

HANMI FINANCIAL CORP

Form 10-Q

August 11, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended June 30, 2008**  
**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)*

**Not Applicable**

*(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)*

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

*(Do not check if a smaller reporting company)*

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

As of August 1, 2008, there were 45,900,549 outstanding shares of the Registrant's Common Stock.

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

Consolidated Balance Sheets (Unaudited)

Consolidated Statements of Operations (Unaudited)

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss) (Unaudited)

Consolidated Statements of Cash Flows (Unaudited)

Notes to Consolidated Financial Statements (Unaudited)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. CONTROLS AND PROCEDURES**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 1A. RISK FACTORS**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

**SIGNATURES**

EXHIBIT 10.16

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 32.2

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)***(Dollars in Thousands, Except Share Data)*

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 110,222	\$ 105,898
Federal Funds Sold	10,000	16,500
Cash and Cash Equivalents	120,222	122,398
Securities Held to Maturity, at Amortized Cost (Fair Value: 2008 \$925; 2007 \$941)	926	940
Securities Available for Sale, at Fair Value	261,675	349,517
Loans Receivable, Net of Allowance for Loan Losses of \$62,977 and \$43,611 at June 30, 2008 and December 31, 2007, Respectively	3,280,744	3,234,762
Loans Held for Sale, at the Lower of Cost or Fair Value	9,158	6,335
Customers' Liability on Acceptances	6,717	5,387
Premises and Equipment, Net	20,801	20,800
Accrued Interest Receivable	13,155	17,411
Other Real Estate Owned		287
Servicing Assets	4,328	4,336
Goodwill		107,100
Other Intangible Assets	5,882	6,908
Federal Reserve Bank Stock, at Cost	11,733	11,733
Federal Home Loan Bank Stock, at Cost	29,397	21,746
Bank-Owned Life Insurance	24,998	24,525
Other Assets	55,371	49,472
<b>TOTAL ASSETS</b>	<b>\$ 3,845,107</b>	<b>\$ 3,983,657</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
<b>Deposits:</b>		
Noninterest-Bearing	\$ 683,846	\$ 680,282
<b>Interest-Bearing:</b>		
Savings	93,747	93,099
Money Market Checking and NOW Accounts	728,601	445,806
Time Deposits of \$100,000 or More	1,050,942	1,441,683
Other Time Deposits	404,424	340,829
Total Deposits	2,961,560	3,001,699
Accrued Interest Payable	16,583	21,828
Acceptances Outstanding	6,717	5,387
FHLB Advances and Other Borrowings	500,107	487,164

Junior Subordinated Debentures	82,406	82,406
Other Liabilities	16,229	14,617
<b>Total Liabilities</b>	<b>3,583,602</b>	<b>3,613,101</b>

## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS EQUITY:

Common Stock, \$.001 Par Value; Authorized 200,000,000 Shares; Issued 50,533,049 Shares (45,900,549 Shares Outstanding) and 50,493,441 Shares (45,860,941 Shares Outstanding) at June 30, 2008 and December 31, 2007, Respectively	51	50
Additional Paid-In Capital	348,777	348,073
Unearned Compensation	(220)	(245)
Accumulated Other Comprehensive (Loss) Income Unrealized (Loss) Gain on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of (\$285) and \$527 at June 30, 2008 and December 31, 2007, Respectively	(666)	275
Retained (Deficit) Earnings	(16,425)	92,415
	331,517	440,568
Less Treasury Stock, at Cost; 4,632,500 Shares at June 30, 2008 and December 31, 2007	(70,012)	(70,012)
<b>Total Stockholders Equity</b>	<b>261,505</b>	<b>370,556</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 3,845,107</b>	<b>\$ 3,983,657</b>

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

*(Dollars in Thousands, Except Per Share Data)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>INTEREST AND DIVIDEND INCOME:</b>				
Interest and Fees on Loans	\$ 55,905	\$ 65,212	\$ 116,503	\$ 127,773
Taxable Interest on Investments	2,579	3,374	5,695	6,905
Tax-Exempt Interest on Investments	662	762	1,421	1,526
Dividends on Federal Home Loan Bank and Federal Reserve Bank Stock	486	336	900	705
Interest on Federal Funds Sold	31	176	114	902
Interest on Term Federal Funds Sold				5
<b>Total Interest and Dividend Income</b>	<b>59,663</b>	<b>69,860</b>	<b>124,633</b>	<b>137,816</b>
<b>INTEREST EXPENSE:</b>				
Interest on Deposits	20,487	26,797	45,334	52,986
Interest on FHLB Advances and Other Borrowings	3,944	2,919	8,421	5,090
Interest on Junior Subordinated Debentures	1,164	1,660	2,613	3,299
<b>Total Interest Expense</b>	<b>25,595</b>	<b>31,376</b>	<b>56,368</b>	<b>61,375</b>
<b>NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES</b>				
Provision for Credit Losses	34,068	38,484	68,265	76,441
	19,229	3,023	37,050	9,155
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>				
	14,839	35,461	31,215	67,286
<b>NON-INTEREST INCOME:</b>				
Service Charges on Deposit Accounts	4,539	4,438	9,256	8,926
Insurance Commissions	1,384	1,279	2,699	2,404
Trade Finance Fees	825	1,177	1,690	2,467
Remittance Fees	539	520	1,044	991
Other Service Charges and Fees	703	574	1,419	1,190
Bank-Owned Life Insurance Income	234	229	474	459
Change in Fair Value of Derivatives	(41)	222	198	314
Other Income	917	491	1,254	766
Gain on Sales of Loans	552	1,762	765	3,162
Gain on Sales of Securities Available for Sale			618	
<b>Total Non-Interest Income</b>	<b>9,652</b>	<b>10,692</b>	<b>19,417</b>	<b>20,679</b>
<b>NON-INTEREST EXPENSES:</b>				
Salaries and Employee Benefits	11,301	10,782	22,581	22,543

Edgar Filing: HANMI FINANCIAL CORP - Form 10-Q

Occupancy and Equipment	2,792	2,571	5,574	5,083
Data Processing	1,698	1,665	3,232	3,228
Professional Fees	995	647	1,980	1,121
Advertising and Promotion	888	889	1,700	1,550
Supplies and Communication	623	704	1,327	1,292
Amortization of Other Intangible Assets	502	592	1,026	1,206
Decrease in Fair Value of Embedded Options		196		196
Other Operating Expenses	3,251	3,444	6,218	6,240
Impairment Loss on Goodwill	107,393		107,393	
<b>Total Non-Interest Expenses</b>	<b>129,443</b>	<b>21,490</b>	<b>151,031</b>	<b>42,459</b>
<b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>	<b>(104,952)</b>	<b>24,663</b>	<b>(100,399)</b>	<b>45,506</b>
Provision for Income Taxes	595	9,401	2,227	17,252
<b>NET INCOME (LOSS)</b>	<b>\$ (105,547)</b>	<b>\$ 15,262</b>	<b>\$ (102,626)</b>	<b>\$ 28,254</b>
<b>EARNINGS (LOSS) PER SHARE:</b>				
Basic	\$ (2.30)	\$ 0.32	\$ (2.24)	\$ 0.58
Diluted	\$ (2.30)	\$ 0.31	\$ (2.24)	\$ 0.58
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
Basic	45,881,549	48,397,824	45,861,963	48,678,399
Diluted	45,881,549	48,737,574	45,861,963	49,110,835
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 0.03</b>	<b>\$ 0.06</b>	<b>\$ 0.09</b>	<b>\$ 0.12</b>

