HANMI FINANCIAL CORP
Form 10-K
March 17, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2013

or

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

For the Transition Period From __________ To __________

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4788120**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3660 Wilshire Boulevard, Penthouse Suite A Los Angeles, California	**90010**
(Address of Principal Executive Offices)	**(Zip Code)**

(213) 382-2200

(Registrant s Telephone Number, Including Area Code)

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

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

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

None

(Title of Class)

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

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 x

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 x No ¨

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

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

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

Large Accelerated Filer ¨		Accelerated Filer	x
Non-Accelerated Filer ¨	(Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	¨

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

As of June 30, 2013, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $543,543,000. 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 March 1, 2014 was 32,357,252 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant s definitive Proxy Statement for its 2014 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2013, 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.

Table of Contents

Hanmi Financial Corporation

Annual Report on Form 10-K for the Fiscal Year ended December 31, 2013

Table of Contents

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

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

Table of Contents

Part I

Item 1. Business

General

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. 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. At December 31, 2013, the Bank maintained a network of 27 full-service branch offices in California and two loan production offices (LPO) in Washington and Texas.

Our other subsidiaries are Chun-Ha Insurance Services, Inc. (Chun-Ha) and All World Insurance Services, Inc. (All World), which were acquired in January 2007. Founded in 1989, Chun-Ha and All World are insurance agencies that offer a complete line of insurance products, including life, commercial, automobile, health, and property and casualty.

On December 15, 2013, Hanmi Financial entered into an Agreement and Plan of Merger (the Merger Agreement) with Central Bancorp, Inc., a Texas corporation (CBI) and Harmony Merger Sub Inc., a Texas corporation and a wholly owned subsidiary of Hanmi Financial (Merger Sub), pursuant to which Merger Sub will merge with and into CBI, with CBI as the surviving corporation (the CBI Merger). The Merger Agreement also provides that immediately after the CBI Merger, United Central Bank, a Texas state-chartered bank and a wholly owned subsidiary of CBI (UCB), will merge with and into the Bank, with the Bank as the surviving bank (the Bank Merger). The consideration to be paid in the CBI Merger will be $50 million in cash, subject to potential purchase price adjustments. As of December 31, 2013, CBI had $1.4 billion in assets. The transaction is expected to close in the second half of 2014, subject to approval by CBI s stockholders, regulatory approvals and other closing conditions. Following the close of the transaction, the combined entity would have approximately $4.3 billion in assets, $2.8 billion in gross loans and $3.8 billion in deposits, based on information as of September 30, 2013, with 50 banking offices and two loan production offices serving a broad range of communities across California, Texas, Illinois, New York, New Jersey, and Virginia. See Pending CBI Merger below for a description of the terms and conditions of the proposed transaction and Item 1.A. Risk Factors Risks Relating to the Pending CBI Merger for a description of the risks relating to the proposed transaction.

The Bank s revenues are derived primarily from interest and fees on loans, interest and dividends on securities portfolio, and service charges on deposit accounts. A summary of revenues for the periods indicated follows:

	Year Ended December 31,					
	2013		2012		2011	
			(In thousands)			
Interest and fees on loans	$ 111,992	72.8%	$ 108,982	75.3%	$ 117,671	77.1%
Interest and dividends on investments	10,121	6.6%	9,630	6.7%	10,518	6.9%
Other interest income	215	0.1%	1,188	0.8%	618	0.4%
Service charges on deposit accounts	11,307	7.4%	12,146	8.4%	12,826	8.4%
Other non-interest income	20,110	13.1%	12,666	8.8%	11,025	7.2%
Total revenues	**$ 153,745**	**100.0%**	**$ 144,612**	**100.0%**	**$ 152,658**	**100.0%**

Table of Contents

Market Area

The Bank historically has provided its banking services through its branch network to a wide variety of small- to medium-sized businesses. Throughout the Bank s service areas, competition is intense for both loans and deposits. While the market for banking services is dominated by a few nationwide banks with many offices operating over wide geographic areas, the Bank s primary competitors are relatively smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank s service areas. Substantially all of our assets are located in, and substantially all of our revenues are derived from, clients located within Southern California.

Lending Activities

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

Real Estate Loans

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

Commercial Property

The Bank offers commercial real estate loans, which are usually collateralized by first deeds of trust. The Bank generally obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. All appraisal reports on commercial mortgage loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser s assumptions and methods that were used to derive a value for the property, as well as compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). The Bank first looks to cash flow from the borrower to repay the loan and then to cash flow from other sources. The majority of the properties securing these loans are located in Los Angeles County and Orange County.

The Bank s commercial real estate loans are principally secured by investor-owned commercial buildings and owner-occupied commercial and industrial buildings. Generally, these types of loans are made for a period of up to seven years based on a longer amortization period. These loans usually have a loan-to-value ratio at time of origination of 65 percent or less, using an adjustable rate indexed to the prime rate appearing in the West Coast edition of *The Wall Street Journal* (WSJ Prime Rate) or the Bank s prime rate (Bank Prime Rate), as adjusted from time to time. The Bank also offers fixed-rate commercial real estate loans, including hybrid-fixed rate loans that are fixed for one to five years and convert to adjustable rate loans for the remaining term. Amortization schedules for commercial real estate loans generally do not exceed 25 years.

Payments on loans secured by investor-owned and owner-occupied properties are often dependent upon successful operation or management of the properties. Repayment of such loans may be subject to a greater extent to the risk of 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, which includes vacancy and interest rate hike sensitivity analysis at the time of loan origination and quarterly risk assessment of the total commercial real estate secured loan portfolio that includes most recent industry trends. When possible, the Bank also obtains corporate or individual guarantees. Representatives of the Bank conduct site visits of all of the properties securing the Bank s real estate loans before the loans are approved.

The Bank requires title insurance to insure the status of its lien on all of the real estate secured loans when a trust deed on the real estate is taken as collateral. The Bank also requires the borrower to maintain fire insurance, extended coverage casualty insurance and, if the property is in a flood zone, flood insurance, in an amount equal to the outstanding loan balance, subject to applicable laws that may limit the amount of hazard insurance a lender can require to replace such improvements. We cannot assure that these procedures will protect against losses on loans secured by real property.

Table of Contents

Construction

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

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

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

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

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

Residential Property

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

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

Commercial and Industrial Loans

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the commercial loans that the Bank originates are for business located in Los Angeles County and Orange County, 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 a credit underwriting before considering any extension of credit.

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

Table of Contents

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 Loans

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.

SBA Loans

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

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA Loans that it originates. When the Bank sells a SBA Loan, it has an option to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. Even after the sale of an SBA Loan, the Bank retains the right to service the SBA Loan and to receive servicing fees. The unsold portions of the SBA Loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2013, the Bank had $151.5 million of SBA Loans in its portfolio, and was servicing $350.0 million of SBA Loans sold to investors.

International Trade Finance

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

States, and a substantial portion of those borrowers are California-based businesses engaged in import and export activities.

Consumer Loans

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

Off-Balance Sheet Commitments

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

Lending Procedures and Loan Limits

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

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank s stockholders equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2013, the Bank s authorized legal lending limits for loans to one borrower were $65.6 million for unsecured loans plus an additional $43.7 million for specific secured loans. However, the Bank has established internal loan limits that are below the legal lending limits.

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

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

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

The Bank analyzes its allowance for loan losses on a quarterly basis. As an integral part of the quarterly credit review process of the Bank, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The California Department of Business Oversight (DBO), formerly known as the California Department of Financial Institutions, and the Federal Reserve Bank (FRB) may require the Bank to recognize additions to the allowance for loan losses through a provision for credit 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 non-interest 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 non-interest bearing checking accounts, earn interest at rates established by management based on competitive market factors and management s desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer s needs.

This approach is designed to add value for the customer, increase products per household and produce higher service fee income.

Available Information

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

We also maintain an Internet website at *www.hanmi.com*. We make available free of charge throughout our website our 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.

Table of Contents

Employees

As of December 31, 2013, the Bank had a total of 437 full-time employees and 17 part-time employees, and Chun-Ha and All World, together, had a total of 43 full-time employees and 2 part-time employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The managements of the Bank, Chun-Ha and All World believe that their employee relations are satisfactory.

Insurance

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

Competition

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

Many of our competitors are larger financial institutions that offer some services, such as 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 businesses, while offering the same or similar services and products as those offered by the Bank. These banks compete for loans and deposits primarily through the interest rates and fees they charge and the convenience and quality of service they provide to customers.

Economic, Legislative and Regulatory Developments

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

Our business is also influenced by the monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the Federal Reserve), the federal government, and the policies of regulatory agencies, particularly the FRB.

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

From time to time, federal and state legislation is enacted that may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers, such as federal legislation permitting affiliations among commercial banks, insurance companies and securities firms. We cannot predict whether or when any potential legislation will be enacted, and if enacted, the effect that it, or any

Table of Contents

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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed into law on July 21, 2010 and significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators. Dodd-Frank followed other legislative and regulatory initiatives which were enacted in 2008 and 2009 in response to the economic downturn and financial industry instability. Dodd-Frank impacts many aspects of the financial industry and, in many cases, will impact larger and smaller financial institutions and community banks differently over time. Dodd-Frank includes, among other things, the following:

(i) creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;

(ii) expanded Federal Deposit Insurance Corporation (FDIC) resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

(iii) establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

(iv) requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

(v) enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks;

(vi) termination of investments by the U.S. Department of the Treasury (the Treasury Department) under the Troubled Asset Relief Program (TARP);

(vii) elimination and phase out of trust preferred securities from Tier 1 capital with certain exceptions;

(viii) a permanent increase of FDIC deposit insurance to $250,000;

(ix) authorization for financial institutions to pay interest on business checking accounts;

(x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution s deposit base, but instead, will be its average consolidated total assets less its average tangible equity and an increase in the minimum insurance ratio for the Deposit Insurance Fund (DIF) from 1.15 percent to 1.35 percent;

(xi) elimination of remaining barriers to de novo interstate branching by federal- and state-chartered banks;

(xii) expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act (the FRA)and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions;

(xiii) transfer of oversight of federally chartered thrift institutions to the Office of the Comptroller of the Currency and state chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

(xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including financial institutions, including (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria, (3) enhanced independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement;

(xv) creation of the Consumer Financial Protection Bureau (the CFPB), which is authorized to promulgate consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than $10 billion in assets; and

(xvi) adoption, on December 10, 2013, by federal bank regulatory agencies, including our primary federal regulator, the Federal Reserve, of final rules implementing the prohibitions required by the Volcker Rule of Dodd-Frank. The final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in, and relationships with, hedge funds or private equity funds. The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule. The final rules will become effective on April 1, 2014 with a compliance period that has been extended through July 21, 2015. The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. Although the Volcker Rule has significant implications for many larger financial institutions, we do not currently anticipate that the Volcker Rule will have a material effect on the operations of Hanmi Financial or the Bank. Until the application of the final rules is fully understood, the precise financial impact of the Volcker Rule on Hanmi Financial, the Bank, our customers or the financial industry more generally, cannot be determined.

We cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation may affect us. As a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted, and we may be required to make changes to certain of our business practices. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Many of the requirements of Dodd-Frank will be implemented over time, and most will be subject to regulations which have not yet been implemented or which will not become fully effective for several years. There can be no assurance that these or future reforms (such as possible new standards for commercial real estate (CRE) lending or new stress testing guidance for all banks) required by Dodd-Frank will not significantly increase our compliance or other operating costs and earnings or otherwise have a significant impact on our business, financial condition and results of operations. Dodd-Frank may result in more stringent capital, liquidity and leverage requirements, and may otherwise adversely affect our business. For example, the provisions that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues generated by those deposits. Provisions that revoke the Tier 1 capital treatment of trust preferred securities could require Hanmi Financial and the Bank to seek other sources of capital in the future.

International Capital and Liquidity Initiatives

The International Basel Committee on Banking Supervision (the Basel Committee) is a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified as Basel III.

Basel III, when fully phased-in, would require bank holding companies and their bank subsidiaries to maintain substantially more capital than currently required, with a greater emphasis on common equity. Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a capital conservation buffer on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation s circumstances. These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee s intention to introduce higher capital requirements on securitization and trading activities at the end of 2011.

On July 2, 2013, the federal banking regulators approved the final proposed rules for a U.S. version of Basel III. The final rules, among other things, include a new common equity Tier 1 capital (CET1) to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015 to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

Under the final rules, if an institution grows above $15 billion as a result of an acquisition, or organically grows above $15 billion and then makes an acquisition, the combined trust preferred security debt issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016).

The final rules also provide for a number of adjustments to and deductions from the new CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the

Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Bank s securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The Company and the Bank are currently evaluating the provisions of the final rules and expected impact. The phase-in period for the final rules will begin for the Company and the Bank on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

Pending CBI Merger

On December 15, 2013, Hanmi Financial entered into the Merger Agreement with CBI and Merger Sub pursuant to which Merger Sub will merge with and into CBI, with CBI as the surviving corporation. The Merger Agreement also provides that

Table of Contents

immediately after the CBI Merger, UCB will merge with and into the Bank, with the Bank as the surviving bank. In conjunction with the Merger Agreement, certain directors of CBI and UCB entered into voting agreements with Hanmi Financial pursuant to which they agreed, among other things, to vote their shares of CBI common stock, par value $1.00 per share (the CBI Shares), in favor of the Merger Agreement.

Subject to the terms and conditions of the Merger Agreement, upon consummation of the CBI Merger, Hanmi Financial will pay an aggregate merger consideration of $50 million in cash in respect of the outstanding CBI Shares which will be reduced on a dollar-for-dollar basis (i) by up to $19 million depending on CBI s ability to realize certain tax refunds arising from CBI s restatement of previous years tax returns or refunds of prior overpayments, in each case prior to the closing date, or CBI s 2013 tax liabilities exceeding a specified amount and (ii) by the amount of certain losses incurred or reasonably expected to be incurred in the event UCB fails to secure reimbursements or assurances of reimbursement under the loss share agreements (the Loss Share Agreements) between UCB and the FDIC or the FDIC asserts any clawbacks with respect to prior reimbursements.

Prior to closing, the parties will seek to obtain the agreement of the Treasury Department to the repurchase, as of immediately prior to the closing, of CBI s fixed rate cumulative perpetual preferred stock issued under the Treasury Department s Capital Purchase Program (the TARP Shares). If for any reason the TARP Shares cannot be purchased prior to closing, the CBI Merger is conditioned on receiving the approval of the Federal Reserve and the applicable state regulatory authorities to redeem the TARP Shares following closing.

Each party s obligation to consummate the CBI Merger is conditioned upon customary matters for a transaction of this nature, including required regulatory approvals and approval of CBI s shareholders. The parties currently anticipate that the requisite regulatory applications will be submitted after the financial information for the first quarter of 2014 becomes available. In addition, Hanmi Financial s obligation to consummate the CBI Merger is further conditioned upon, among other things, (i) holders of no more than 10% of the outstanding CBI Shares having exercised appraisal rights with respect to the CBI Merger, (ii) (A) the consent of the FDIC to the transaction under the Loss Share Agreements, (B) UCB s filing all claims certificates required or permitted to be filed pursuant to the Loss Share Agreements and either the FDIC having reimbursed these claims in full or Hanmi Financial having received assurances that the claims will be reimbursed and (C) there having not been any clawbacks asserted by the FDIC with respect to reimbursements under the Loss Share Agreements (provided that in the event items (B) and (C) are not satisfied, the condition described in this item (ii) will be deemed satisfied if CBI elects to decrease the aggregate merger consideration as described above), (iii) the carrying value as of the month-end immediately preceding the consummation of the CBI Merger of all loans of CBI or any of its subsidiaries that are then classified as substandard, doubtful, or loss and assets classified as other real estate owned not exceeding the higher of (1) $160 million and (2) if Hanmi Financial elects in its sole discretion, such higher number as Hanmi Financial reasonably determines necessary and (iv) CBI having completed its financial statements for the year ended December 31, 2013 and Crowe and Horwath LLP having issued an audit report thereon in each case satisfying the applicable rules and regulations of the SEC.

The Merger Agreement contains certain termination rights including the right of either Hanmi Financial or CBI to terminate the Merger Agreement if (i) the CBI Merger is not consummated by September 30, 2014, which date may be extended by Hanmi Financial to December 31, 2014 if the parties have not received the necessary approvals from the applicable regulatory authorities (the Drop Dead Date), (ii) the required approval of CBI s shareholders is not obtained or (iii) any court or governmental authority issues an order or takes other action permanently enjoining the CBI Merger or the Bank Merger. The Merger Agreement contains certain other termination rights customary for a transaction of this nature.

Termination of the Merger Agreement may result in CBI having to pay a termination fee of three percent of the $50 million aggregate merger consideration, subject to potential adjustment as otherwise described herein in the event that

(i) CBI, prior to obtaining shareholder approval, terminates the Merger Agreement to enter into an alternative acquisition agreement, (ii) a *bona fide* acquisition proposal is made to CBI and is not publicly withdrawn and thereafter the Merger Agreement is terminated by either Hanmi Financial or CBI because (A) the CBI Merger is not consummated by the Drop Dead Date or (B) CBI s shareholders fail to approve the CBI Merger or (iii) (A) Hanmi Financial terminates the Merger Agreement because CBI s board of directors changes its recommendation to its shareholders, (B) CBI fails to hold a shareholder vote, (C) CBI fails to reaffirm its recommendation to its shareholders after receiving an acquisition proposal or after the public disclosure of a tender offer for CBI shares or (D) CBI terminates the Merger Agreement after failing to obtain the requisite vote at its shareholder meeting, provided that the Termination Fee will be payable under (B) above only if within 12 months of termination CBI enters into an acquisition agreement with respect to certain business combination transactions or any such combination is effected.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, attached as Exhibit 2.1 to Hanmi Financial s Current Report on Form 8-K which was filed with the SEC on December 16, 2013.

Supervision and Regulation

General

We are extensively regulated under both federal and certain state laws. Regulation and supervision by the federal and state banking agencies is intended primarily for the protection of depositors and the Deposit Insurance Fund administered by the FDIC, and not for the benefit of stockholders. Set forth below is a summary description of the principal laws and regulations that relate to our operations. These descriptions are qualified in their entirety by reference to the applicable laws and regulations.

Hanmi Financial

Hanmi Financial is a legal entity separate and distinct from the Bank. As a bank and financial holding company, we are regulated by the BHCA and are subject to inspection, supervision and examination by the FRB. Accordingly, we are subject to the FRB s authority to:

- require periodic reports and such additional information as the FRB may require.
- require bank holding companies to maintain certain levels of capital.
- 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.
- restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks.
- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB 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.
- take formal or informal enforcement action or issue other supervisory directives and assess civil money penalties for non-compliance under certain circumstances.
- require the prior approval of senior executive officers or director changes and golden parachute payments, including change in control agreements or new employment agreements with payment terms which are contingent upon termination.
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain

situations.

limit or prohibit and require the FRB s prior approval of the payment of dividends.

require financial holding companies to divest non-banking activities or subsidiary banks if they fail to meet certain financial holding company standards.

approve acquisitions of more than 5 percent of the voting shares of another bank and mergers with other banks or savings institutions and consider certain competitive, management, financial and other factors in granting these approvals, subject to similar California and other state banking agency approvals, as may be required.

A bank holding company is required to file with the FRB annual reports and other information regarding its business operations and those of its non-banking subsidiaries. It is also subject to supervision and examination by the FRB. Examinations are designed to inform the FRB 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 FRB 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 FRB. 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.

Regulatory Restrictions on Dividends; Source of Strength

Hanmi Financial is regarded as a legal entity separate and distinct from its other subsidiaries. The principal source of our revenue is dividends received from the Bank. Various federal and state statutory provisions limit the amount of dividends the Bank can pay to Hanmi Financial without regulatory approval. It is the policy of the Federal Reserve that bank holding companies should pay cash 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. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiaries.

Table of Contents

The Federal Reserve s view is that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve s regulations, or both. The source-of-strength doctrine, now codified in the federal banking statutes pursuant to Dodd-Frank, most directly affects bank holding companies where a bank holding company s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank s federal regulator to take prompt corrective action including obtaining a guarantee by the bank holding company of a capital plan for undercapitalized bank subsidiaries. See Prompt Corrective Action Regulations below. Additionally, if a bank holding company has more than one bank subsidiary, the FDIA provides that each subsidiary bank may have cross-guaranty liability for any loss incurred by the FDIC in connection with the failure of another commonly-controlled bank.

