0 million, and $4.2 million, respectively.

Note 16 — Earnings per Share

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

	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount (1)
Year Ended December 31, 2019			
Basic EPS			
Net income	$ 32,788	30,725,376	$ 1.07
Less: income allocated to unvested restricted stock	230	30,725,376	0.01
Basic EPS	**$ 32,558**	**30,725,376**	**$ 1.06**
Effect of dilutive securities - options and unvested restricted stock	—	35,046	—
Diluted EPS			
Net income	$ 32,788	30,760,422	$ 1.07
Less: income allocated to unvested restricted stock	230	30,760,422	0.01
Diluted EPS	**$ 32,558**	**30,760,422**	**$ 1.06**
Year Ended December 31, 2018			
Basic EPS			
Net income	$ 57,868	31,924,863	$ 1.81
Less: income allocated to unvested restricted stock	359	31,924,863	0.01
Basic EPS	**$ 57,509**	**31,924,863**	**$ 1.80**
Effect of dilutive securities - options and unvested restricted stock	—	126,470	—
Diluted EPS			
Net income	$ 57,868	32,051,333	$ 1.80
Less: income allocated to unvested restricted stock	359	32,051,333	0.01
Diluted EPS	**$ 57,509**	**32,051,333**	**$ 1.79**
Year Ended December 31, 2017			
Basic EPS			
Net income	$ 54,660	32,071,585	$ 1.71
Less: income allocated to unvested restricted stock	339	32,071,585	0.01
Basic EPS	**$ 54,321**	**32,071,585**	**$ 1.70**
Effect of dilutive securities - options and unvested restricted stock	—	178,333	—
Diluted EPS			
Net income	$ 54,660	32,249,918	$ 1.70
Less: income allocated to unvested restricted stock	339	32,249,918	0.01
Diluted EPS	**$ 54,321**	**32,249,918**	**$ 1.69**

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

There were no anti-dilutive options and shares of unvested restricted stock outstanding for the years ended December 31, 2019, 2018 and 2017.

Note 17 — Employee Benefits

401(k) Plan

We have a 401(k) plan for the benefit of substantially all of our employees. We match75 percent of participant contributions to the 401(k) plan up to8 percent of each 401(k) plan participant's annual compensation. Contributions to the 401(k) plan were $2.4 million, $2.4 million and $2.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Personal Paid Time Off

Full time employees of the Bank are provided a benefit for personal paid time off for vacation and sick time based on their length of employment. As of December 31, 2019, the accrued expense liability for personal paid time off was $2.5 million.

Bank-Owned Life Insurance

As of December 31, 2019, cash surrender value of bank-owned life insurance was $52.8 million. The Bank is the main beneficiary under the policy, although certain employees named on the policy are eligible for their heirs to be paid upon their death. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier.

Note 18 — Commitments and Contingencies

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 19 — 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 and may expire without ever being utilized.

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

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

	December 31,	
	2019	**2018**
	(in thousands)	
Commitments to extend credit	$ 371,287	$ 325,100
Standby letters of credit	31,372	32,500
Commercial letters of credit	11,133	13,848
Total undisbursed loan commitments	**$ 413,792**	**$ 371,448**

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for off-balance sheet items are included in other operating expenses. Activity in the allowance for off-balance sheet items was as follows for the periods indicated:

	As of and for the Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Allowance for off-balance sheet items:			
Balance at beginning of period	$ 1,439	$ 1,296	$ 1,184
Provision charged to operating expense	958	143	112
Balance at end of period	**$ 2,397**	**$ 1,439**	**$ 1,296**

Note 20 — Qualified Affordable Housing Project Investments

The Company invests in qualified affordable housing projects. At December 31, 2019, the balance of the investment for qualified affordable housing project was $9.6 million. This balance is reflected in accrued interest receivable and other assets on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects aggregated $112,000 at December 31, 2019. The Company expects to fulfill these commitments during the year ending2023.

During the years ended December 31, 2019, the Company recognized amortization expense of $2.0 million, which was included within income tax expense on the consolidated statements of income.

Note 21 — Liquidity

Hanmi Financial

Hanmi Financial had $17.1 million in cash on deposit with its bank subsidiary. Management believes that Hanmi Financial, on a stand-alone basis, had adequate liquid assets to meet its current debt obligations.

Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank’s ability to meet the day-to-day cash flow requirements of our customers who 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, 2019 and 2018, the Bank had $90.0 million and $55.0 million of FHLB advances and $264.2 million and $351.3 million, respectively, of brokered deposits.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank’s primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30 percent of its assets. As of December 31, 2019, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $1.11 billion and $878.4 million, respectively, compared to $924.4 million and $729.4 million, respectively, as of December 31, 2018.

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, leases 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 $29.6 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $30.2 million, and had no borrowings as of December 31, 2019. The Bank also maintains a line of credit for repurchase agreements up to $100.0 million. The Bank also had three unsecured federal funds lines of credit totaling $115.0 million with no outstanding balances as of December 31, 2019.