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND**  
**COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

*(Dollars in Thousands)*

	Common Stock		Number of Shares		Stockholders' Equity			Treasury Stock, S
	Issued	Treasury Stock	Outstanding	Common	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	
<b>AS OF DECEMBER 31, 2006</b>	<b>50,239,613</b>	<b>(1,163,000)</b>	<b>49,076,613</b>	<b>\$ 50</b>	<b>\$ 344,810</b>	<b>\$ (3,200)</b>	<b>\$ 164,751</b>	<b>\$ (20,041)</b>
Effect of Business Acquisitions	102,181		102,181		2,198			
Stock Options	93,135		93,135		687			
Compensation Expense					867			
from Exercise of Stock Options					150			
Dividends							(5,880)	
Issuance of Common Stock		(1,321,000)	(1,321,000)					(23,934)
Issuance of Stock Warrants					(2,552)			
Comprehensive Income:								
Net Income							28,254	
Unrealized Loss on Securities for Sale, Interest-Only Strips and Swaps, Net of Tax						(997)		
Comprehensive Income								
<b>AS OF JUNE 30, 2007</b>	<b>50,434,929</b>	<b>(2,484,000)</b>	<b>47,950,929</b>	<b>\$ 50</b>	<b>\$ 346,160</b>	<b>\$ (4,197)</b>	<b>\$ 187,125</b>	<b>\$ (43,975)</b>
<b>AS OF DECEMBER 31, 2007</b>	<b>50,493,441</b>	<b>(4,632,500)</b>	<b>45,860,941</b>	<b>\$ 50</b>	<b>\$ 348,073</b>	<b>\$ (245)</b>	<b>\$ 92,415</b>	<b>\$ (70,012)</b>
Effect Adjustment from the EITF Issue No. 06-4							(2,223)	
Effect of Business Acquisitions	39,608		39,608	1	292			
Stock Options					(70)			
Compensation Expense					482	25		
Dividends							(3,991)	
Comprehensive Loss:								
Net Loss							(102,626)	
Unrealized Loss on Securities for Sale, Interest-Only Strips and Swaps, Net of Tax						(941)		
Comprehensive Loss								



**AS OF JUNE 30, 2008**

**50,533,049 (4,632,500) 45,900,549 \$ 51 \$ 348,777 \$ (220) \$ (666) \$ (16,425) \$ (70,012)**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

3

---

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
*(In Thousands)*

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (102,626)	\$ 28,254
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	1,477	1,436
Amortization of Premiums and Accretion of Discounts on Investments, Net	75	100
Amortization of Other Intangible Assets	1,026	1,206
Amortization of Servicing Assets	(700)	(1,001)
Share-Based Compensation Expense	507	867
Provision for Credit Losses	37,050	9,155
Federal Home Loan Bank Stock Dividends	(820)	(353)
Gain on Sales of Securities Available for Sale	(618)	
Increase in Fair Value of Derivatives	(198)	(314)
Decrease in Fair Value of Embedded Options		196
Gain on Sales of Loans	(765)	(3,162)
Loss on Sales of Other Real Estate Owned	132	
Loss on Sales of Premises and Equipment	2	11
Impairment Loss on Goodwill	107,393	
Tax Benefit from Exercise of Stock Options		(150)
Origination of Loans Held for Sale	(26,095)	(62,289)
Proceeds from Sales of Loans Held for Sale	24,037	79,117
Decrease (Increase) in Accrued Interest Receivable	4,256	(394)
Decrease in Servicing Asset	708	1,163
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(473)	(459)
(Increase) Decrease in Other Assets	(4,713)	3,853
(Decrease) Increase in Accrued Interest Payable	(5,245)	761
(Decrease) Increase in Other Liabilities	(2,778)	3,515
<b>Net Cash Provided By Operating Activities</b>	<b>31,632</b>	<b>61,512</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Redemption of Federal Home Loan Bank Stock	282	
Proceeds from Matured Term Federal Funds Sold		5,000
Proceeds from Matured or Called Securities Available for Sale	87,814	24,293
Proceeds from Sales of Securities Available for Sale	24,001	
Proceeds from Sales of Other Real Estate Owned	155	
Net Increase in Loans Receivable	(80,865)	(210,642)
Purchases of Federal Home Loan Bank Stock	(7,113)	(77)
Purchases of Securities Available for Sale	(25,345)	
Purchases of Premises and Equipment	(1,480)	(1,715)

Business Acquisition, Net of Cash Acquired		(1,677)
<b>Net Cash Used In Investing Activities</b>	<b>(2,551)</b>	<b>(184,818)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Decrease) Increase in Deposits	(40,139)	28,431
Proceeds from Exercises of Stock Options		687
Tax Benefit from Exercise of Stock Options		150
Cash Paid to Acquire Treasury Stock		(23,934)
Cash Paid to Repurchase Stock Options	(70)	
Cash Paid to Repurchase Stock Warrants		(2,552)
Cash Dividends Paid	(3,991)	(5,880)
Proceeds from Long-Term FHLB Advances and Other Borrowings	150,000	
Repayment of Long-Term FHLB Advances and Other Borrowings	(231)	(15,219)
Net Change in Short-Term FHLB Advances and Other Borrowings	(136,826)	124,942
<b>Net Cash (Used In) Provided By Financing Activities</b>	<b>(31,257)</b>	<b>106,625</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,176)</b>	<b>(16,681)</b>
Cash and Cash Equivalents at Beginning of Period	122,398	138,501
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 120,222</b>	<b>\$ 121,820</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash Paid During the Period for:		
Interest	\$ 65,717	\$ 60,400
Income Tax Payments, Net of Refunds	\$ 11,278	\$ 15,556
Non-Cash Activities:		
Stock Issued for Business Acquisition	\$ 293	\$ 2,198
Transfer of Loans to Other Real Estate Owned	\$	\$ 1,080
See Accompanying Notes to Consolidated Financial Statements (Unaudited).		