Because Hanmi Financial is a legal entity separate and distinct from the Bank, its right to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors. In the event of a liquidation or other resolution of the Bank, the claims of depositors and other general or subordinated creditors of the Bank would be entitled to a priority of payment over the claims of holders of any obligation of the Bank to its stockholders, including any depository institution holding company (such as Hanmi Financial) or any stockholder or creditor of such holding company. In the event of a bank holding company s bankruptcy under Chapter 11 of the United States Bankruptcy Code, the trustee will be deemed to have assumed, and is required to cure immediately, any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

Regulatory Restrictions on Activities

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

Hanmi Financial is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, Hanmi Financial and any of its subsidiaries are subject to examination by, and may be required to file reports with, the DBO.

Privacy Policies

Under GLBA, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties and establish procedures and practices to protect customer data from unauthorized access. Hanmi Financial and its subsidiaries have established policies and procedures to assure our compliance with all privacy provisions of GLBA.

Table of Contents

Capital Adequacy Requirements

Under the current capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized, a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10 percent, 6 percent and 5 percent, respectively. At December 31, 2013, the respective capital ratios of Hanmi Financial and the Bank exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes. See Notes to Consolidated Financial Statements, Note 11 Regulatory Matters. The regulatory capital guidelines and the actual capital ratios for Hanmi Financial and the Bank as of December 31, 2013 were as follows:

	Regulatory Capital Guidelines		**Actual**	
	Adequately Capitalized	**Well Capitalized**	**Hanmi Financial**	**Hanmi Bank**
Total risk-based capital ratio	8.00%	10.00%	17.53%	16.84%
Tier 1 risk-based capital ratio	4.00%	6.00%	16.26%	15.58%
Tier 1 leverage ratio	4.00%	5.00%	13.66%	13.09%

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Increased capital requirements are expected as a result of Dodd-Frank and the Basel III international supervisory developments. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, 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 current risk-based capital guidelines for bank holding companies and banks adopted by the federal banking agencies are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items.

Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for assets with low credit risk, such as certain U.S. Treasury securities, to 100 percent for assets with relatively high credit risk, such as business loans.

The risk-based capital requirements also take into account concentrations of credit (i.e., relatively large proportions of loans involving one borrower, industry, location, collateral or loan type) and the risks of non-traditional activities (those that have not customarily been part of the banking business). The risk-based capital regulations also include exposure to interest rate risk as a factor that the regulators will consider in evaluating a bank s capital adequacy. Interest rate risk is the exposure of a bank s current and future earnings and equity capital arising from adverse movements in interest rates. While interest rate risk is inherent in a bank s role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the institution. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Neither Hanmi Financial nor the Bank is currently subject to the market risk capital rules.

Qualifying capital is classified depending on the type of capital:

- Tier I capital currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. The capital received from trust preferred offerings also qualifies as Tier I capital, subject to the new provisions of Dodd-Frank. Under Dodd-Frank, depository institution holding companies with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier 1 regulatory capital after the end of a 3-year phase-out period beginning 2013, and would need to replace any outstanding trust preferred securities issued prior to May 19, 2010 with qualifying Tier 1 regulatory capital during the phase-out period. For institutions with less than $15 billion in total consolidated assets, existing trust preferred capital will still qualify as Tier 1.

- Tier II capital includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for loan and lease losses, and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier II capital. The maximum amount of supplemental capital elements that qualifies as Tier 2 capital is limited to 100 percent of Tier 1 capital.

- Tier III capital consists of qualifying unsecured debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. The FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets. Federal banking regulators may set higher capital requirements when a bank s particular circumstances warrant and have required many 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 such cases, the institutions may no longer be deemed well capitalized and may therefore additionally be subject to restrictions on taking brokered deposits.

Hanmi Financial and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3 percent. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3 percent minimum, for a minimum of 4 percent to 5 percent. As of December 31, 2013, the Hanmi Financial s leverage capital ratio was 13.66 percent, and the Bank s leverage capital ratio was 13.09 percent, both ratios well exceeding regulatory minimums.

Imposition of Liability for Undercapitalized Subsidiaries

Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution s holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5 percent of the institution s assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies

The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire all, or substantially all, of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition the bank holding company would own or control, directly or indirectly, more than 5 percent of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

Control Acquisitions

The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10 percent or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute acquisition of control.

In addition, any company is required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25 percent (5 percent in the case of an acquirer that is a bank holding company) or more of the outstanding common stock of the company, or otherwise obtaining control or a controlling influence over the company.

Sarbanes-Oxley Act

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

Table of Contents

Securities Registration

Our common stock is listed on the NASDAQ Global Select Market (NASDAQ). We are subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Exchange Act, SEC regulations, and NASDAQ listing rules and requirements. These requirements and regulations include certain provisions of Dodd-Frank that affect corporate governance and executive compensation, including: (i) stockholder advisory votes on executive compensation, (ii) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the American Recovery and Reinvestment Act of 2009 for TARP CPP recipients, (iii) enhanced independence requirements for compensation committee members, and (iv) SEC authority to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement.

The Bank

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

The California Financial Code provides that a state-chartered commercial bank has the powers of a California corporation, subject to the general limitation of state bank powers under the Federal Deposit Insurance Corporation Improvement Act to those permissible for national banks. California law also permits state-chartered commercial banks to engage in any activity permissible for national banks, including the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries or by non-bank subsidiaries of bank holding companies. GLBA also provides that the Bank may conduct certain financial activities in a subsidiary to the same extent as may a national bank, provided the bank is and remains well-capitalized, well-managed and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

Enforcement Authority

Bank regulatory agencies have the ability to exercise extensive discretion in connection with their supervisory and enforcement activities and examination policies. The regulatory agencies have adopted guidelines to assist in identifying, evaluating and addressing potential safety and soundness concerns before a financial institution s capital becomes impaired. The guidelines set forth operational and managerial standards generally relating to: (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest-rate exposure; (v) asset growth and asset quality; and (vi) compensation, fees, and benefits. The regulatory agencies have also adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FRB assesses that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FRB, and separately the FDIC as insurer of the Bank s deposits, have residual authority to:

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

direct an increase in capital or establish specific minimum capital ratios;

restrict the Bank s growth geographically, by products and services or by mergers and acquisitions;

enter into informal non-public or formal public memoranda of understanding or written agreements;

enjoin unsafe and unsound practices and issue cease and desist orders to take corrective action;

remove officers and directors and assess civil monetary penalties;

terminate the Bank s deposit insurance, which would also result in the revocation of the Bank s license by the DBO; or

take possession and close and liquidate the Bank.

Brokered Deposits

Under the FDIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but any banks that are not well-capitalized could be restricted from accepting such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. As of December 31, 2013, the Bank had no brokered deposits.

Community Reinvestment Act

Under the CRA, a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of all segments of the greater community that it services, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. However, the CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank has a Compliance Committee, which oversees the Bank s performance under CRA to ensure that the Bank satisfactorily meets the lending, service and investment tests by meeting the credit needs of the community, including low and moderate income communities, consistent with safe and sound operations. The Federal Reserve rated the Bank as satisfactory in meeting community credit needs under the CRA at its most recent examination for CRA performance.

Federal Home Loan Bank System

The Bank is a member and holder of the capital stock of the Federal Home Loan Bank of San Francisco (FHLBSF). There are a total of twelve Federal Home Loan Banks (each, an FHLB) across the U.S. owned by their members who are more than 7,500 community financial institutes of all sizes and types. Each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of FHLBSF is required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution s membership asset value which is determined by multiplying the amount of the member s membership assets by the applicable membership asset factors and is capped at $25 million, or (ii) an activity based stock requirement (4.7% of the member s outstanding advances plus 5.0% of the member s outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2013, the Bank was in compliance with the FHLBSF s stock ownership requirement, and our investment in FHLBSF capital stock totaled $14.1 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2013 were $343.3 million and $215.8 million, respectively.

Federal Reserve System

The FRB requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts. At December 31, 2013, the Bank was in compliance with these requirements.

Prompt Corrective Action Regulations

Pursuant to the FDIA, federal banking authorities are required to take prompt corrective action with respect to a depository institution if it fails to meet certain capital adequacy standards. There are five capital tiers established under the FDIA. They include: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

A depository institution s capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio, and the leverage ratio. The assessment of a bank s capital category may not be an accurate representation of the bank s overall financial condition. The capital category is determined solely for the purpose of requiring prompt corrective action regulations and may have no application to the bank s overall financial condition or prospects for other purposes. A bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0 percent or greater, a Tier 1 risk-based capital ratio of 6.0 percent or greater, and a leverage ratio of 5.0 percent or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0 percent or greater, a Tier 1 risk-based capital ratio of 4.0 percent or greater, and a leverage ratio of 4.0 percent or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0 percent, a Tier 1 risk-based capital ratio of less than 4.0 percent, or a leverage ratio of less than 4.0 percent; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0 percent, a Tier 1 risk-based capital ratio of less than 3.0 percent, or a leverage ratio of less than 3.0 percent; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0 percent of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0 percent of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for a hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

FDIC Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions up to prescribed statutory limits, and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF). Pursuant to Dodd-Frank, the maximum deposit insurance amount per depositor has been permanently increased to $250,000. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

Our FDIC insurance expense totaled $1.2 million for 2013. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments related to outstanding FICO bonds to fund interest payments on bonds to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017. The FICO assessment rate, which is determined quarterly, was 0.00155% of insured deposits for the year ended December 31, 2013. The total FICO assessment in 2013 was $155,000.

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

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC.

Federal Banking Agency Guidance on Sound Incentive Compensation Policies

Effective June 25, 2010, federal banking agencies adopted the Interagency Guidance on Sound Incentive Compensation Policies (the Compensation Guidance) to assist banking organizations in designing and implementing incentive compensation arrangements, policies and procedures that are consistent with promoting the safety and soundness of the organization. The Compensation Guidance covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group. It is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Table of Contents

Some of the considerations used by federal agencies to determine if compensation is excessive include: (i) the combined value of all cash and noncash benefits provided to the individual; (ii) the compensation history of the individual and other individuals with comparable expertise at the institution; (iii) the financial condition of the institution; (iv) the compensation practices at comparable institutions, based upon such factors as assets size, geographic location and the complexity of the loan portfolio or other assets; (v) for post-employment benefits, the projected total cost and benefit to the institution; (vi) any connection between the individual and any fraudulent act, omission, breach of trust or fiduciary duty, or insider abuse with regard to the institution; and (vii) any other factors the agencies determine to be relevant.