Note 22 — Condensed Financial Information of Parent Company

Balance Sheets

	Year Ended December 31, 2019	2018
	(in thousands)	
Assets		
Cash	$ 17,105	$ 7,450
Investments in consolidated subsidiaries	658,464	652,174
Other assets	7,511	12,196
Total assets	**$ 683,080**	**$ 671,820**
Liabilities and Stockholders' Equity		
Liabilities		
Subordinated debentures	$ 118,377	$ 117,808
Other liabilities	1,436	1,444
Total liabilities	119,813	119,252
Stockholders' equity	563,267	552,568
Total liabilities and stockholders' equity	**$ 683,080**	**$ 671,820**

Statements of Income

	Year Ended December 31, 2019	2018	2017
		(in thousands)	
Dividends from bank subsidiaries	$ 44,500	$ 76,669	$ 22,619
Interest expense	(7,032)	(6,925)	(5,353)
Other expense	(5,333)	(5,988)	(5,291)
Income before taxes and undistributed income of subsidiary	32,135	63,756	11,975
Income tax benefit	3,823	4,116	7,513
Income before undistributed income of subsidiary	35,958	67,872	19,488
Equity in undistributed income of subsidiary	(3,170)	(10,004)	35,172
Net income	**$ 32,788**	**$ 57,868**	**$ 54,660**

Statements of Cash Flows

	Year Ended December 31, 2019	2018	2017
	(in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 32,788	$ 57,868	$ 54,660
Adjustments to reconcile net income to net cash used in operating activities			
Undistributed income of subsidiary	3,170	10,004	(35,172)
Amortization of subordinated debentures	569	538	463
Share-based compensation expense	3,125	3,515	2,893
Change in other assets and liabilities	4,679	(10,463)	5,156
Net cash provided by operating activities	**44,331**	**61,462**	**28,000**
Cash Flows from Investing Activities:			
Equity contribution to Hanmi Bank	—	—	(90,000)
Net cash provided by (used in) investing activities	**—**	**—**	**(90,000)**
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options	2,979	570	288
Proceeds from insurance of long-term debt	—	—	97,828
Cash paid for repurchase of vested shares due to employee tax liability	(517)	(680)	(1,103)
Repurchase of common stock	(7,362)	(36,068)	—
Cash dividends paid	(29,776)	(30,921)	(25,811)
Net cash provided by (used in) investing activities	**(34,676)**	**(67,099)**	**71,202**
Net increase (decrease) in cash	**9,655**	**(5,637)**	**9,202**
Cash at beginning of year	7,450	13,087	3,885
Cash at end of year	**$ 17,105**	**$ 7,450**	**$ 13,087**

Note 23 — Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is shown in the following tables:

	Quarter Ended March 31	June 30	September 30	December 31
2019:				
Interest and dividend income	$ 62,414	$ 61,482	$ 62,177	$ 60,699
Interest expense	17,526	18,492	18,119	16,763
Net interest income before provision for loan and lease losses	44,888	42,990	44,058	43,936
Loan and lease loss provision	1,117	16,699	1,602	10,752
Noninterest income	6,254	7,729	6,860	6,709
Noninterest expense	29,065	30,144	32,607	34,089
Income before provision for income taxes	20,960	3,876	16,709	5,804
Provision for income taxes	6,288	1,220	4,333	2,720
Net income	**$ 14,672**	**$ 2,656**	**$ 12,377**	**$ 3,084**
Basic earnings per share	$ 0.48	$ 0.09	$ 0.40	$ 0.10
Diluted earnings per share	$ 0.48	$ 0.09	$ 0.40	$ 0.10

	Quarter Ended			
	March 31	June 30	September 30	December 31
2018:				
Interest and dividend income	$ 55,082	$ 57,322	$ 60,036	$ 61,957
Interest expense	10,158	12,208	14,707	16,311
Net interest income before provision for loan and lease losses	44,924	45,114	45,329	45,646
Loan and lease loss provision	649	100	200	3,041
Noninterest income	6,061	5,945	6,215	6,299
Noninterest expense	29,757	29,510	29,008	29,298
Income before provision for income taxes	20,579	21,449	22,336	19,606
Provision for income taxes	5,724	5,901	6,255	8,222
Net income	**$ 14,855**	**$ 15,548**	**$ 16,081**	**$ 11,384**
Basic earnings per share	$ 0.46	$ 0.48	$ 0.50	$ 0.37
Diluted earnings per share	$ 0.46	$ 0.48	$ 0.50	$ 0.37

Note 24 — 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, 2019.

Note 25 — Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as of January 1, 2018. ASU 2014-09 established a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. The standard’s core principle is that a company shall recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally are required to use more judgment and make more estimates than under prior guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under GAAP, the new guidance did not have an impact on revenue most closely associated with our financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including revenue streams associated with our noninterest income. Based on this assessment, the Company concluded that ASU 2014-09 did not change the method in which the Company currently recognizes revenue for these revenue streams.