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007**

**NOTE 1 BASIS OF PRESENTATION**

Hanmi Financial Corporation ( Hanmi Financial, we or us ) is a Delaware corporation and is subject to the Bank Holding Company Act of 1956, as amended. Our primary subsidiary is Hanmi Bank (the Bank ). Our other subsidiaries are Chun-Ha Insurance Services, Inc. ( Chun-Ha ) and All World Insurance Services, Inc. ( All World ).

In the opinion of management, the accompanying unaudited consolidated financial statements of Hanmi Financial Corporation and Subsidiaries reflect all adjustments (of a normal and recurring nature) that are necessary for a fair presentation of the results for the interim period ended June 30, 2008, but are not necessarily indicative of the results that will be reported for the entire year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) have been condensed or omitted. In the opinion of management, the aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). The interim information should be read in conjunction with our 2007 Annual Report on Form 10-K.

Descriptions of our significant accounting policies are included in *Note 1 Summary of Significant Accounting Policies* in our 2007 Annual Report on Form 10-K.

Certain reclassifications were made to the prior period s presentation to conform to the current period s presentation. Also see *Note 7 Correction of Immaterial Errors in Prior Periods*.

**NOTE 2 FAIR VALUE MEASUREMENTS**

***Fair Value Option and Fair Value Measurements***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. We adopted SFAS No. 157 on January 1, 2008. In February 2008, the FASB issued FASB Staff Position ( FSP ) No. FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP No. FAS 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for us on January 1, 2008. We did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 2 FAIR VALUE MEASUREMENTS (Continued)**

***Fair Value Measurement***

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a three-level fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

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

We used the following methods and significant assumptions to estimate fair value:

*Securities Available for Sale* - The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, as well as other U.S. government and agency debentures that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities. Securities classified as Level 3 are preferred stocks that are not traded in market.

*Loans Held for Sale* - Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subject to non-recurring fair value adjustments as Level 2.

*Impaired Loans* - SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These are considered Level 2. For the loan's collateral for which observable market prices are not available, fair value is estimated using discounted cash flow models. These are considered Level 3.

*Derivatives* - Our derivative instruments consist of an over-the-counter equity swap. As such, significant fair value inputs can generally be verified and do not typically involve significant judgments by management. As such, we classify derivatives as Level 2.

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 2 FAIR VALUE MEASUREMENTS (Continued)**

*Servicing Assets and Servicing Liabilities* - The fair values of servicing assets and servicing liabilities are based on a valuation model that calculates the present value of estimated net future cash flows related to contractually specified servicing fees. The valuation model incorporates assumptions that market participants would use in estimating future cash flows. We are able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Fair value measurements of servicing assets and servicing liabilities use significant unobservable inputs. As such, we classify them as Level 3.

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

As of June 30, 2008, assets and liabilities measured at fair value on a recurring basis are as follows:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
	<b>Quoted Prices in Active Markets for Identical Assets</b>	<b>Significant Observable Inputs With No Active Market With Identical Characteristics (In Thousands)</b>	<b>Significant Unobservable Inputs</b>	<b>Balance as of June 30, 2008</b>
<b>ASSETS:</b>				
Securities Available for Sale:				
Mortgage-Backed Securities	\$	\$ 85,341	\$	\$ 85,341
Municipal Bonds		61,268		61,268
U.S. Government Agency Securities	59,643			59,643
Collateralized Mortgage Obligations		43,064		43,064
Corporate Bonds		7,823		7,823
Other Securities	750	2,861	925	4,536
 Total Securities Available for Sale	 \$ 60,393	 \$ 200,357	 \$ 925	 \$ 261,675
 Derivatives (Equity Swap)	 \$	 \$ 1,088	 \$	 \$ 1,088
Servicing Assets	\$	\$	\$ 4,328	\$ 4,328
<b>LIABILITIES:</b>				
Servicing Liabilities	\$	\$	\$ 250	\$ 250

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2008:

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	<b>Beginning Balance as of April 1, 2008</b>	<b>Purchases, Issuances and Settlements</b>	<b>Realized and Unrealized Gains or Losses in Earnings (Other Expense) <i>(In Thousands)</i></b>	<b>Realized and Unrealized Gains or Losses in Other Comprehensive Income</b>	<b>Ending Balance as of June 30, 2008</b>
<b>ASSETS:</b>					
Securities Available for Sale (Other Securities)	\$ 925	\$	\$	\$	\$ 925
Servicing Assets	\$ 4,220	\$ 314	\$ (206)	\$	\$ 4,328
<b>LIABILITIES:</b>					
Servicing Liabilities	\$ 266	\$	\$ (16)	\$	\$ 250

7

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 2 FAIR VALUE MEASUREMENTS (Continued)**

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2008:

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	<b>Beginning Balance as of January 1, 2008</b>	<b>Purchases, and Issuances and Settlements</b>	<b>Realized and Unrealized Gains or Losses in Earnings (Other Expense) <i>(In Thousands)</i></b>	<b>Realized and Unrealized Gains or Losses in Other Comprehensive Income</b>	<b>Ending Balance as of June 30, 2008</b>
<b>ASSETS:</b>					
Securities Available for Sale (Other Securities)	\$ 925	\$	\$	\$	\$ 925
Servicing Assets	\$4,336	\$ 405	\$ (413)	\$	\$ 4,328
<b>LIABILITIES:</b>					
Servicing Liabilities	\$ 266	\$	\$ (16)	\$	\$ 250

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

As of June 30, 2008, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	<b>Level 1  Quoted Prices in Active Markets for Identical Assets</b>	<b>Level 2  Significant Observable Inputs With  No Active Market With Identical Characteristics</b>	<b>Level 3  Significant Unobservable Inputs</b>	<b>Balance as of June 30, 2008</b>
<b>ASSETS:</b>				
Loans Held for Sale	\$	\$ 9,158	\$	\$ 9,158
Impaired Loans	\$	\$ 2,775	\$	\$ 2,775

**NOTE 3 SHARE-BASED COMPENSATION**



**Share-Based Compensation Expense**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>			
Share-Based Compensation Expense	\$ 220	\$ 387	\$ 507	\$ 867
Related Tax Benefits	\$ 93	\$ 163	\$ 213	\$ 365

8

Table of Contents

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 3 SHARE-BASED COMPENSATION (Continued)*****Unrecognized Compensation Expense***

As of June 30, 2008, unrecognized share-based compensation expense was as follows:

	<b>Unrecognized Expense</b>	<b>Average Expected Recognition Period</b>
	<i>(Dollars in Thousands)</i>	
Stock Option Awards	\$ 3,122	2.5 years
Restricted Stock Awards	220	4.3 years
<b>Total Unrecognized Share-Based Compensation Expense</b>	<b>\$ 3,342</b>	<b>2.6 years</b>