In 2011, the FRB and other federal regulatory agencies, including the SEC, proposed joint rules to implement Section 956 of Dodd-Frank for banks with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would move the U.S. closer to aspects of international compensation standards by (i) requiring deferral of a substantial portion of incentive compensation for executive officers of particularly large institutions described above; (ii) prohibiting incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excessive compensation; (iii) prohibiting incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss; (iv) requiring policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institution; and (v) requiring annual reports on incentive compensation structures to the institution s appropriate federal regulator. Final rules are still pending.

Loans to One Borrower

With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities of the borrower) may not exceed 25 percent (and unsecured loans may not exceed 15 percent) of the bank s stockholders equity, allowance for loan losses, and any capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for U.S. banks.

Extensions of Credit to Insiders and Transactions with Affiliates

Both the FRA and FRB Regulation O place limitations and conditions on loans or extensions of credit (Regulation O Loans) to:

- a bank or bank holding company s executive officers, directors and principal stockholders (i.e., in most cases, those persons who own, control or have power to vote more than 10 percent of any class of voting securities);
- any company controlled by any such executive officer, director or stockholder; or
- any political or campaign committee controlled by such executive officer, director or principal stockholder.

Regulation O Loans:

- must comply with loan-to-one-borrower limits;

- require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;

- must be made on substantially the same terms (including interest rates and collateral) and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders;

- must not involve more than the normal risk of repayment or present other unfavorable features; and

- in the aggregate limit not exceed the bank s unimpaired capital and unimpaired surplus.

Both California law and regulations promulgated by the DBO adopt and apply the provisions of Regulation O to the Bank.

The Bank is also subject to certain restrictions imposed by Sections 23A and 23B of the FRA, as amended by Dodd-Frank, and FRB Regulation W, which restrict or limit loans or any extensions of credit to, or on behalf of, any affiliates or purchases of assets from affiliates, except pursuant to certain limits and exceptions and only on terms and conditions at least as favorable as those prevailing for comparable transactions with unaffiliated parties. Affiliates include parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank s affiliate serves as investment advisor.

Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDIA s prompt corrective action regulations and the supervisory authority of the federal and state banking agencies discussed above.

Table of Contents

Dividends

Hanmi Financial receives income through dividends paid by the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. The FRB has advised bank holding companies that it believes that payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. It is FRB 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 FRB policy that bank holding companies should not maintain dividend levels that undermine the company s ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the FRB has stated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

In addition, the banking agencies have the authority to prohibit or limit the Bank from paying dividends, depending upon the Bank s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Furthermore, under the federal prompt corrective action regulations, the FRB or FDIC may prohibit a bank holding company from paying any dividends if the holding company s bank subsidiary is classified as undercapitalized. For more information on capitalization, see Capital Adequacy Requirements above.

Any cash dividend from the Bank to its holding company is subject to the California Financial Code, 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 stockholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DBO, within specified parameters.

The ability of Hanmi Financial to pay dividends to its stockholders is also directly dependent on the ability of the Bank to pay dividends to us. Section 642 of the California Financial Code provides that neither a California state-chartered bank nor a majority-owned subsidiary of a bank can pay dividends to its stockholders in an amount which exceeds the lesser of (i) the retained earnings of the bank or (ii) the net income of the bank for its last three fiscal years, in each case less the amount of any previous distributions made during such period. FRB Regulation H Section 208.5 provides that the Bank must obtain FRB approval to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank s net income during the current calendar year and the retained net income of the prior two calendar years.

California Financial Code Section 643 provides, alternatively, that, notwithstanding the foregoing restriction set forth in Section 642, dividends in an amount not exceeding the greatest of (i) the retained earnings of the bank, (ii) the net income of the bank for its last fiscal year or (iii) the net income of the bank for its current fiscal year may be declared with the prior approval of the California Commissioner of Business Oversight.

Bank Secrecy Act and USA PATRIOT Act

The Bank Secrecy Act (BSA) is a disclosure law that forms the basis of the federal government s framework to prevent and detect money laundering and to deter other criminal enterprises. Under the BSA, financial institutions such as the Bank are required to maintain certain records and file certain reports regarding domestic currency transactions and cross-border transportations of currency. Among other requirements, the BSA requires financial institutions to report imports and exports of currency in the amount of $10,000 or more and, in general, all cash transactions of $10,000 or more. The Bank has established a BSA compliance policy under which, among other precautions, the Bank keeps currency transaction reports to document cash transactions in excess of $10,000 or in multiples totaling more than $10,000 during one business day, monitors certain potentially suspicious transactions such as the exchange of a large number of small denomination bills for large denomination bills, and scrutinizes electronic funds transfers for BSA compliance. The BSA also requires that financial institutions report to relevant law enforcement agencies any suspicious transactions potentially involving violations of law.

The USA PATRIOT Act of 2001 (the Patriot Act) and the regulations promulgated under it significantly expanded the anti-money laundering and financial transparency laws. The Patriot Act contains significant record keeping and customer identity requirements, expands the government s powers to freeze or confiscate assets and increases the available penalties that may be assessed against financial institutions for violation of the requirements of the Patriot Act intended to detect and deter money laundering. The Bank has adopted additional comprehensive policies and procedures to address the requirements of the Patriot Act.

Consumer Laws

The Bank must comply with numerous consumer protection statutes and regulations, including the Consumer Financial Protection Act of 2010, 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 Americans with Disabilities Act, statutes and regulations regarding unfair, deceptive or abusive acts or practices, and various federal and state privacy protection laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including, but not limited to, enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Dodd-Frank provides for the creation of the CFPB as an independent entity within the Federal Reserve. The CFPB is a new regulatory agency for United States banks. It will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower s ability to repay and prepayment penalties. The CFPB s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Banks with less than $10 billion in assets will continue to be examined for consumer financial protection compliance by their primary federal banking agency.

Regulation of Subsidiaries

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. Chun-Ha and All World are subject to the licensing and supervisory authority of the California Commissioner of Insurance.

Item 1A. Risk Factors

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

Risks Relating to our Business

Unfavorable economic and market conditions could continue to adversely affect our industry. Declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Unfavorable economic developments beginning in 2008 have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. The impact on the Bank s credit quality has stabilized; however, there is a risk that economic conditions will deteriorate. Further economic deterioration could exacerbate the adverse effects of the difficult market conditions on us and others in the financial institutions industry. Particularly, we may face the following risks in connection with these events:

We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process.

Our liquidity could be negatively impacted by an inability to access the capital markets, unforeseen or extraordinary demands on cash, or regulatory restrictions.

Our Southern California business focus and economic conditions in Southern California could adversely affect our operations. The Bank s operations are located 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 further deterioration in the economic conditions or a prolonged delay in economic recovery in the Bank s market areas, or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank s loan portfolio, the demand for its products and services and on its overall financial condition and results of operations.

Table of Contents

Our concentration in loans collateralized by commercial real estate property located primarily in Southern California could have adverse effects on credit quality. As of December 31, 2013, the Bank s loan portfolio included commercial property, construction, and commercial and industrial loans, which were collateralized by commercial real estate properties located primarily in Southern California, totaling $1.98 billion, or 88.6 percent of total gross loans. Because of this concentration, a potential deterioration of the commercial real estate market in Southern California could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans. Among the factors that could contribute to such a potential decline are general economic conditions in Southern California, interest rates and local market construction and sales activity.

Our concentrations of loans in certain industries could have adverse effects on credit quality. As of December 31, 2013, the Bank s loan portfolio included loans to: (i) lessors of non-residential buildings totaling $615.0 million, or 27.5 percent of total gross loans; (ii) borrowers in the accommodation industry totaling $332.1 million, or 14.9 percent of total gross loans; and (iii) gas stations totaling $304.6 million, or 13.6 percent of total gross loans. Most of these loans are in Southern California. Because of these concentrations of loans in specific industries, a continued deterioration of the Southern California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

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

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

Changes in economic conditions could materially hurt our business. Our business is directly affected by changes in economic conditions, including financial, legislative and regulatory changes and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. The economic conditions in the markets in which many of our borrowers operate have deteriorated and the levels of loan delinquency and defaults that we experienced were substantially higher than historical levels.

If economic conditions deteriorate, it may exacerbate the following consequences:

- problem assets and foreclosures may increase;

- demand for our products and services may decline;

- low cost or non-interest bearing deposits may decrease; and

- collateral for loans made by us, especially real estate, may decline in value.

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

Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets. A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. If real estate values continue to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.

Table of Contents

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

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

Our earnings are affected by changing interest rates. Changes in interest rates affect the level of loans, deposits and investments, the credit profile of existing loans, the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of operations. The current historically low interest rate environment caused by the response to the financial market crisis and the global economic recession may affect our operating earnings negatively.

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

Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of the recent turmoil faced by banking organizations in the domestic and worldwide credit markets.

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

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

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

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

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

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

The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us. In June 2013, federal banking regulators jointly issued the Basel III Rules. The rules impose new capital requirements and implement Section 171 of Dodd-Frank. The new rules are to be phased in through 2019, beginning January 1, 2015. Among other things, the rules will require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. In addition, we will have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. The new rules also restrict trust preferred securities from comprising more than 25% of Tier 1 capital. If an institution grows above $15 billion as a result of an acquisition, or organically grows above $15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements.

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

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

We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services. We offer various Internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services and could harm our business.

Our information systems may experience an interruption or security breach. We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company, Bank or customer data. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We are subject to operational risks relating to our 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.

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

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. Competition for qualified employees and personnel in the banking industry is intense, particularly for qualified persons with knowledge of, and experience in, our banking space. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, 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 and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

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

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

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

As we expand outside our California markets, we may encounter additional risks that may adversely affect us. Currently, the majority of our offices are located in Southern California, but we also have two branches in Northern California and two LPOs in Washington and Texas. Over time, we may also seek to establish offices to serve Korean-American communities in other parts of the United States. In the course of these expansion activities, we may encounter significant risks, including unfamiliarity with the characteristics and business dynamics of new markets, increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to manage these risks, our operations may be adversely affected.