The Company's noninterest income primarily includes service charges on deposit accounts, trade finance and other service charges and fees, servicing income, bank-owned life insurance income and gains or losses on sale of SBA loans and securities. Based on our assessment of revenue streams related to the Company's noninterest income, we concluded that the Company's performance obligations for such revenue streams are typically satisfied as services are rendered. If applicable, the Company records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers and records contract assets when services are provided to customers before payment is received or before payment is due. The Company’s noninterest revenue streams are largely based on transactional activities and since the Company generally receives payments for its services during the period or at the time services are provided, there are no contract asset or receivable balances as of December 31, 2019 and 2018. Consideration is often received immediately or shortly after the Company satisfies its performance obligations and revenue is recognized.

The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross versus net) and concluded that our Consolidated Statements of Income do not include any revenue streams that are impacted by such gross versus net provisions of the new standard. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no impact upon adoption of this new standard, a cumulative effect adjustment to opening retained earnings was not necessary.

Hanmi Financial Corporation and Subsidiary
Exhibit Index

Exhibit Number	Document
3.1	Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 19, 2011).
3.3	Second Amended and Restated Bylaws of Hanmi Financial Corporation, dated as of March 23, 2016 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on March 29, 2016).
3.4	First Amendment to the Second Amended and Restated Bylaws of Hanmi Financial Corporation (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on October 2, 2017).
4.1	Specimen Stock Certificate representing Hanmi Financial Corporation Common Stock (incorporated by reference herein from Exhibit 4 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
4.2	Central Bancorp Statutory Trust I Junior Subordinated Indenture, dated as of December 27, 2005, entered into between Central Bancorp, Inc. and JPMorgan Chase Bank, National Association as Trustee (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
4.3	Amended and Restated Declaration of Trust of Central Bancorp Statutory Trust I, dated as of December 27, 2005, among Central Bancorp, Inc., JPMorgan Chase Bank, National Association, and the Administrative Trustees Named Therein (incorporated by reference herein from Exhibit 10.2 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
4.4	Central Bancorp Statutory Trust I Trust Preferred Securities Guarantee Agreement, dated as of December 27, 2005, entered into between Central Bancorp, Inc., as Guarantor, and JPMorgan Chase Bank, National Association, as Guarantee Trustee (incorporated by reference herein from Exhibit 10.3 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
4.5	Subordinated Indenture, dated as of March 21, 2017, by and between Hanmi Financial Corporation and Wilmington Trust, National Association, as Trustee (incorporated by reference herein from Exhibit 4.1 to Hanmi Financial Corporation's Current Report on Form 8-K, filed with the SEC on March 21, 2017).
4.6	First Supplemental Indenture, dated as of March 21, 2017, by and between Hanmi Financial Corporation and Wilmington Trust, National Association, as Trustee (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Current Report on Form 8-K, filed with the SEC on March 21, 2017).
4.7	Description of Registrant's Capital Stock.
10.1	Form of Indemnity Agreement (incorporated by reference herein from Exhibit 10.35 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
10.2	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). †
10.3	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). †
10.4	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). †

10.5	Hanmi Financial Corporation Amended and Restated 2013 Equity Compensation Plan (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
10.6	Form of Incentive Stock Option Agreement (incorporated by reference herein from Exhibit 4.3 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
10.7	Form of Non-Qualified Stock Option Agreement (incorporated by reference herein from Exhibit 4.4 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
10.8	Form of Restricted Stock Agreement (incorporated by reference herein from Exhibit 4.5 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
10.9	Amended and Restated Employment Agreement by and among Hanmi Financial Corporation, Hanmi Bank and Bonita I. Lee dated February 26, 2020.†
10.10	Amended and Restated Employment Agreement by and among Hanmi Financial Corporation, Hanmi Bank and Romolo C. Santarosa dated February 26, 2020.†
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm - Consent of Crowe LLP.
23.2	Consent of Independent Registered Public Accounting Firm - Consent of KPMG LLP.
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	Inline XBRL Instance Document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, has been formatted in Inline XBRL

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

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 2, 2020	**Hanmi Financial Corporation**
	By: /s/ Bonita I. Lee Bonnie Lee *Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 2, 2020.

/s/ Bonita I. Lee Bonnie Lee *Chief Executive Officer; Director* *(Principal Executive Officer)*	/s/ Romolo C. Santarosa Romolo C. Santanrosa *Senior Executive Vice President and Chief Financial Officer* *(Principal Financial and Accounting Officer)*
/s/ John J. Ahn John J. Ahn *Chairman of the Board*	/s/ Kiho Choi Kiho Choi *Director*
/s/ Christie K. Chu Christie K. Chu *Director*	/s/ Harry H. Chung Harry H. Chung *Director*
/s/ David L. Rosenblum David L. Rosenblum *Director*	/s/ Thomas J. Williams Thomas J. Williams *Director*
/s/ Michael M. Yang Michael M. Yang *Director*	/s/ Scott R. Diehl Scott R. Diehl *Director*

Exhibit 4.7

DESCRIPTION OF CAPITAL STOCK

As of December 31, 2019, the common stock of Hanmi Financial Corporation (the "Company") is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The following description of our capital stock, certain provisions of our certificate of incorporation and bylaws and certain provisions of Delaware law is a summary and is qualified in its entirety by reference to our certificate of incorporation, bylaws and the Delaware General Corporation Law (the "DGCL"). Copies of our certificate of incorporation and our bylaws have been filed with the SEC and are filed as exhibits to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission of which this Exhibit is a part.