***Share-Based Payment Award Activity***

The table below provides stock option information for the three months ended June 30, 2008:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price Per Share</b>	<b>Weighted- Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value of In-the-Money Options</b>
	<i>(Dollars in Thousands, Except Per Share Data)</i>			
Options Outstanding at Beginning of Period	1,486,366	\$ 15.12	7.0 years	\$ 475 <sup>(1)</sup>
Options Granted	70,000	\$ 5.66	10.0 years	
Options Expired	(3,000)	\$ 15.61	6.7 years	
Options Forfeited	(61,800)	\$ 14.00	8.8 years	
<b>Options Outstanding at End of Period</b>	<b>1,491,566</b>	<b>\$ 14.72</b>	<b>6.8 years</b>	<b>\$ 169<sup>(2)</sup></b>
Options Exercisable at End of Period	781,144	\$ 13.27	5.6 years	\$ 169 <sup>(2)</sup>

<sup>(1)</sup> *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$7.39 as of March 31, 2008, over the exercise price, multiplied by the number of*

*options.*

- (2) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$5.21 as of June 30, 2008, over the exercise price, multiplied by the number of options.*

There were no options exercised during the three months ended June 30, 2008. The total intrinsic value of options exercised during the three months ended June 30, 2007 was \$541,000.

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 3 SHARE-BASED COMPENSATION (Continued)**

The table below provides stock option information for the six months ended June 30, 2008:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price Per Share</b>	<b>Weighted- Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value of In-the-Money Options</b>
	<i>(Dollars in Thousands, Except Per Share Data)</i>			
Options Outstanding at Beginning of Period	1,472,766	\$ 15.33	7.2 years	\$ 735 <sup>(1)</sup>
Options Granted	110,000	\$ 6.59	9.8 years	
Options Expired	(18,800)	\$ 15.05	6.4 years	
Options Forfeited	(72,400)	\$ 14.65	8.7 years	
<b>Options Outstanding at End of Period</b>	<b>1,491,566</b>	<b>\$ 14.72</b>	<b>6.8 years</b>	<b>\$ 169<sup>(2)</sup></b>
Options Exercisable at End of Period	781,144	\$ 13.27	5.6 years	\$ 169 <sup>(2)</sup>

<sup>(1)</sup> *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$8.62 as of December 31, 2007, over the exercise price, multiplied by the number of options.*

<sup>(2)</sup> *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$5.21 as of June 30,*

2008, over the exercise price, multiplied by the number of options.

There were no options exercised during the six months ended June 30, 2008. The total intrinsic value of options exercised during the six months ended June 30, 2007 was \$1.0 million.

The table below provides information for restricted stock awards for the three and six months ended June 30, 2008:

	<b>Three Months Ended June 30, 2008</b>		<b>Six Months Ended June 30, 2008</b>	
	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Restricted Stock at Beginning of Period	24,000	\$12.38	19,000	\$13.48
Restricted Stock Granted		\$	5,000	\$ 8.21
Restricted Stock Forfeited	(5,000)	\$ 8.21	(5,000)	\$ 8.21
<b>Restricted Stock at End of Period</b>	<b>19,000</b>	<b>\$13.48</b>	<b>19,000</b>	<b>\$13.48</b>

#### **NOTE 4 EARNINGS (LOSS) PER SHARE**

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

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 4 EARNINGS PER SHARE (Continued)**

The following tables present a reconciliation of the components used to derive basic and diluted EPS for the periods indicated.

	<b>Three Months Ended June 30,</b>					
	<i>(Numerator)</i>	<b>2008</b> <i>(Denominator)</i>			<b>2007</b> <i>(Denominator)</i>	
	<b>Net</b>	<b>Weighted-</b>	<b>Per</b>	<b>Net</b>	<b>Weighted-</b>	<b>Per</b>
	<b>Loss</b>	<b>Average</b>	<b>Share</b>	<b>Income</b>	<b>Average</b>	<b>Share</b>
		<b>Shares</b>	<b>Amount</b>		<b>Shares</b>	<b>Amount</b>
		<i>(Dollars in Thousands, Except Per Share Data)</i>				
Basic EPS	\$ (105,547)	45,881,549	\$ (2.30)	\$ 15,262	48,397,824	\$ 0.32
Effect of Dilutive Securities Options, Warrants and Unvested Restricted Stock					339,750	(0.01)
Diluted EPS	\$ (105,547)	45,881,549	\$ (2.30)	\$ 15,262	48,737,574	\$ 0.31

	<b>Six Months Ended June 30,</b>					
	<i>(Numerator)</i>	<b>2008</b> <i>(Denominator)</i>			<b>2007</b> <i>(Denominator)</i>	
	<b>Net</b>	<b>Weighted-</b>	<b>Per</b>	<b>Net</b>	<b>Weighted-</b>	<b>Per</b>
	<b>Loss</b>	<b>Average</b>	<b>Share</b>	<b>Income</b>	<b>Average</b>	<b>Share</b>
		<b>Shares</b>	<b>Amount</b>		<b>Shares</b>	<b>Amount</b>
		<i>(Dollars in Thousands, Except Per Share Data)</i>				
Basic EPS	\$ (102,626)	45,861,963	\$ (2.24)	\$ 28,254	48,678,399	\$ 0.58
Effect of Dilutive Securities Options, Warrants and Unvested Restricted Stock					432,436	
Diluted EPS	\$ (102,626)	45,861,963	\$ (2.24)	\$ 28,254	49,110,835	\$ 0.58

For the three months ended June 30, 2008 and 2007, there were 1,365,382 and 1,243,221 options outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive. For the six months ended June 30, 2008 and 2007, there were 1,222,286 and 845,221 options outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

**NOTE 5 OFF-BALANCE SHEET COMMITMENTS**

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets. The Bank's exposure to credit losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and

conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 5 OFF-BALANCE SHEET COMMITMENTS (Continued)**

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<i>(In Thousands)</i>	
Commitments to Extend Credit	\$ 472,133	\$ 524,349
Standby Letters of Credit	54,042	48,071
Commercial Letters of Credit	48,130	52,544
Unused Credit Card Lines	17,583	18,622
<b>Total Undisbursed Loan Commitments</b>	<b>\$ 591,888</b>	<b>\$ 643,586</b>

**NOTE 6 SEGMENT REPORTING**

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

**NOTE 7 CORRECTION OF IMMATERIAL ERRORS IN PRIOR PERIODS**

Our historical financial statements have been revised from that issued in prior years to correct immaterial errors related to the recording of interest expense. We recognized an adjustment of \$989,000, net of tax, to retained earnings and related accrued interest payable in the Consolidated Balance Sheet as of December 31, 2007 and pre-tax adjustments of \$106,000 and \$214,000 to interest expense on deposits in the Consolidated Statement of Operations for the three and six months ended June 30, 2007, respectively.