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

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

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

We may experience adverse effects from acquisitions. We have acquired other banking companies in the past and consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of other companies, including in connection with our pending acquisition of CBI, described in greater detail in this section under the subsection captioned Risks Relating to the CBI Merger and elsewhere in this Report, 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 the operations, technology and personnel of the acquired company;

diversion of management s attention from other important business activities;

difficulty in maintaining good relations with the loan and deposit customers of the acquired company;

inability to maintain uniform standards, controls, procedures and policies, especially considering geographic diversification;

potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and

amortization of expenses related to acquired intangible assets that have finite lives.

Table of Contents

Risks Relating to Ownership of Our Common Stock

The Bank could be restricted from paying dividends to us, its sole shareholder, and, thus, we would be restricted from paying dividends to our stockholders in the future. The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank has a retained deficit of $79.7 million as of December 31, 2013 and suffered net losses in 2010, 2009 and 2008, largely caused by provision for credit losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, with or without approval of the Commissioner of Business Oversight.

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

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

domestic and international economic factors unrelated to our performance.

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

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

In addition, we have adopted a stock option plan that provides for the granting of stock options to our directors, executive officers and other employees. As of December 31, 2013, 1,078,668 shares of our common stock were issuable under options granted in connection with our stock option plans and stock warrants issued in connection with the registered rights and best efforts offerings. 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, 2013, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 62,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

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

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

Risks Relating to the Pending CBI Merger

We may be not be able to realize the anticipated benefits of the CBI Merger, including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits. The realization of the benefits anticipated as a result of the CBI Merger, including cost savings and synergies, will depend in part on the integration of CBI s operations with our operations. Hanmi Financial and CBI have operated and, until the consummation of the CBI Merger, will continue to operate independently. To realize the anticipated benefits and cost savings, after the completion of the CBI Merger, we expect to integrate CBI s business into our own. There can be no assurance that CBI s operations can be integrated successfully into our operations in a timely fashion, or at all. The dedication of management and other internal resources to such integration may divert attention from our day-to-day business, and there can be no assurance that there will not be substantial costs associated with the transition process or that there will not be other material adverse effects as a result of these integration efforts. Such effects, including, but not limited to, incurring unexpected costs or delays in connection with such integration, may have a material adverse effect on our financial results.

Required regulatory approvals may not be received, may take longer to receive than expected or may impose conditions that are materially burdensome or cannot be met. Before the transactions contemplated by the Merger Agreement, including both the CBI Merger and the Bank Merger, may be completed, various approvals must be obtained from our and the Bank s regulatory authorities. The parties currently anticipate that the requisite applications will be submitted after the financial information for the first quarter of 2014 becomes available. Other approvals, waivers or consents from regulators may also be required. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of the parties to the Merger Agreement. Poor regulatory standing or an adverse development in such standing or other factors could result in an inability to obtain approval or delay their receipt. UCB is the subject of a consent order by the Texas Department of Banking (the TDB) and the FDIC. CBI is party to a written agreement with the Federal Reserve and the banking commissioner of the TDB. Regulators may impose conditions on the completion of the CBI Merger or the Bank Merger which we may not be able to meet or require changes to the terms of the proposed merger. Such conditions or changes could have the effect of delaying or preventing completion of the CBI Merger as currently contemplated or imposing additional costs on or limiting the revenues of the combined company following the CBI Merger, any of which might have an adverse effect on the combined company following the completion of the CBI Merger.

We will be subject to business uncertainties and contractual restrictions while the CBI Merger is pending. Uncertainty about the effect of the CBI Merger on employees, suppliers, vendors, and customers (including depositors and borrowers) may have an adverse effect on both Hanmi Financial and CBI. These uncertainties may impair our ability to attract, retain or motivate key personnel until the CBI Merger is completed and may cause customers and others that transact business with us or CBI to seek to change existing business relationships with either us and/or

CBI. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, the combined company s business following the CBI Merger may be negatively affected. Additionally, these uncertainties could cause suppliers, vendors, and customers (including depositors and borrowers) and others who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us. In addition, competitors may target our or CBI s existing customers by highlighting potential uncertainties and integration difficulties that may result from the CBI Merger. In addition, the Merger Agreement restricts CBI from making certain acquisitions and taking other specified actions while the CBI Merger is pending, without the prior consent of Hanmi Financial.

If the CBI Merger is not consummated, we will not benefit from the expenses incurred in pursuing it. The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the CBI Merger. The conditions to the consummation of the CBI Merger may not be fulfilled and, accordingly, the CBI Merger may not be completed. In addition, if the CBI Merger is not completed by the Drop Dead Date, either Hanmi Financial or CBI may choose not to proceed with the CBI Merger, and the parties can mutually decide to terminate the Merger Agreement at any time. Hanmi Financial has incurred and will incur substantial expenses, including in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement as well as combining the business, operations, networks, systems, technologies, policies and procedures of CBI with ours. If the CBI Merger is not completed, we would have to recognize these expenses without realizing the expected benefits of the transactions contemplated by the Merger Agreement. Although we have assumed that a certain level of transaction and combination expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of such

Table of Contents

combination expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and combination expenses associated with the CBI Merger could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the consummation of the CBI Merger. As a result of these expenses, we expect to take charges against our earnings before and after the completion of the CBI Merger. The charges taken in connection with the CBI Merger are expected to be significant, although the aggregate amount and timing of such charges, including investment banking, legal and accounting fees and other related charges, are uncertain at present.

Termination of the Merger Agreement may negatively affect us. If the Merger Agreement is terminated, we may suffer various adverse consequences, including:

- our business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the CBI Merger, without realizing any of the anticipated benefits of completing the CBI Merger; and

- the market price of our common stock may decline to the extent that the market price prior to termination reflects a market assumption that the CBI Merger will be completed, in each case, without realizing any of the benefits of having completed the CBI Merger.

For a detailed description of the CBI Merger, see the section captioned Pending CBI Merger.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Hanmi Financial s principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California.

The following table sets forth information about the Bank s branch offices as of December 31, 2013:

Office	Address	City/State	Owned/ Leased
Corporate Headquarters (1)	3660 Wilshire Boulevard, Penthouse Suite A	Los Angeles, CA	Leased
Branches:			
Beverly Hills Branch	9300 Wilshire Boulevard, Suite 101	Beverly Hills, CA	Leased
Cerritos Artesia Branch	11754 East Artesia Boulevard	Artesia, CA	Leased
Cerritos South Branch	11900 South Street, Suite 109	Cerritos, CA	Leased
Downtown Los Angeles Branch	950 South Los Angeles Street	Los Angeles, CA	Leased
Diamond Bar Branch	1101 Brea Canyon Road, Suite A-1	Diamond Bar, CA	Leased
Fashion District Branch	726 East 12th Street, Suite 211	Los Angeles, CA	Leased
Fullerton Beach Branch (3)	5245 Beach Boulevard	Buena Park, CA	Leased
Garden Grove Brookhurst Branch	9820 Garden Grove Boulevard	Garden Grove, CA	Owned
Garden Grove Magnolia Branch	9122 Garden Grove Boulevard	Garden Grove, CA	Owned
Gardena Branch	2001 West Redondo Beach Boulevard	Gardena, CA	Leased
Irvine Branch	14474 Culver Drive, Suite D	Irvine, CA	Leased
Koreatown Galleria Branch	3250 West Olympic Boulevard, Suite 200	Los Angeles, CA	Leased
Koreatown Plaza Branch	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
Northridge Branch	10180 Reseda Boulevard	Northridge, CA	Leased
Olympic Branch (2)	3737 West Olympic Boulevard	Los Angeles, CA	Owned
Olympic Kingsley Branch	3099 West Olympic Boulevard	Los Angeles, CA	Owned
Rancho Cucamonga Branch	9759 Baseline Road	Rancho Cucamonga, CA	Leased
Rowland Heights Branch	18720 East Colima Road	Rowland Heights, CA	Leased
San Diego Branch	4637 Convoy Street, Suite 101	San Diego, CA	Leased
San Francisco Branch	1469 Webster Street	San Francisco, CA	Leased
Silicon Valley Branch	2765 El Camino Real	Santa Clara, CA	Leased
Torrance Crenshaw Branch	2370 Crenshaw Boulevard, Suite H	Torrance, CA	Leased
Torrance Del Amo Mall Branch	21838 Hawthorne Boulevard	Torrance, CA	Leased
Van Nuys Branch	14427 Sherman Way	Van Nuys, CA	Leased
Vermont Branch (3)	933 South Vermont Avenue	Los Angeles, CA	Owned
Western Branch	120 South Western Avenue	Los Angeles, CA	Leased
Wilshire Hobart Branch	3660 Wilshire Boulevard, Suite 103	Los Angeles, CA	Leased
Departments:			

Commercial Loan Department [1]	3660 Wilshire Boulevard, Suite 1050	Los Angeles, CA	Leased
Consumer Lending Center [1]	3660 Wilshire Boulevard, Suite 116	Los Angeles, CA	Leased
Corporate Banking Center I [1]	933 South Vermont Avenue, 2nd Floor	Los Angeles, CA	Owned
Corporate Banking Center II [1]	933 South Vermont Avenue, 2nd Floor	Los Angeles, CA	Owned
SBA Loan Center [1]	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
LPOs and Subsidiaries:			
Northwest Region LPO [1]	500 108th Avenue NE, Suite 1760	Bellevue, WA	Leased
Dallas LPO [1]	11461 Harry Hines Boulevard, Suite 103	Dallas, TX	Leased
Chun-Ha/All World [1]	12912 Brookhurst Street, Suite 480	Garden Grove, CA	Leased
Chun-Ha [1]	3660 Wilshire Boulevard, Suite 528	Los Angeles, CA	Leased

(1) *Deposits are not accepted at this facility.*
(2) *Training Facility is also located at this facility.*
(3) *Administrative offices are also located at this facility.*

As of December 31, 2013, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $14.2 million. Our lease expense was $5.6 million for the year ended December 31, 2013. 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.

Table of Contents

Part II

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

Market Information

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

	High	Low	Cash Dividend
2013:			
Fourth quarter	$ 22.40	$ 16.59	$ 0.07
Third quarter	$ 18.05	$ 16.01	$ 0.07
Second quarter	$ 17.67	$ 15.20	$
First quarter	$ 17.27	$ 14.10	$
2012:			
Fourth quarter	$ 13.62	$ 11.77	$
Third quarter	$ 13.33	$ 10.38	$
Second quarter	$ 10.68	$ 9.17	$
First quarter	$ 10.59	$ 7.72	$

Holders

Hanmi Financial had 275 registered stockholders of record as of February 1, 2014.