Authorized Capital Stock

Our authorized capital stock consists of 62,500,000 shares of common stock, $0.001 par value, and 10,000,000 shares of preferred stock, $0.001 par value. As of December 31, 2019, there were 30,799,624 shares of common stock outstanding and no shares of preferred stock outstanding.

Common Stock

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. The holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, and as a consequence, minority stockholders are not able to elect directors on the basis of their votes alone. Subject to preferences that may be applicable to any shares of preferred stock currently outstanding or issued in the future, holders of common stock are entitled to receive ratably such dividends as may be declared by our board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock. Holders of common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series.

The DGCL provides that the holders of preferred stock will have the right to vote separately as a class on any proposal involving fundamental changes in the rights of holders of that preferred stock. This right is in addition to any voting rights that may be provided for in the applicable certificate of designation.

The issuance of preferred stock could adversely affect the voting power, conversion or other rights of holders of common stock. Preferred stock could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of our common stock.

Anti-Takeover Effects of Provisions of Delaware Law and Our Charter Documents

Certificate of Incorporation

Stockholders have no cumulative voting rights.

Our certificate of incorporation also requires that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing and that the stockholders may amend our bylaws or adopt new bylaws only by the affirmative vote of 66.67% of the outstanding voting securities. A special meeting of the stockholders may be called by our Chairman, our Chief Executive Officer or a resolution adopted by a majority of the total number of authorized directors. These provisions may have the effect of delaying, deferring or preventing a change in control.

The lack of cumulative voting will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board of directors. Since our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management.

These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management. These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and in the policies of our board of directors and to discourage certain types of transactions that may involve an actual or threatened change in control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy rights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, such provisions also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

Section 203 of the DGCL

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in a "business combination" with any "interested stockholder" for a period of three years following the time that such stockholder became an "interested stockholder," unless:

- prior to such time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 ⅔% of the outstanding voting stock which is not owned by the interested stockholder.

In general, Section 203 of the DGCL defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 of the DGCL defines “interested stockholder” as an entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Certain Transactions

Our bylaws provide that we will indemnify our directors and executive officers to the fullest extent permitted by the DGCL and any other applicable law. We are also empowered under our bylaws to indemnify other officers, employees and other agents as set forth in the DGCL or any other applicable law and to enter into indemnification contracts with our directors and executive officers and to purchase insurance on behalf of any person whom we are required or permitted to indemnify.

In addition, our certificate of incorporation provides that the liability of our directors for monetary damages shall be eliminated to the fullest extent permissible under Delaware law. Pursuant to Delaware law, our directors shall not be liable for monetary damages for breach of the directors’ fiduciary duty of care to us and our stockholders. However, this provision does not eliminate the duty of care, and in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief that will remain available under Delaware law. In addition, each director will continue to be subject to liability for (1) breach of the director’s duty of loyalty to us or our stockholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) violating Section 174 of the DGCL, or (4) any transaction from which the director derived an improper personal benefit. The provision also does not affect a director’s responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock. Computershare Trust Company, N.A.’s address is 250 Royall St., Canton MA 02021.

Listing

Our common stock is listed on the NASDAQ Global Select Market under the symbol “HAFC”.

Exhibit 10.9

February 26, 2020

Bonita I. Lee

Re: Amended and Restated Employment Agreement

Dear Ms. Lee:

This is your AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "***Agreement***") with Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state-chartered bank incorporated under the laws of the State of California (together, the "***Company***"). It sets forth the terms of your employment with the Company, effective as of close of business on February 26, 2020 (the "***Effective Date***"). Effective as of the Effective Date, this Agreement supersedes and replaces in its entirety that certain Employment Agreement, dated April 2, 2019, by and between the Company and you (the "***Prior Agreement***").

1. **Your Position, Performance and Other Activities.**

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

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

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

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

2. **Term of Your Employment.**

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

3. **Your Compensation.**

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

(b) *Incentive Compensation*. During the Term, you will be eligible to receive an annual cash bonus (your "***Bonus***") for each fiscal year of the Company commencing with the fiscal year ending December 31, 2020, pursuant to an annual cash bonus plan. The amount of the Bonus and the performance goals applicable to the Bonus shall be determined in accordance with the terms and conditions of said bonus plan as in effect from time to time, as determined by the independent members of the Board in sole discretion, based on a recommendation from the CHRC. Your total annual cash Bonus for any fiscal year cannot exceed 100% of your Salary.

4. **Other Employee Benefits.**

During the Term:

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

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

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

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

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

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

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

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

5. **Termination of Your Employment.**

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

(b) *Termination by the Company for Cause*.

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) *Your Termination for Good Reason*.