The following is a summary of the effects of the immaterial error correction on the consolidated financial statements for the periods indicated:

<b>CONSOLIDATED BALANCE SHEET</b>	<b>December 31, 2007</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
	<i>(In Thousands)</i>		
Accrued Interest Receivable	\$ 17,500	\$ (89)	\$ 17,411
Total Assets	\$3,983,746	\$ (89)	\$3,983,657
Other Liabilities	\$ 13,717	\$ 900	\$ 14,617
Total Liabilities	\$3,612,201	\$ 900	\$3,613,101
Retained Earnings	\$ 93,404	\$ (989)	\$ 92,415
Total Stockholders Equity	\$ 371,545	\$ (989)	\$ 370,556
Total Liabilities and Stockholders Equity	\$3,983,746	\$ (89)	\$3,983,657



Table of Contents

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 7 CORRECTION OF IMMATERIAL ERRORS IN PRIOR PERIODS (Continued)**

CONSOLIDATED STATEMENTS OF OPERATIONS	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	As		As Restated	As		As Restated
	Previously Reported	Adjustments		Previously Reported	Adjustments	
	<i>(Dollars in Thousands, Except Per Share Data)</i>					
Interest on Deposits	\$26,691	\$ 106	\$26,797	\$52,772	\$ 214	\$52,986
Total Interest Expense	\$31,270	\$ 106	\$31,376	\$61,161	\$ 214	\$61,375
Net Interest Income Before Provision for Credit Losses	\$38,590	\$(106)	\$38,484	\$76,655	\$(214)	\$76,441
Net Interest Income After Provision for Credit Losses	\$35,567	\$(106)	\$35,461	\$67,500	\$(214)	\$67,286
Income Before Provision for Income Taxes	\$24,769	\$(106)	\$24,663	\$45,720	\$(214)	\$45,506
Provision for Income Taxes	\$ 9,446	\$ (45)	\$ 9,401	\$17,342	\$ (90)	\$17,252
Net Income	\$15,323	\$ (61)	\$15,262	\$28,378	\$(124)	\$28,254

## Earnings Per Share:

Basic	\$ 0.32	\$	\$ 0.32	\$ 0.58	\$	\$ 0.58
Diluted	\$ 0.31	\$	\$ 0.31	\$ 0.58	\$	\$ 0.58

**NOTE 8 CUMULATIVE-EFFECT ADJUSTMENT FROM THE ADOPTION OF EITF ISSUE NO. 06-4**

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*, which requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, or Accounting Principles Board Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented; or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. We adopted the provisions of EITF Issue No. 06-4 on January 1, 2008 and recorded a \$2.2 million cumulative-effect adjustment to the beginning balance in retained earnings.

**Table of Contents**

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Continued)**

**NOTE 9 LIQUIDITY**

In addition to its deposits, the Bank's principal source of liquidity is its ability to utilize borrowings, as needed. The Bank's primary source of borrowings is the Federal Home Loan Bank of San Francisco (FHLB). As of June 30, 2008, the Bank was approved by the FHLB to borrow up to \$774.0 million to the extent it provides qualifying collateral. At June 30, 2008, the Bank's FHLB borrowings totaled \$496.4 million, representing 12.9 percent of total assets. As of August 7, 2008, the Bank's FHLB borrowings totaled \$486.4 million. The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral offered by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize additional borrowing capacity from its FHLB borrowing arrangement. During the quarter, the FHLB cancelled the Bank's \$62 million unsecured line of credit with them. This cancellation was the result of the Bank's net loss for the fourth quarter of 2007.

Management believes that Hanmi Financial, on a stand-alone basis, currently has adequate liquid assets to meet its current obligations, which are primarily interest payments on junior subordinated debentures, subject to prior approval of such payments by the Federal Reserve Board (FRB). As of June 30, 2008, limitations imposed by our regulators prohibited the Bank from providing a dividend to Hanmi Financial. At June 30, 2008, Hanmi Financial's liquid assets, including amounts deposited with the Bank, totaled \$1.3 million, down from \$5.3 million at December 31, 2007. In connection with the junior subordinated debentures, Hanmi Financial has no intention to defer interest payments, but has the option to defer them for a period of up to 20 consecutive quarters in the event, among other things, prior FRB approval for payment of such interest is not obtained. During any deferral period, and until all accrued and unpaid interest obligations on the debentures have been satisfied, Hanmi Financial cannot declare any dividends on its common stock.

Current market conditions have also limited the Bank's liquidity sources principally to secured funding outlets, such as the FHLB and Federal Reserve Bank, in addition to deposits originated through the Bank's branch network. There can be no assurance that actions by the FHLB would not reduce the Bank's borrowing capacity or that we would be able to continue to attract deposits at competitive rates. Over the next twelve months, approximately \$1.4 billion of time deposits will mature. We expect to replace these deposits with similar time deposits; however, there can be no assurances that we will be able to attract these time deposits at competitive rates. Such events could have a material adverse impact on our results of operations and financial condition.

**NOTE 10 REGULATORY MATTERS**

Hanmi Financial and the Bank are subject to extensive Federal and state supervision and regulation by certain regulatory agencies. In connection with such supervision and their recent examinations, the regulatory agencies will require that certain deficiencies in our policies, procedures or activities be corrected in the future. If such matters are not corrected in the future or significant progress made on such, then Hanmi Financial and/or the Bank may face additional regulatory action that may have an impact on the operations of Hanmi Financial and the Bank.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FORWARD-LOOKING STATEMENTS**

Some of the statements under *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following:

- general economic and business conditions in those areas in which we operate;
- demographic changes;
- competition for loans and deposits;
- fluctuations in interest rates;
- ability to maintain our status as a financial holding company;
- risks of natural disasters related to our real estate portfolio;
- risks associated with Small Business Administration ( SBA ) loans;
- changes in governmental regulation;
- impact of regulatory orders or action by government regulators against Hanmi Bank or Hanmi Financial;
- ability to receive regulatory approval for Hanmi Bank to declare dividends to Hanmi Financial;
- adequacy of our allowance for loan losses;
- credit quality and the effect of credit quality on our provision for credit losses and allowance for loan losses;
- the ability of borrowers to perform under the terms of their loans and other terms of credit agreements;
- our ability to successfully integrate acquisitions we may make;
- availability of sources of liquidity for Hanmi Bank and Hanmi Financial;
- the availability of capital to fund the expansion of our business; and
- changes in securities markets.

For a discussion of some of the other factors that might cause such a difference, see the discussion contained in this Form 10-Q under the heading *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 1A. Risk Factors* and see also *Item 1A. Risk Factors*, *Item 7. Management's Discussion and*

*Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2007 as well as other factors we identify from time to time in our periodic reports filed pursuant to the Exchange Act. 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.

The following is management's discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and six months ended June 30, 2008. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007 and with the unaudited consolidated financial statements and notes thereto set forth in this Report.