Performance Graph

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

Table of Contents

	As of December 31,					
	2008	2009	2010	2011	2012	2013
Hanmi Financial Corporation	$ 100.00	$ 58.25	$ 55.83	$ 44.90	$ 82.46	$ 132.83
NASDAQ Composite	$ 100.00	$ 143.89	$ 168.22	$ 165.19	$ 191.47	$ 264.84
S&P 500 Financials	$ 100.00	$ 114.80	$ 127.24	$ 103.82	$ 131.07	$ 174.60
SNL Bank $1B-$5B	$ 100.00	$ 69.65	$ 77.28	$ 69.01	$ 83.24	$ 118.87

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2013, there were no repurchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates. As of December 31, 2013, there was no current plan authorizing purchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates.

Table of Contents

Item 6. Selected Financial Data

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2013 is derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	As of and for the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except share and per share data)				
Summary Statements of Operations:					
Interest and dividend income	$ 122,328	$ 119,800	$ 128,807	$ 144,512	$ 184,147
Interest expense	13,507	18,745	27,630	38,638	82,918
Net interest income before provision for credit losses	108,821	101,055	101,177	105,874	101,229
Provision for credit losses		6,000	12,100	122,496	196,387
Non-interest income	31,417	24,812	23,851	25,406	32,110
Non-interest expense	78,247	76,861	84,048	96,805	90,354
Income (loss) before provision (benefit) for income taxes	61,991	43,006	28,880	(88,021)	(153,402)
Provision (benefit) for income taxes	22,085	(47,368)	733	(12)	(31,125)
Net income (loss)	$ 39,906	$ 90,374	$ 28,147	$ (88,009)	$ (122,277)
Summary Balance Sheets:					
Cash and cash equivalents	$ 179,357	$ 268,047	$ 201,683	$ 249,720	$ 154,110
Investment securities	530,926	451,060	441,604	413,963	133,289
Net loans *(1)*	2,177,498	1,986,051	1,871,607	2,121,067	2,674,064
Assets	3,055,539	2,882,520	2,744,824	2,907,148	3,162,706
Deposits	2,512,325	2,395,963	2,344,910	2,466,721	2,749,327
Liabilities	2,654,302	2,504,156	2,459,216	2,733,892	3,012,962
Stockholders equity	401,237	378,364	285,608	173,256	149,744
Tangible equity	400,066	377,029	284,075	171,023	146,362
Average net loans *(1)*	2,096,507	1,917,453	1,995,313	2,368,369	3,044,395
Average investment securities	446,563	412,554	446,198	215,280	188,325
Average interest-earning assets	2,687,799	2,686,425	2,752,696	2,981,878	3,611,009
Average assets	2,828,641	2,792,352	2,787,707	2,998,507	3,717,179
Average deposits	2,391,248	2,349,082	2,404,655	2,587,686	3,109,322
Average borrowings	27,815	85,760	153,148	243,690	341,514

Average interest-bearing liabilities		1,678,618		1,758,135		1,957,077		2,268,954		2,909,014
Average stockholders equity		393,734		328,016		200,517		137,968		225,708
Average tangible equity		392,475		326,589		198,626		135,171		221,537
Per Share Data:										
Earnings (loss) per share basic [2]	$	1.26	$	2.87	$	1.38	$	(7.46)	$	(20.56)
Earnings (loss) per share diluted [2]	$	1.26	$	2.87	$	1.38	$	(7.46)	$	(20.56)
Book value per share [3]	$	12.63	$	12.01	$	9.07	$	9.20	$	23.44
Tangible book value per share [4]	$	12.60	$	11.97	$	9.02	$	9.04	$	22.88
Cash dividends per share	$	0.14	$		$		$		$	
Common shares outstanding		31,761,550		31,496,540		31,489,201		18,899,799		6,397,799

(1) *Loans receivable, net of allowance for loan losses and deferred loan fees.*

(2) *The computation of basic and diluted earnings (loss) per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.*

(3) *Stockholders equity divided by common shares outstanding.*

(4) *Tangible equity divided by common shares outstanding.*

33

Table of Contents

	As of and for the Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Selected Performance Ratios:					
Return on average assets [5]	1.41%	3.24%	1.01%	-2.94%	-3.29%
Return on average stockholders equity [6]	10.14%	27.55%	14.04%	-63.79%	-54.17%
Return on average tangible equity [7]	10.17%	27.67%	14.17%	-65.11%	-55.19%
Net interest spread [8]	3.76%	3.40%	3.27%	3.15%	2.28%
Net interest margin [9]	4.05%	3.77%	3.68%	3.55%	2.84%
Efficiency ratio [10]	55.80%	61.07%	67.22%	73.74%	67.76%
Dividend payout ratio [11]	11.09%				
Average stockholders equity to average assets	13.92%	11.75%	7.19%	4.60%	6.07%
Selected Capital Ratios:					
Total capital (to risk-weighted assets):					
Hanmi Financial	17.53%	20.65%	18.66%	12.32%	9.12%
Hanmi Bank	16.84%	19.85%	17.57%	12.22%	9.07%
Tier 1 capital (to risk-weighted assets):					
Hanmi Financial	16.26%	19.37%	17.36%	10.09%	6.76%
Hanmi Bank	15.58%	18.58%	16.28%	10.91%	7.77%
Tier 1 capital (to average assets):					
Hanmi Financial	13.66%	14.95%	13.34%	7.90%	5.82%
Hanmi Bank	13.09%	14.33%	12.50%	8.55%	6.69%
Selected Asset Quality Ratios:					
Non-performing loans to gross loans [12]	1.16%	1.82%	2.70%	6.38%	7.78%
Non-performing assets to assets [13]	0.87%	1.32%	1.91%	5.04%	7.76%
Net loan charge-offs to average gross loans	0.29%	1.70%	3.25%	4.79%	3.88%
Allowance for loan losses to gross loans	2.58%	3.09%	4.64%	6.55%	5.15%
Allowance for loan losses to non-performing loans	222.42%	169.81%	171.71%	102.54%	66.19%

(5) *Net income (loss) divided by average assets.*

(6) *Net income (loss) divided by average stockholders equity.*

(7) *Net income (loss) divided by average tangible equity.*

(8) *Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

(9) *Net interest income before provision for credit losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

(10) *Total non-interest expense divided by the sum of net interest income before provision for credit losses and total non-interest income.*

(11) *Dividends declared per share divided by basic earnings (loss) per share.*

(12) *Non-performing loans, excluding loans held for sale, consist of non-accrual loans and loans past due 90 days or more still accruing interest.*

(13) *Non-performing assets consist of non-performing loans and other real estate owned.*

Table of Contents

Non-GAAP Financial Measures

Return on Average Tangible Equity

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

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

	Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
			(In thousands)		
Average stockholders equity	$ 393,734	$ 328,016	$ 200,517	$ 137,968	$ 225,708
Less average other intangible assets	(1,259)	(1,427)	(1,891)	(2,797)	(4,171)
Average tangible equity	**$ 392,475**	**$ 326,589**	**$ 198,626**	**$ 135,171**	**$ 221,537**
Return on average stockholders equity	10.14%	27.55%	14.04%	-63.79%	-54.17%
Effect of average other intangible assets	0.03%	0.12%	0.13%	-1.32%	-1.02%
Return on average tangible equity	**10.17%**	**27.67%**	**14.17%**	**-65.11%**	**-55.19%**

Tangible Book Value Per Share

Tangible book value per share is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in the analysis of Hanmi Financial s performance. Tangible book value per share is calculated by subtracting goodwill and other intangible assets from stockholders equity and dividing the difference by the number of shares of common stock outstanding. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess management s success in utilizing tangible capital. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

	Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(In thousands, except per share data)				
Stockholders equity	$ 401,237	$ 378,364	$ 285,608	$ 173,256	$ 149,744
Less other intangible assets	(1,171)	(1,335)	(1,533)	(2,233)	(3,382)
Tangible equity	**$ 400,066**	**$ 377,029**	**$ 284,075**	**$ 171,023**	**$ 146,362**
Book value per share	12.63	12.01	9.07	9.20	23.44
Effect of other intangible assets	(0.04)	(0.04)	(0.05)	(0.16)	(0.56)
Tangible book value per share	**$ 12.60**	**$ 11.97**	**$ 9.02**	**$ 9.04**	**$ 22.88**

Table of Contents

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, 2013, 2012 and 2011. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also Cautionary Note Regarding Forward-Looking Statements.

Critical Accounting Policies

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

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

Our allowance for loan losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on 14 segmented loan pools by type and risk rating, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in non-performing loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rates are other qualitative factors that are considered in our methodologies. See Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items, Results of Operations Provision for Credit Losses and Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies for additional information on methodologies used to determine the allowance for loan losses and allowance for off-balance sheet items.

Loan Sales

The guaranteed portions of certain SBA Loans are normally sold to secondary market investors. When SBA Loans are sold, we generally retain the right to service the loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan servicing assets. Loan servicing assets are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 3 Loans presented elsewhere herein.

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

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

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

Investment Securities

The classification and accounting for investment securities are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 2 Investment Securities presented elsewhere herein.

Under FASB ASC 320, *Investment*, investment securities generally must be classified as held to maturity, available for sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management s intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held to maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

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

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

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

Management does not believe that there are any investment securities that are deemed OTTI as of December 31, 2013.

Income Taxes

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

As of each reporting date, management considers the realization of deferred tax assets based on management s judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2013, management determined that no valuation allowance for deferred tax assets is required, as management believes it is more likely than not that deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

Income taxes are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 8 Income Taxes presented elsewhere herein.

Table of Contents

Executive Overview

For the years ended December 31, 2013, 2012 and 2011, we recognized net income of $39.9 million, $90.4 million and $28.1 million, respectively. The decrease in net income for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to the absence of the reversal of the deferred tax asset (DTA) valuation allowance, which contributed an income tax benefit of $47.4 million in 2012. For the years ended December 31, 2013, 2012 and 2011, our earnings per diluted share were $1.26, $2.87 and $1.38, respectively.

Significant financial highlights include:

- Total assets increased 6.0 percent to $3.06 billion at December 31, 2013, compared to $2.88 billion at December 31, 2012, resulting from increases in investment portfolio and gross loans.