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

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

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

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

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

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

(d) *Termination on Disability or Death.*

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

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

(e) *Advance Notice Generally Required*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) In lieu of the amounts set forth in Sections 6(b)(ii) and (iii) above, the Company will pay you an amount equal to two and one-half (2.5) times the sum of (a) your then-current annual Salary and (b) the greater of (i) your average annual Bonus earned over the prior three consecutive calendar years or (ii) your then-target annual Bonus, payable in a lump-sum within thirty (30) days following the date of termination.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. **Effect on Other Agreements; Entire Agreement.**

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

9. **Successors.**

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

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

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

10. **Disputes.**

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

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

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

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

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

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

11. **General Provisions.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. **Compliance with Section 409A.**

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

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

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

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

(e) *Taxable Reimbursements and In-Kind Benefits.*

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

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

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

[Signature Page Follows]

13. **Counterparts.**

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

Very truly yours,

HANMI FINANCIAL CORPORATION

/s/ John J. Ahn
Name: John J. Ahn
Title: Chairman

HANMI BANK

/s/ John J. Ahn
Name: John J. Ahn
Title: Chairman

ACCEPTED AND AGREED TO:

/s/ Bonita I. Lee
Bonita I. Lee

Dated: February 26, 2020

Annex A

Limitation on Payments Following a Change in Control

In the event that any payment or benefit received or to be received by Bonita I. Lee ("***Executive***") pursuant to that certain Employment Agreement (the "***Agreement***"), dated February 26, 2020 and effective as of February 26, 2020, by and between Executive, Hanmi Financial Corporation and Hanmi Bank (together, the "***Company***") or otherwise ("***Payments***") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "***Code***") and (ii) but for this Annex A, be subject to the excise tax imposed by Section 4999 of the Code, any successor provisions, or any comparable federal, state, local or foreign excise tax ("***Excise Tax***"), then such Payments shall be either (A) provided in full pursuant to the terms of the Agreement and any other applicable agreements and plans, or (B) provided as to such lesser extent which would result in no portion of such Payments being subject to the Excise Tax ("***Reduced Amount***"), whichever of the foregoing amounts, taking into account the applicable federal, state, local and foreign income, employment and other taxes and the Excise Tax (including, without limitation, any interest or penalties on such taxes), results in the receipt by Executive, on an after-tax basis, of the greatest amount of payments and benefits provided for hereunder or otherwise, notwithstanding that all or some portion of such Payments may be subject to the Excise Tax. Unless the Company and Executive otherwise agree in writing, any determination required under this Annex A shall be made by independent tax counsel designated by the Company and reasonably acceptable to Executive ("***Independent Tax Counsel***"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required under this Annex A, Independent Tax Counsel may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code; provided that Independent Tax Counsel shall assume that Executive pays all taxes at the highest marginal rate unless Executive's actual effective marginal tax rate at the relevant time is less than the highest marginal rate, in which case such lower rate shall be used by Independent Tax Counsel. The Company and Executive shall furnish to Independent Tax Counsel such information and documents as Independent Tax Counsel may reasonably request in order to make a determination under this Annex A. The Company shall bear all costs that Independent Tax Counsel may reasonably incur in connection with any calculations contemplated by this Annex A. In the event that (ii)(B) above applies, then based on the information provided to Executive and the Company by Independent Tax Counsel, and notwithstanding any other provision of the Agreement or any other plan, arrangement or agreement to the contrary, the reduction of such Payments shall be made as follows: (A) if none of the Payments constitute non-qualified deferred compensation (within the meaning of Section 409A of the Code), then such reduction and/or repayment shall occur in the manner the Executive elects in writing prior to the date of Payment; or (B) if any Payment constitutes non-qualified deferred compensation or if the Executive fails to elect an order in the event that none of the Payments constitutes non-qualified deferred compensation (within the meaning of Section 409A of the Code), then the Payments to be reduced will be determined in a manner which maximizes the Executive's economic position and, to the extent the economic cost is equivalent between one or more Payments, such Payments will be reduced in the inverse order of when payment would have been made to the Executive, until the aggregate Payments payable to the Executive equal the Reduced Amount.

Annex B

General Release

For valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the "***Releasees***" hereunder, consisting of Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state chartered bank incorporated under the laws of the State of California (together, the "***Company***"), and their partners, associates, parents, subsidiaries, affiliates, successors, heirs, assigns, agents, directors, officers, employees, equityholders, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys' fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called "***Claims***"), which the undersigned now has or may hereafter have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination from employment of the undersigned by the Releasees, or any of them; any claim for benefits under any stock option or other equity-based incentive plan of the Releasees (or any related agreement to which any Releasee is a party); any alleged breach of any express or implied contract of employment; any alleged torts or other alleged legal restrictions on Releasee's right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Americans With Disabilities Act. Notwithstanding the foregoing, this General Release ("Release") shall not operate to release any Claims which the undersigned may have with respect to (i) payments and other express obligations of the Company under that certain Employment Agreement, dated as of February 26, 2020 and effective as of February 26, 2020 between the Company and the undersigned ("Employment Agreement"); (ii) accrued and vested benefits the undersigned may have, if any, as of the date hereof under any employee benefit plan of the Company or, with respect to any outstanding equity awards held by the undersigned, under any equity incentive plan, stock award or option agreement, as any such stock award or option agreement may be amended by the Employment Agreement, if such amendment is more favorable to the undersigned; (iii) payments and other obligations of the Company with respect to indemnification of the undersigned under the Company's Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, and under any indemnification agreement between the Company and the undersigned. Additionally, notwithstanding the foregoing, the undersigned understands that nothing in this Release limits the undersigned's ability to file a charge or complaint with the Equal Employment Opportunity Commission (the "EEOC"), the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). The undersigned further understand that this Release does not limit the undersigned's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Release does not limit the undersigned's right to receive an award for information provided to any Government Agencies, and except, to the extent permissible by applicable law, the undersigned hereby agrees to waive the right to any monetary relief or recovery, including attorneys' fees and costs, granted by the EEOC in connection with any complaint and/or charge brought against the Releasees arising out of the employment relationship or the termination of the employment relationship with the Company, regardless as to who brought or brings any such complaint or charge, whether in the nature of an individual action, class, or otherwise.