**Table of Contents****CRITICAL ACCOUNTING POLICIES**

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the *Notes to Consolidated Financial Statements* in our Annual Report on Form 10-K for the year ended December 31, 2007. Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies* in our Annual Report on Form 10-K for the year ended December 31, 2007. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial's Board of Directors.

***Goodwill***

Goodwill represents the excess of purchase price over the fair value of net assets acquired because of various business acquisitions. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill must be recorded at the reporting unit level. Reporting units are defined as an operating segment. We have identified one reporting unit - our banking operations. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be tested for impairment at least annually (at any time during the year, but at the same time each year), or more frequently if events or circumstances change, such as adverse changes in the business climate, that would more likely than not reduce the reporting unit's fair value below its carrying amount.

During the second quarter of 2008 and the fourth quarter of 2007, we recognized impairment losses on goodwill of \$107.4 million and \$102.9 million, respectively, based on the decline in the market value of our common stock, which we believe reflects, in part, recent turmoil in the financial markets that has adversely affected the market value of the common stock of many banks. Goodwill is discussed in more detail in *Notes to Consolidated Financial Statements, Note 1 - Summary of Significant Accounting Policies* and *Note 6 - Goodwill* in our Annual Report on Form 10-K for the year ended December 31, 2007.

As of June 30, 2008 and December 31, 2007, goodwill was \$0 and \$107.1 million, respectively.

**Table of Contents****SELECTED FINANCIAL DATA**

The following tables set forth certain selected financial data for the periods indicated.

	<b>As of and for the Three Months Ended June 30, 2008</b>		<b>2007</b>	
	<i>(Dollars in Thousands, Except Per Share Data)</i>			
<b>AVERAGE BALANCES:</b>				
Average Gross Loans, Net <sup>(1)</sup>	\$	3,317,061	\$	3,014,895
Average Investment Securities	\$	296,790	\$	375,598
Average Interest-Earning Assets	\$	3,657,676	\$	3,429,123
Average Total Assets	\$	3,920,796	\$	3,818,170
Average Deposits	\$	2,882,506	\$	2,967,748
Average Borrowings	\$	621,239	\$	304,744
Average Interest-Bearing Liabilities	\$	2,851,021	\$	2,551,665
Average Stockholders' Equity	\$	377,096	\$	495,719
Average Tangible Equity <sup>(2)</sup>	\$	264,710	\$	277,414
<b>PER SHARE DATA:</b>				
Earnings (Loss) Per Share - Basic	\$	(2.30)	\$	0.32
Earnings (Loss) Per Share - Diluted	\$	(2.30)	\$	0.31
Common Shares Outstanding		45,900,549		47,950,929
Book Value Per Share <sup>(3)</sup>	\$	5.70	\$	10.12
Tangible Book Value Per Share <sup>(4)</sup>	\$	5.57	\$	5.57
Cash Dividends Per Share	\$	0.03	\$	0.06
<b>SELECTED PERFORMANCE RATIOS:</b>				
Return on Average Total Assets <sup>(5)(6)</sup>		(10.83%)		1.60%
Return on Average Stockholders' Equity <sup>(5)(7)</sup>		(112.57%)		12.35%
Return on Average Tangible Equity <sup>(5)(8)</sup>		(160.37%)		22.07%
Efficiency Ratio <sup>(11)</sup>		296.07%		43.70%
Net Interest Spread <sup>(9)</sup>		2.95%		3.24%
Net Interest Margin <sup>(10)</sup>		3.75%		4.50%
Dividend Payout Ratio <sup>(12)</sup>		(1.30%)		18.85%
Average Stockholders' Equity to Average Total Assets		9.62%		12.98%
<b>SELECTED CAPITAL RATIOS: <sup>(13)</sup></b>				
Total Risk-Based Capital Ratio:				
Hanmi Financial		10.66%		11.59%
Hanmi Bank		10.64%		11.45%
Tier 1 Risk-Based Capital Ratio:				
Hanmi Financial		9.40%		10.57%
Hanmi Bank		9.39%		10.42%
Tier 1 Leverage Ratio:				
Hanmi Financial		8.61%		9.74%
Hanmi Bank		8.60%		9.61%
<b>SELECTED ASSET QUALITY RATIOS:</b>				
Non-Performing Loans to Total Gross Loans <sup>(14)</sup>		3.34%		0.74%
Non-Performing Assets to Total Assets <sup>(15)</sup>		2.92%		0.61%
Net Loan Charge-Offs to Average Total Gross Loans <sup>(16)</sup>		1.00%		0.33%
Allowance for Loan Losses to Total Gross Loans		1.88%		1.05%

Allowance for Loan Losses to Non-Performing Loans	56.14%	142.30%
(1) <i>Loans are net of deferred fees and related direct costs.</i>		
(2) <i>Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average stockholders equity. See Non-GAAP Financial Measures.</i>		
(3) <i>Total stockholders equity divided by common shares outstanding.</i>		
(4) <i>Tangible equity divided by common shares outstanding. See Non-GAAP Financial Measures.</i>		
(5) <i>Calculation based upon annualized net income.</i>		
(6) <i>Net income (loss) divided by average total assets.</i>		
(7) <i>Net income (loss) divided by average</i>		

*stockholders  
equity.*

- (8) *Net income  
(loss) divided by  
average tangible  
equity. See  
Non-GAAP  
Financial  
Measures.*
- (9) *Average yield  
earned on  
interest-earning  
assets less  
average rate  
paid on  
interest-bearing  
liabilities.*
- (10) *Net interest  
income before  
provision for  
credit losses  
divided by  
average  
interest-earning  
assets.*
- (11) *Total  
non-interest  
expenses divided  
by the sum of net  
interest income  
before provision  
for credit losses  
and total  
non-interest  
income.*
- (12) *Cash dividends  
per share times  
common shares  
outstanding  
divided by net  
income.*
- (13) *The required  
ratios for a  
well-capitalized  
institution, as*



*defined by regulations of the Board of Governors of the Federal Reserve System, are 10 percent for Total Risk-Based Capital Ratio (total capital divided by total risk-weighted assets); 6 percent for Tier 1 Risk-Based Capital Ratio (Tier 1 capital divided by total risk-weighted assets); and 5 percent for Tier 1 Leverage Ratio (Tier 1 capital divided by average total assets).*

*(14) Non-performing loans consist of non-accrual loans, loans past due 90 days or more and restructured loans.*

*(15) Non-performing assets consist of non-performing loans (see footnote (14) above) and other real estate owned.*