- With new loan growth across the portfolio, particularly in commercial and industrial loans, gross loans increased by $185.5 million, or 9.1 percent, to $2.23 billion as of December 31, 2013, compared to $2.05 billion as of December 31, 2012. During 2012, gross loans decreased by $109.8 million, or 5.7 percent, compared to $1.94 billion as of December 31, 2011.

- Asset quality improved in all major aspects as of December 31, 2013 compared to December 31, 2012. Non-performing assets declined to 0.87 percent of total assets as of December 2013 from 1.32 percent of total assets as of December 31, 2012. Net loss on sales of other loans was $557,000 for the year ended December 31, 2013, compared to $9.5 million for the year ended December 31, 2012. Classified loans were $80.3 million, or 3.6 percent of gross loans, at December 31, 2013, down from $100.4 million, or 4.9 percent, at December 31, 2012.

- Net income was $39.9 million, or $1.26 per diluted share, for the year ended December 31, 2013, compared to $90.4 million, or $2.87 per diluted share, for the year ended December 31, 2012, which included $47.4 million net tax benefit from the DTA valuation allowance reversal.

- Net interest margin continued to increase year over year. For the year ended December 31, 2013, net interest margin was 4.05 percent, increases of 28 and 37 basis points compared to 3.77 percent and 3.68 percent for the years ended December 31, 2012 and 2011, respectively.

- Operating efficiency improved to 55.80 percent for the year ended December 31, 2013, from 61.07 percent for the year ended December 31, 2012 and 67.22 percent for the year ended the December 31, 2011, reflecting higher revenues.

- Cash dividends of $0.07 per share of common stock were paid on December 23 and September 17, 2013.

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

Table of Contents

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

	For the Year Ended December 31, 2013			December 31, 2012			December 31, 2011		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
				(In thousands)					
Assets									
Interest-earning assets:									
Gross loans, net of deferred loan fees (1)	$ 2,156,626	$ 111,992	5.19%	$ 1,993,367	$ 108,982	5.47%	$ 2,114,546	$ 117,671	5.56%
Municipal securities-taxable	42,387	1,707	4.03%	45,213	1,796	3.97%	21,740	884	4.07%
Municipal securities-tax exempt (2)	10,141	435	4.29%	12,902	606	4.70%	6,544	332	5.07%
Obligations of other U.S. government agencies	90,956	1,733	1.91%	77,053	1,372	1.78%	121,961	1,963	1.61%
Other debt securities	274,789	4,994	1.82%	277,386	5,250	1.89%	295,953	6,921	2.34%
Equity securities	28,290	1,404	4.96%	31,356	818	2.61%	33,573	534	1.59%
Federal funds sold	1,555	6	0.39%	14,178	60	0.42%	5,857	27	0.46%
Term federal funds sold			0.00%	70,478	706	1.00%	38,693	276	0.71%
Interest-bearing deposits in other banks	83,055	209	0.25%	164,492	422	0.26%	113,829	315	0.28%
Total interest-earning assets	2,687,799	122,480	4.56%	2,686,425	120,012	4.47%	2,752,696	128,923	4.68%
Noninterest-earning assets:									
Cash and cash equivalents	67,859			71,123			68,255		
Allowance for loan losses	(60,119)			(75,914)			(119,233)		

Other assets	133,102			110,718			85,989		
Total noninterest-earning assets	140,842			105,927			35,011		
Total assets	**$ 2,828,641**			**$ 2,792,352**			**$ 2,787,707**		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Deposits:									
Savings	$ 114,968	$ 1,812	1.58%	$ 110,349	$ 2,152	1.95%	$ 109,272	$ 2,757	2.52%
Money market checking and NOW accounts	567,860	2,912	0.51%	529,976	3,085	0.58%	465,840	3,461	0.74%
Time deposits of $100,000 or more	546,588	4,094	0.75%	681,173	7,290	1.07%	913,643	13,855	1.52%
Other time deposits	421,387	3,860	0.92%	350,877	3,350	0.95%	315,174	3,885	1.23%
FHLB advances	6,573	151	2.30%	3,354	165	4.92%	66,191	662	1.00%
Other borrowings	8		0.00%			0.00%	4,551	95	2.09%
Junior subordinated debentures	21,234	678	3.19%	82,406	2,703	3.28%	82,406	2,915	3.54%
Total interest-bearing liabilities	1,678,618	13,507	0.80%	1,758,135	18,745	1.07%	1,957,077	27,630	1.41%
Noninterest-bearing liabilities:									
Demand deposits	740,445			676,707			600,726		
Other liabilities	15,844			29,494			29,387		
Total noninterest-bearing liabilities	756,289			706,201			630,113		
Total liabilities	2,434,907			2,464,336			2,587,190		
Stockholders equity	393,734			328,016			200,517		
Total liabilities and stockholders equity	**$ 2,828,641**			**$ 2,792,352**			**$ 2,787,707**		
Net interest income		**$ 108,973**			**$ 101,267**			**$ 101,293**	
Cost of deposits			**0.53%**			**0.68%**			**1.00%**

Net interest spread (3)	**3.76%**	**3.40%**	**3.27%**
Net interest margin (4)	**4.05%**	**3.77%**	**3.68%**

(1) *Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $1.4 million, $1.5 million and $2.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.*

(2) *Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

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

(4) *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.

Table of Contents

	Year Ended December 31,					
	2013 vs. 2012			2012 vs. 2011		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest and dividend income:						
Gross loans, net of deferred loan fees	$ 8,685	$ (5,675)	$ 3,010	$ (6,649)	$ (2,040)	$ (8,689)
Municipal securities-taxable	(114)	25	(89)	903	9	912
Municipal securities-tax exempt	(122)	(49)	(171)	266	8	274
Obligations of other U.S. government agencies	260	101	361	(540)	(51)	(591)
Other debt securities	(50)	(206)	(256)	(412)	(1,259)	(1,671)
Equity securities	(87)	673	586	11	273	284
Federal funds sold	(49)	(5)	(54)	32	1	33
Term federal funds sold	(353)	(353)	(706)	288	142	430
Interest-bearing deposits in other banks	(200)	(13)	(213)	102	5	107
Total interest and dividend income	**$ 7,970**	**$ (5,502)**	**$ 2,468**	**$ (5,999)**	**$ (2,912)**	**$ (8,911)**
Interest expense:						
Savings	$ (24)	$ (316)	$ (340)	$ (12)	$ (593)	$ (605)
Money market checking and NOW accounts	2	(175)	(173)	1	(377)	(376)
Time deposits of $100,000 or more	(1,269)	(1,927)	(3,196)	(3,040)	(3,525)	(6,565)
Other time deposits	484	26	510	(31)	(504)	(535)
FHLB advances	20	(34)	(14)	(351)	(146)	(497)
Other borrowings				(48)	(47)	(95)
Junior subordinated debentures	(1,955)	(70)	(2,025)		(212)	(212)
Total interest expense	$ (2,742)	$ (2,496)	$ (5,238)	$ (3,481)	$ (5,404)	$ (8,885)
Change in net interest income	**$ 10,712**	**$ (3,006)**	**$ 7,706**	**$ (2,518)**	**$ 2,492**	**$ (26)**

For the years ended December 31, 2013, 2012 and 2011, net interest income before provision for credit losses on a tax-equivalent basis was $109.0 million, $101.3 million and $101.3 million, respectively. The increase in net interest income in 2013, as compared to 2012, was primarily attributable to an increase in average gross loans, a decline in jumbo time deposits, lower deposit costs resulting from the replacement of high-cost time deposits with low-cost deposit products, and a decrease in interest expense from the full redemption of $80 million of trust preferred securities (TPS). Net interest income remained stable for the years ended December 31, 2012 and 2011 due to the decrease in interest income, which was primarily offset by the decrease in interest expense. The decrease in interest income was due primarily to declines in average gross loans and loan yields, and a decrease in other debt securities yield. This decrease was primarily offset in the interest expense by lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposits. The net interest spread and net interest margin for the year ended December 31, 2013 were 3.76 percent and 4.05 percent, respectively, compared to 3.40 percent and 3.77 percent, respectively, for the year ended December 31, 2012, and 3.27 percent and 3.68 percent, respectively, for the year ended December 31, 2011.

Average gross loans were $2.16 billion in 2013, as compared with $1.99 billion in 2012 and $2.11 billion in 2011, representing an increase of 8.2 percent in 2013 and a decrease of 5.7 percent in 2012. Average investment securities were $446.6 million in 2013, as compared with $443.9 million in 2012 and $479.8 million in 2011, representing an increase of 0.6 percent in 2013 and a decrease of 7.5 percent in 2012. Average interest-earning assets remained stable at $2.69 billion for the years ended December 31, 2013 and 2012, as compared with $2.75 billion in 2011, representing a decrease of 2.4 percent in 2012. The decrease in average interest earning assets in 2012 was a direct result of the proactive disposition of problem loans under the credit quality improvement strategy and the balance sheet deleveraging strategy. Average interest-bearing liabilities were $1.68 billion in 2013, as compared to $1.76 billion in 2012 and $1.96 billion in 2011, representing decreases of 4.5 percent and 10.2 percent in 2013 and 2012, respectively. The decrease in average interest-bearing liabilities resulted primarily from the full redemption of $80 million of TPS in 2013 and the continuing reduction of high-cost time deposits in 2013 and 2012.

The average yield on interest-earning assets increased by 9 basis points to 4.56 percent in 2013, after a decrease of 21 basis points to 4.47 percent in 2012 from 4.68 percent in 2011. The increase in 2013 was attributable to deployment of lower yielding funds to higher yielding loans, and the decrease in 2012 was due primarily to an increase in lower yielding funds and lower yields on investment securities and loans. The average yield on gross loans decreased by 28 basis points to 5.19 percent in 2013, after a 9 basis point decrease to 5.47 percent in 2012 from 5.56 percent in 2011. The continued decreases in 2013 and 2012 were attributable to the current low interest rate environment. The average cost on interest-bearing liabilities decreased by 27 basis points to 0.80 percent in 2013, after a decrease of 34 basis points to 1.07 percent in 2012 from 1.41 percent in 2011. The decrease in 2013 was due mainly to the elimination of interest payments on TPS and the decline in the balance and cost of jumbo CDs, and the decrease in 2012 was attributable to a continued shift in funding sources toward lower-cost funds through disciplined deposit pricing while reducing wholesale funds and rate sensitive deposits.