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

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

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

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

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

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

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

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

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

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

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

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

IN WITNESS WHEREOF, the undersigned has executed this Release this_____ day of _________, _____.

____

Bonita I. Lee

Exhibit 10.10

February 26, 2020

Romolo C. Santarosa

Re: Amended and Restated Employment Agreement

Dear Mr. Santarosa:

This is your AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "***Agreement***") with Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state chartered bank incorporated under the laws of the State of California (together, the "***Company***"). It sets forth the terms of your employment with the Company, effective as of close of business on February 26, 2020 (the "***Effective Date***"). Effective as of the Effective Date, this Agreement supersedes and replaces in its entirety that certain Employment Agreement, dated July 1, 2019, by and between the Company and you (the "***Prior Agreement***").

1. **Your Position, Performance and Other Activities.**

(a) *Position*. You will be employed in the position of Senior Executive Vice President and Chief Financial Officer ("***CFO***") of the Company and will report directly to the Company's Chief Executive Officer (the "***CEO***").

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

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

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

2. **Term of Your Employment.**

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

3. **Your Compensation.**

(a) *Salary*. During the Term, you will receive an annual base salary, which may be increased from time to time, but not reduced (other than a reduction that would affect all senior executives of the Bank based on the financial performance of the Bank, and in such case, your reduction shall not exceed the percentage reduction of similarly situated senior executives of the Bank) (your "***Salary***") payable in accordance with the Company's regular payroll practices. The amount of your Salary as of the Effective Date will be $400,000. Your Salary will be reviewed at least annually commencing in 2020 and may be increased, but not decreased (except as noted above), in the sole discretion of the independent members of the Board, based on the recommendation from the CHRC.

(b) *Incentive Compensation*. During the Term, you will be eligible to receive an annual bonus (your "***Bonus***") for each fiscal year of the Company commencing with the fiscal year ending December 31, 2020, pursuant to an annual bonus plan. The amount of the Bonus and the performance goals applicable to the Bonus shall be determined in accordance with the terms and conditions of said bonus plan as in effect from time to time, as determined by the independent members of the Board in sole discretion, based on a recommendation from the CHRC.

4. **Other Employee Benefits.**

During the Term:

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

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

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

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

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

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

5. **Termination of Your Employment.**

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

(b) Termination *by the Company for Cause*.

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

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

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

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

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

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

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

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

(H) Your disqualification, bar, prohibition, order or similar restriction imposed against you by any governmental or self-regulatory authority from serving as an officer or director of any member of the Company or your loss of any governmental or self-regulatory license that is reasonably necessary for you to perform your responsibilities to the Company under this

Agreement, if (i) the disqualification, bar or loss continues for more thanthirty (30) days and (ii) during that period the Company uses its good faith efforts to cause the disqualification or bar to be lifted or the license replaced. While any disqualification, bar or loss continues during your employment, you will serve in the capacity contemplated by this Agreement to whatever extent legally permissible and, if your employment is not permissible, you will be placed on leave (which will be paid to the extent legally permissible);

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

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

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

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

(c) *Your Termination for Good Reason*.

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

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

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

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

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

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

(d) *Termination on Disability or Death.*

(i) If the Company determines in good faith that your Disability has occurred, the Company may give you Termination Notice (as defined below). If within thirty (30) days of the Termination Notice you do not return to a full-time performance of your responsibilities, your employment will terminate. If you do return to full-time performance in that thirty (30) day period, the Termination Notice will be cancelled for all purposes of this Agreement. Except as provided in this Section 5(d), your incapacity due to mental or physical illness or injury will not affect the Company's obligations under this Agreement. For these purposes, you will be deemed to have incurred a Disability if any of the following occur: (i) you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of not less than twelve (12) months, (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death, or last for a continuous period of not less than twelve (12) months, you are receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Bank; or (iii) you are determined to be totally disabled by the Social Security Administration. With respect to "(i)" above, this Disability determination must be made by a physician, retained by the Bank for purposes of making this determination, or retained by you and approved by the Bank (which approval shall not be unreasonably withheld).