*(16) Calculation based upon annualized net loan*

*charge-offs.*

**Table of Contents**

	<b>As of and for the Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<i>(Dollars in Thousands, Except Per Share Data)</i>	
<b>AVERAGE BALANCES:</b>		
Average Gross Loans, Net <sup>(1)</sup>	\$ 3,310,101	\$ 2,949,129
Average Investment Securities	\$ 319,457	\$ 381,113
Average Interest-Earning Assets	\$ 3,673,663	\$ 3,389,901
Average Total Assets	\$ 3,944,199	\$ 3,780,147
Average Deposits	\$ 2,938,910	\$ 2,956,629
Average Borrowings	\$ 587,189	\$ 278,316
Average Interest-Bearing Liabilities	\$ 2,874,115	\$ 2,519,725
Average Stockholders' Equity	\$ 378,030	\$ 497,444
Average Tangible Equity <sup>(2)</sup>	\$ 264,943	\$ 278,835
<b>PER SHARE DATA:</b>		
Earnings (Loss) Per Share - Basic	\$ (2.24)	\$ 0.58
Earnings (Loss) Per Share - Diluted	\$ (2.24)	\$ 0.58
Cash Dividends Per Share	\$ 0.09	\$ 0.12
<b>SELECTED PERFORMANCE RATIOS:</b>		
Return on Average Total Assets <sup>(3) (4)</sup>	(5.23%)	1.51%
Return on Average Stockholders' Equity <sup>(3) (5)</sup>	(54.59%)	11.45%
Return on Average Tangible Equity <sup>(3) (6)</sup>	(77.90%)	20.43%
Efficiency Ratio <sup>(9)</sup>	172.25%	43.72%
Net Interest Spread <sup>(7)</sup>	2.88%	3.29%
Net Interest Margin <sup>(8)</sup>	3.74%	4.55%
Dividend Payout Ratio <sup>(10)</sup>	(4.03%)	20.37%
Average Stockholders' Equity to Average Total Assets	9.58%	13.16%

<sup>(1)</sup> Loans are net of deferred fees and related direct costs.

<sup>(2)</sup> Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average stockholders' equity. See Non-GAAP Financial

*Measures.*

- (3) *Calculation based upon annualized net income.*
- (4) *Net income (loss) divided by average total assets.*
- (5) *Net income (loss) divided by average stockholders equity.*
- (6) *Net income (loss) divided by average tangible equity. See Non-GAAP Financial Measures.*
- (7) *Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities.*
- (8) *Net interest income before provision for credit losses divided by average interest-earning assets.*
- (9) *Total non-interest expenses divided by the sum of net interest income before provision for credit losses*

*and total  
non-interest  
income.*

*(10) Cash dividends  
per share times  
common shares  
outstanding  
divided by net  
income.*

**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 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 substitute 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 the GAAP performance measure to this non-GAAP performance measure for the periods indicated:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>(Dollars in Thousands)</i>			
Average Stockholders' Equity	\$ 377,096	\$ 495,719	\$ 378,030	\$ 497,444
Less Average Goodwill and Average Other Intangible Assets	(112,386)	(218,305)	(113,087)	(218,609)
<b>Average Tangible Equity</b>	<b>\$ 264,710</b>	<b>\$ 277,414</b>	<b>\$ 264,943</b>	<b>\$ 278,835</b>
Return on Average Stockholders' Equity	(112.57%)	12.35%	(54.59%)	11.45%
Effect of Average Goodwill and Average Other Intangible Assets	(47.80%)	9.72%	(23.31%)	8.98%
<b>Return on Average Tangible Equity</b>	<b>(160.37%)</b>	<b>22.07%</b>	<b>(77.90%)</b>	<b>20.43%</b>

***Tangible Book Value Per Share***

Tangible book value per share is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in the analysis of Hanmi Financial's performance. Tangible book value per share is calculated by subtracting goodwill and other intangible assets from total 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 substitute 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 the GAAP performance measure to this non-GAAP performance measure for the periods indicated:

	<b>June 30,</b>
	<b>2008</b>
	<b>2007</b>

	<i>(Dollars in Thousands; Except Per Share Data)</i>	
Total Stockholders' Equity	\$ 261,505	\$ 485,163
Less Goodwill and Other Intangible Assets	(5,882)	(217,968)
<b>Tangible Equity</b>	<b>\$ 255,623</b>	<b>\$ 267,195</b>
Book Value Per Share	\$ 5.70	\$ 10.12
Effect of Goodwill and Other Intangible Assets	(0.13)	(4.55)
<b>Tangible Book Value Per Share</b>	<b>\$ 5.57</b>	<b>\$ 5.57</b>

**Table of Contents****EXECUTIVE OVERVIEW**

As of June 30, 2008, we had \$3.85 billion in total assets, \$3.36 billion in total gross loans and \$2.96 billion in total deposits, compared to \$3.98 billion, \$3.29 billion and \$3.00 billion, respectively, as of December 31, 2007.

The focus of our business has been on commercial and real estate lending. As of June 30, 2008, we maintained a branch network of 25 full-service branch offices in California and eight loan production offices in California, Colorado, Georgia, Illinois, Texas, Virginia and Washington. In February 2008, we opened a new full-service branch in Beverly Hills, California. We are currently planning to open two more full-service branches in the Southern California area by the end of 2008.

During the past two years, the economic conditions in the markets in which our borrowers operate continued to deteriorate and the levels of loan delinquency and defaults that we experienced were substantially higher than historical levels. Starting in the fourth quarter of 2007, we expanded our portfolio monitoring activities in an attempt to identify problematic loans. For non-performing loans, we are enhancing our collection efforts, increasing workout and collection personnel and creating individual action plans to maximize, to the extent possible, collections on such loans. We will continue our expanded monitoring of the loan portfolio until economic conditions have improved sufficiently and loan delinquency and defaults improve.

For the three months ended June 30, 2008, we recognized a net loss of \$105.5 million, as compared with net income of \$15.3 million for the same period in 2007. Such loss in the second quarter of 2008 was primarily caused by a goodwill impairment charge of \$107.4 million occasioned by the decline in the market value of our common stock that reflects, in part, recent turmoil in the financial markets, and a provision for credit losses of \$19.2 million. If we measure our operating results from our continuing operations without the impairment charge on a non-GAAP basis (as shown in the table below), we realized net income of \$1.8 million for the three months ended June 30, 2008 and \$4.8 million for the six months ended June 30, 2008.

	<b>GAAP</b>	<b>Effect of Impairment Loss on Goodwill</b>	<b>Non-GAAP</b>
		<i>(In Thousands)</i>	
<b>Three Months Ended June 30, 2008:</b>			
Net Income (Loss)	\$(105,547)	\$ 107,393	\$ 1,846
<b>Six Months Ended June 30, 2008:</b>			
Net Income (Loss)	\$(102,626)	\$ 107,393	\$ 4,767

Management believes the presentation of this financial measure, excluding the impact of the goodwill impairment charge, 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 our results from our core banking operations.



**Table of Contents**

**Key Performance Indicators**

We believe the following were key indicators of our operating performance for the periods indicated:

***Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007***

The annualized return on average total assets was (10.83) percent for the three months ended June 30, 2008, compared to 1.60 percent for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP annualized return on average total assets was 0.19 percent for the three months ended June 30, 2008.