Table of Contents

Provision for Credit Losses

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

Net charge-offs decreased by $27.5 million, or 81.3 percent, to $6.3 million for the year ended December 31, 2013 from $33.8 million for the year ended December 31, 2012, and decreased by $34.9 million, or 50.8 percent, for the year ended December 31, 2012 from $68.7 million for the year ended December 31, 2011. Non-performing loans decreased by $11.4 million, or 30.6 percent, to $25.9 million for the year ended December 31, 2013 from $37.3 million for the year ended December 31, 2012, and decreased by $15.1 million, or 28.8 percent, for the year ended December 31, 2012 from $52.4 million for the year ended December 31, 2011. All other credit metrics also experienced improvements as the quality of the loan portfolio improved. Therefore, provision for credit losses was zero for the year ended December 31, 2013, compared to $6.0 million for the year ended December 31, 2012. See Non-Performing Assets and Allowance for Loan Losses and Allowance for Off-Balance Sheet Items for further details.

Non-Interest Income

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

	Year Ended December 31,		
	2013	**2012**	**2011**
		(In thousands)	
Service charges on deposit accounts	$ 11,307	$ 12,146	$ 12,826
Insurance commissions	5,247	4,857	4,500
Remittance fees	2,036	1,976	1,925
Trade finance fees	1,064	1,140	1,305
Other service charges and fees	1,375	1,499	1,447
Bank-owned life insurance income	1,171	1,110	939
Gain on sales of SBA loans guaranteed portion	8,000	9,923	4,543
Net loss on sales of other loans	(557)	(9,481)	(6,020)
Net gain on sales of investment securities	1,039	1,396	1,635
Other-than-temporary impairment loss on investment securities		(292)	
Other operating income	735	538	751
Total non-interest income	**$ 31,417**	**$ 24,812**	**$ 23,851**

For the year ended December 31, 2013, non-interest income was $31.4 million, an increase of $6.6 million, or 26.6 percent, from $24.8 million for the year ended December 31, 2012. This increase was primarily attributable to an $8.9 million decrease in net loss on sales of other loans, mainly offset by a $1.9 million decrease in gain on sales of the guaranteed portion of SBA loans. Service charges on deposit accounts, which represent 36.0 percent of total non-interest income for the year ended December 31, 2013, decreased to $11.3 million for the year ended

December 31, 2013, compared with $12.1 million for the year ended December 31, 2012, due mainly to a decrease in non-sufficient fund charges. Gain on sales of the guaranteed portion of SBA loans for the year ended December 31, 2013 totaled $8.0 million, or 25.5 percent of total non-interest income. Insurance commissions increased $390,000, or 8.0 percent, to $5.2 million for the year ended December 31, 2013 from $4.9 million for the year ended December 31, 2012.

For the year ended December 31, 2012, non-interest income was $24.8 million, an increase of $961,000, or 4.0 percent, from $23.9 million for the year ended December 31, 2011. The increase in non-interest income for 2012 was primarily attributable to a gain from selling the guaranteed portion of SBA loans, partially offset by a net loss recognized from selling other loans. Gain from selling the guaranteed portion of SBA loans for the year ended December 31, 2012 totaled $9.9 million, or 40.0 percent of total non-interest income, a $5.4 million increase from $4.5 million for the year ended December 31, 2011. However, net loss on sales of other loans increased to $9.5 million for the year ended December 31, 2012 from $6.0 million for the year ended December 31, 2011. This increase was a result of management s effort to reduce problem and non-performing assets. The other large source of non-interest income for the year ended December 31, 2012 was service charges on deposit accounts, which represented 49.0 percent of total non-interest income for the year ended December 31, 2012. Service charge income decreased to $12.1 million for the year ended December 31, 2012, compared with $12.8 million for the year ended December 31, 2011, due mainly to a decrease in number of non-interest bearing demand deposit accounts.

Non-Interest Expense

The following table sets forth the breakdown of non-interest expense for the years indicated:

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Salaries and employee benefits	$ 38,628	$ 36,931	$ 35,465
Occupancy and equipment	10,309	10,424	10,353
Deposit insurance premiums and regulatory assessments	1,435	4,431	6,630
Data processing	4,627	4,941	5,601
Other real estate owned expense	(59)	344	1,620
Professional fees	7,403	4,694	4,187
Directors and officers liability insurance	879	1,186	2,940
Supplies and communications	2,287	2,370	2,323
Advertising and promotion	4,081	3,876	2,993
Loan-related expense	396	527	827
Amortization of other intangible assets	164	198	700
Expense related to unconsummated capital offerings			2,220
Other operating expenses	8,097	6,939	8,189
Total non-interest expense	**$ 78,247**	**$ 76,861**	**$ 84,048**

For the year ended December 31, 2013, non-interest expense was $78.2 million, an increase of $1.4 million, or 1.8 percent, compared to $76.9 million for the year ended December 31, 2012. The increase was due primarily to the increases in salaries and employee benefits, and professional fees, mainly offset by the decrease in deposit insurance premiums and regulatory assessments. Professional fees increased $2.7 million, 57.7 percent, to $7.4 million for the year ended December 31, 2013 from $4.7 million for the year ended December 31, 2012, due mainly to additional professional services required for several strategic transactions pursued during 2013. Deposit insurance premiums and regulatory assessments for the year ended December 31, 2013 decreased by $3.0 million, or 67.6 percent, to $1.4 million, compared to $4.4 million for the year ended December 31, 2012, due primarily to the lower assessment rates for the FDIC insurance on deposits resulting from our improved overall financial conditions. The largest component of non-interest expense for the year ended December 31, 2013 was salaries and employee benefits, which represented 49.4 percent of total non-interest expense for the year ended December 31, 2013. Salaries and employee benefits increased $1.7 million, or 4.6 percent, to $38.6 million, compared to $36.9 million for the year ended December 31, 2012, due mainly to an annual salary increase, an increase in the average number of employees, and additional share-based compensation reflecting stock options and restricted stock awards granted.

For the year ended December 31, 2012, non-interest expense was $76.9 million, a decrease of $7.1 million, or 8.5 percent, from $84.0 million for the year ended December 31, 2011. This decrease was due primarily to a non-recurring expense of $2.2 million related to an unconsummated capital raise in 2011, and reductions in deposit insurance premiums, directors and officers liability insurance and other real estate owned expense. Reflecting improved overall financial conditions, deposit insurance premiums and regulatory assessments decreased by $2.2 million, or 33.2 percent, to $4.4 million for the year ended December 31, 2012, compared to $6.6 million for the year ended December 31, 2011. For the same reason, along with a change in new insurance carriers, directors and officers liability insurance also decreased by $1.7 million, or 58.6 percent, to $1.2 million for the year ended December 31, 2012, compared to $2.9 million for the year ended December 31, 2011. Salaries and employee benefits, however, increased by $1.4 million, or 4.0 percent, to $36.9 million for the year ended December 31, 2012, compared to $35.5 million for the year ended December 31, 2011, due mainly to increased bonus provisions and incentive awards during 2012. Other real estate owned expenses decreased by $1.3 million, or 78.8 percent, to $344,000 for the year ended December 31, 2012, compared to $1.6 million for the year ended December 31, 2011, due mainly to a reduction of OREO properties.

Income Taxes

As of December 31, 2013, the Company s net deferred tax assets of $51.8 million were primarily the result of net operating loss carryforwards, allowance for loan losses and unrealized loss on securities available for sale. For the year ended December 31, 2012, the Company recorded a net valuation allowance release of $62.6 million based on management s reassessment of the amount of its deferred tax assets that are more likely than not to be realized. A valuation allowance of $82.3 million was recorded against its gross deferred tax asset balance as of December 31, 2011.

Income taxes are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 8 Income Taxes presented elsewhere herein.

Table of Contents

Financial Condition

Investment Portfolio

Investment securities are classified as held to maturity or available for sale 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 as available for sale. There were no trading securities as of December 31, 2013, 2012 and 2011. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our investment 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, 2013, our investment portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and U.S. government agency securities. Investment securities available for sale were 100 percent, 100 percent and 99.8 percent of the total investment portfolio as of December 31, 2013, 2012 and 2011, respectively. Most of the investment securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders equity as of December 31, 2013, 2012 and 2011.

As of December 31, 2013, securities available for sale were $530.9 million, or 17.4 percent of total assets, compared to $451.1 million, or 15.6 percent of total assets, as of December 31, 2012. For the year ended December 31, 2013, investment portfolio increased by $79.9 million, or 17.7 percent, to $530.9 million from $451.1 million as of December 31, 2012, due to purchases of $250.9 million of investment securities primarily consisting of mortgage-backed securities and collateralized mortgage obligations, mainly offset by sales, calls, prepayments and scheduled amortization.

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

	As of December 31,					
	2013		2012		2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
			(In thousands)			
Securities held to maturity						
Municipal bonds-tax exempt	$	$	$	$	$ 9,815	$ 9,867
Municipal bonds-taxable					38,797	38,392
Mortgage-backed securities (1)					3,137	3,128
U.S. government agency securities					7,993	7,976
Total securities held to maturity	$	$	$	$	$ 59,742	$ 59,363
Securities available for sale:						
Mortgage-backed securities (1)	$ 222,768	$ 217,059	$ 157,185	$ 160,326	$ 110,433	$ 113,005

Collateralized mortgage obligations [1]	130,636	127,693	98,821	100,487	161,214	162,837
U.S. government agency securities	90,852	83,536	92,990	93,118	72,385	72,548
Municipal bonds-tax exempt	13,857	13,937	12,209	12,812	5,901	6,138
Municipal bonds-taxable	33,361	32,354	44,248	46,142	3,389	3,482
Corporate bonds	21,013	20,835	20,470	20,400	20,460	19,836
U.S. Treasury bills	19,998	19,997				
SBA loan pool securities	13,598	12,629	14,104	14,026		
Other securities	3,030	2,886	3,331	3,357	3,318	3,335
Equity securities			354	392	647	681
Total securities available for sale:	**$ 549,113**	**$ 530,926**	**$ 443,712**	**$ 451,060**	**$ 377,747**	**$ 381,862**

[1] *Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities.*

Table of Contents

The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of December 31, 2013:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(In thousands)							
Mortgage-backed securities	$							