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

(e) *Advance Notice Generally Required*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) In lieu of the amounts set forth in Sections 6(b)(ii) and (iii) above, the Company will pay you an amount equal to two (2) times the sum of (a) your then-current annual Salary and (b) the greater of (i) your average annual Bonus earned over the prior two (2) consecutive calendar years or (ii) your then-target annual Bonus, payable in a lump-sum within thirty (30) days following the date of termination.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) You acknowledge and agree that you are bound by certain confidentiality, non-solicitation and other covenants set forth in the Confidentiality Agreement between you and the Company, dated June 8, 2015 (the "***Confidentiality Agreements***"). You hereby reaffirm the covenants and provisions set forth in the Confidentiality Agreements. Nothing in this Agreement, the Confidentiality Agreements, or the Company's standard confidentiality policies and procedures in effect from time to time shall prevent your truthful testimony as a witness, participation in an Investigation, or disclosure of wrongdoing to law enforcement or regulatory agencies of competent jurisdiction, including, without limitation, the Equal Employment Opportunity Commission (EEOC), National Labor Relations Board (NLRB), Occupational Safety and Health Administration (OSHA), the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC) or California Department of Business Oversight (DBO), or prohibit you from divulging confidential or proprietary information to the extent required by order of court or agency of competent jurisdiction.

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

8. **Effect on Other Agreements; Entire Agreement.**

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

9. **Successors.**

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

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

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

10. **Disputes.**

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

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

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

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

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

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

11. **General Provisions.**

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

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

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

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

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

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

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

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

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

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

Hanmi Financial Corporation
3660 Wilshire Boulevard, Penthouse Suite A
Los Angeles, California 90010
Attention: Chief Executive Officer
Facsimile: (213) 384-0990

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

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

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

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

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

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

12. **Compliance with Section 409A.**

(a) *General*. It is the intention of both the Company and you that the benefits and rights to which you could be entitled pursuant to this Agreement comply with Section 409A to the extent that the requirements of Section 409A are applicable thereto, and the provisions of this Agreement shall be construed in a manner consistent with that intention. If you or the Company believes, at any time, that any such benefit or right that is subject to

Section 409A does not so comply, it shall promptly advise the other and shall negotiate reasonably and in good faith to amend the terms of such benefits and rights such that they comply with Section 409A (with the most limited possible economic effect on you and on the Company). Notwithstanding the foregoing, the Company does not make any representation to you that the payments or benefits provided under this Agreement are exempt from, or satisfy, the requirements of Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless you or any beneficiary for any tax, additional tax, interest or penalties that you or any beneficiary may incur in the event that any provision of this Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A.

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

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

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

(e) *Taxable Reimbursements and In-Kind Benefits*.

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

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

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

[Signature Page Follows]

13. **Counterparts.**

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

Very truly yours,

HANMI FINANCIAL CORPORATION

/s/ John J. Ahn
Name: John J. Ahn
Title: Chairman

HANMI BANK

/s/ Bonita I. Lee
Name: Bonita I. Lee
Title: President & Chief Executive Officer

ACCEPTED AND AGREED TO:

/s/ Romolo C. Santarosa
Romolo C. Santarosa

Dated: February 26, 2020

Annex A

Limitation on Payments Following a Change in Control

In the event that any payment or benefit received or to be received by Romolo C. Santarosa ("***Executive***") pursuant to that certain Employment Agreement (the "***Agreement***"), dated February 26, 2020 and effective as of February 26, 2020, by and between Executive, Hanmi Financial Corporation and Hanmi Bank (together, the "***Company***") or otherwise ("***Payments***") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "***Code***") and (ii) but for this Annex A, be subject to the excise tax imposed by Section 4999 of the Code, any successor provisions, or any comparable federal, state, local or foreign excise tax ("***Excise Tax***"), then such Payments shall be either (A) provided in full pursuant to the terms of the Agreement and any other applicable agreements and plans, or (B) provided as to such lesser extent which would result in no portion of such Payments being subject to the Excise Tax ("***Reduced Amount***"), whichever of the foregoing amounts, taking into account the applicable federal, state, local and foreign income, employment and other taxes and the Excise Tax (including, without limitation, any interest or penalties on such taxes), results in the receipt by Executive, on an after-tax basis, of the greatest amount of payments and benefits provided for hereunder or otherwise, notwithstanding that all or some portion of such Payments may be subject to the Excise Tax. Unless the Company and Executive otherwise agree in writing, any determination required under this Annex A shall be made by independent tax counsel designated by the Company and reasonably acceptable to Executive ("***Independent Tax Counsel***"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required under this Annex A, Independent Tax Counsel may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code; provided that Independent Tax Counsel shall assume that Executive pays all taxes at the highest marginal rate unless Executive's actual effective marginal tax rate at the relevant time is less than the highest marginal rate, in which case such lower rate shall be used by Independent Tax Counsel. The Company and Executive shall furnish to Independent Tax Counsel such information and documents as Independent Tax Counsel may reasonably request in order to make a determination under this Annex A. The Company shall bear all costs that Independent Tax Counsel may reasonably incur in connection with any calculations contemplated by this Annex A. In the event that (ii)(B) above applies, then based on the information provided to Executive and the Company by Independent Tax Counsel, and notwithstanding any other provision of the Agreement or any other plan, arrangement or agreement to the contrary, the reduction of such Payments shall be made as follows: (A) if none of the Payments constitute non-qualified deferred compensation (within the meaning of Section 409A of the Code), then such reduction and/or repayment shall occur in the manner the Executive elects in writing prior to the date of Payment; or (B) if any Payment constitutes non-qualified deferred compensation or if the Executive fails to elect an order in the event that none of the Payments constitutes non-qualified deferred compensation (within the meaning of Section 409A of the Code), then the Payments to be reduced will be determined in a manner which maximizes the Executive's economic position and, to the extent the economic cost is equivalent between one or more Payments, such Payments will be reduced in the inverse order of when payment would have been made to the Executive, until the aggregate Payments payable to the Executive equal the Reduced Amount.

Annex B

General Release

For valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the "***Releasees***" hereunder, consisting of Hanmi Financial Corporation, a Delaware corporation, and Hanmi Bank, a state chartered bank incorporated under the laws of the State of California (together, the "***Company***"), and their partners, associates, parents, subsidiaries, affiliates, successors, heirs, assigns, agents, directors, officers, employees, equityholders, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys' fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called "***Claims***"), which the undersigned now has or may hereafter have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination from employment of the undersigned by the Releasees, or any of them; any claim for benefits under any stock option or other equity-based incentive plan of the Releasees (or any related agreement to which any Releasee is a party); any alleged breach of any express or implied contract of employment; any alleged torts or other alleged legal restrictions on Releasee's right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Americans With Disabilities Act. Notwithstanding the foregoing, this General Release ("Release") shall not operate to release any Claims which the undersigned may have with respect to (i) payments and other express obligations of the Company under that certain Employment Agreement, dated as of February 26, 2020 and effective as of February 26, 2020 between the Company and the undersigned ("Employment Agreement"); (ii) accrued and vested benefits the undersigned may have, if any, as of the date hereof under any employee benefit plan of the Company or, with respect to any outstanding equity awards held by the undersigned, under any equity incentive plan, stock award or option agreement, as any such stock award or option agreement may be amended by the Employment Agreement, if such amendment is more favorable to the undersigned; (iii) payments and other obligations of the Company with respect to indemnification of the undersigned under the Company's Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, and under any indemnification agreement between the Company and the undersigned. Additionally, notwithstanding the foregoing, the undersigned understands that nothing in this Release limits the undersigned's ability to file a charge or complaint with the Equal Employment Opportunity Commission (the "EEOC"), the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). The undersigned further understand that this Release does not limit the undersigned's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Release does not limit the undersigned's right to receive an award for information provided to any Government Agencies, and except, to the extent permissible by applicable law, the undersigned hereby agrees to waive the right to any monetary relief or recovery, including attorneys' fees and costs, granted by the EEOC in connection with any complaint and/or charge brought against the Releasees arising out of the employment relationship or the termination of the employment relationship with the Company, regardless as to who brought or brings any such complaint or charge, whether in the nature of an individual action, class, or otherwise.

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

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

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

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

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

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

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

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

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

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

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

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

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

Romolo C. Santarosa

Annex B

Exhibit 21.1

Hanmi Financial Corporation

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Hanmi Bank	California
Central Bancorp Statutory Trust	Texas

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-149858 and No. 333-191855 on Form S-8 and No. 333-164690 and No. 333-216668 on Form S-3 of Hanmi Financial Corporation, of our report dated March 2, 2020 relating to the consolidated financial statements of Hanmi Financial Corporation and subsidiaries, and our report dated the same date relative to the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Los Angeles, California
March 2, 2020

Exhibit 23.2

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. 333-164690 and 333-216668) on Form S-3 and (Nos. 333-149858 and 333-191855) on Form S-8 of Hanmi Financial Corporation of our reports dated March 1, 2019, with respect to the consolidated balance sheets of Hanmi Financial Corporation and subsidiaries as of December 31, 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), which report appears in the December 31, 2019 annual report on Form 10-K of Hanmi Financial Corporation.

/s/ KPMG LLP

Los Angeles, California
March 2, 2020

Exhibit 31.1

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

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

1. I have reviewed this Annual Report on Form 10-K of Hanmi FinancialCorporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant andhave:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ *Bonita I. Lee*
Bonita I. Lee
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

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

1. I have reviewed this Annual Report on Form 10-K of Hanmi FinancialCorporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant andhave:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ *Romolo C. Santarosa*
Romolo C. Santarosa
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hanmi Financial Corporation (the "Company") on Form 10-K for the period ended December 31, 2019, as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Bonita I. Lee, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the period presented.

Date:	March 2, 2020	/s/ *Bonita I. Lee*
		Bonita I. Lee
		President and Chief Executive Officer

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

Exhibit 32.2

Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hanmi Financial Corporation (the “Company”) on Form 10-K for the period ended December 31, 2019, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, Romolo C. Santarosa, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

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

Date:	March 2, 2020	/s/ *Romolo C. Santarosa*
		Romolo C. Santarosa
		Senior Executive Vice President and Chief Financial Officer

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