The annualized return on average stockholders' equity was (112.57) percent for the three months ended June 30, 2008, and the annualized return on average tangible equity was (160.37) percent, compared to 12.35 percent and 22.07 percent, respectively, for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP annualized return on average stockholders' equity was 1.97 percent for the three months ended June 30, 2008, and the non-GAAP annualized return on average tangible equity was 2.80 percent.

The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income) was 296.07 percent for the three months ended June 30, 2008, compared to 43.70 percent for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP efficiency ratio was 50.43 percent for the three months ended June 30, 2008.

The net interest spread and net interest margin for the three months ended June 30, 2008 were 2.95 percent and 3.75 percent, respectively, compared to 3.24 percent and 4.50 percent, respectively, for the same period in 2007.

***Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007***

The annualized return on average total assets was (5.23) percent for the six months ended June 30, 2008, compared to 1.51 percent for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP annualized return on average total assets was 0.24 percent for the six months ended June 30, 2008.

The annualized return on average stockholders' equity was (54.59) percent for the six months ended June 30, 2008, and the annualized return on average tangible equity was (77.90) percent, compared to 11.45 percent and 20.23 percent, respectively, for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP annualized return on average stockholders' equity was 2.54 percent for the six months ended June 30, 2008, and the non-GAAP annualized return on average tangible equity was 3.62 percent.

The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income) was 172.25 percent for the six months ended June 30, 2008, compared to 43.72 percent for the same period in 2007. Excluding the impact of the goodwill impairment charge, the non-GAAP efficiency ratio was 49.77 percent for the six months ended June 30, 2008.

The net interest spread and net interest margin for the six months ended June 30, 2008 were 2.88 percent and 3.74 percent, respectively, compared to 3.29 percent and 4.55 percent, respectively, for the same period in 2007.

**Table of Contents**

The performance ratios presented above (return on average assets, return on average stockholders' equity, return on average tangible equity and the efficiency ratio), excluding impairment loss on goodwill, are supplemental financial information determined by a method other than in accordance with GAAP. These non-GAAP measures are used by management in the analysis of Hanmi Financial's performance. Return on average total assets is calculated by dividing net income (loss) by average total assets. Return on average stockholders' equity is calculated by dividing net income (loss) by average stockholders' equity. Return on average tangible equity is calculated by dividing net income (loss) by average tangible equity. The efficiency ratio is calculated by dividing total non-interest expenses by the sum of net interest income before provision for credit losses and total non-interest income.

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

	GAAP	Effect of Impairment Loss on Goodwill	Non-GAAP
	<i>(Dollars in Thousands)</i>		
<b>Three Months Ended June 30, 2008:</b>			
Total Non-Interest Expenses	\$ 129,443	\$(107,393)	\$22,050
Return on Average Total Assets	(10.83%)	11.02%	0.19%
Return on Average Stockholders' Equity	(112.57%)	114.54%	1.97%
Return on Average Tangible Equity	(160.36%)	163.16%	2.80%
Efficiency Ratio	296.07%	(245.64%)	50.43%
<b>Six Months Ended June 30, 2008:</b>			
Total Non-Interest Expenses	\$ 151,031	\$(107,393)	\$43,638
Return on Average Total Assets	(5.23%)	5.47%	0.24%
Return on Average Stockholders' Equity	(54.59%)	57.13%	2.54%
Return on Average Tangible Equity	(77.89%)	81.51%	3.62%
Efficiency Ratio	172.25%	(122.48%)	49.77%

Management believes the presentation of these performing ratios, excluding impairment loss on goodwill, provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial and its core banking operations. These disclosures should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

**Summary of Changes in Balance Sheets – June 30, 2008 Compared to December 31, 2007**

Total assets decreased \$138.6 million, or 3.5 percent, from \$3.98 billion as of December 31, 2007 to \$3.85 billion as of June 30, 2008.

Loans receivable (including loans held for sale), net of deferred loan fees and allowance for loan losses, increased \$48.8 million, or 1.5 percent, from \$3.24 billion as of December 31, 2007 to \$3.29 billion as of June 30, 2008.

Total deposits decreased \$40.1 million, or 1.3 percent, from \$3.00 billion as of December 31, 2007 to \$2.96 billion as of June 30, 2008.

Total stockholders' equity decreased \$109.1 million, or 29.4 percent, from \$370.6 million as of December 31, 2007 to \$261.5 million as of June 30, 2008.

**Table of Contents**

**2008 Outlook**

As we look ahead to the remainder of 2008, the economies and real estate markets in our primary market areas will continue to be significant determinants of the quality of our assets in future periods and thus our provision for credit losses, results of operations, liquidity and financial condition. We continue to anticipate that the weak economic conditions will prevail nationally and in California at least through the end of 2008, largely the result of a decline in the housing market (construction and sales as well as falling home prices) and credit quality problems. Responding to this difficult environment, we are making significant changes in two critical areas. First, we are enhancing existing policies and procedures regarding the monitoring of loans to be more stringent and make it more difficult to allow exceptions from our loan policy. Second, we are strengthening and centralizing the loan underwriting and approval processes, including centralizing the credit underwriting function at three locations, creating a central monitoring mechanism to monitor all loans, and increasing resources in the Bank's departments responsible for addressing problem assets.

Complementing these initiatives is a program to improve our organizational structure and streamline our operations. Our goal is to reduce costs and gain greater operating efficiencies. We currently have approximately 600 employees. During the third quarter of 2008, we expect to achieve a net reduction in headcount of approximately 10 percent. The headcount reduction will be across all of our operations, but the majority will be in marketing, given that, in the current environment, we are not seeking to aggressively grow the loan portfolio.

During the third quarter of 2008, we will also be initiating a marketing campaign to increase deposits with a goal of lowering the loan-to-deposit ratio below 105 percent by the end of 2008 from a current level of 111 percent as of June 30, 2008. We anticipate that the deposit growth will help our liquidity. See *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Interest Rate Risk Management* and *"Liquidity and Capital Resources"* for further discussion.

**RESULTS OF OPERATIONS**

**Net Interest Income Before Provision for Credit Losses**

Our earnings depend largely upon the difference between the interest income received from our loan portfolio and other interest-earning assets and the interest paid on deposits and borrowings. The difference is net interest income. The difference between the yield earned on interest-earning assets and the cost of interest-bearing liabilities is net interest spread. Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin.

Net interest income is affected by the change in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Our net interest income also is affected by changes in the yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as rate changes. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and 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, income tax policies, governmental budgetary matters and the actions of the Federal Reserve Bank of San Francisco.

**Table of Contents****Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007**

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.

	June 30, 2008		Three Months Ended		June 30, 2007	
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<i>(Dollars in Thousands)</i>						
<b>ASSETS</b>						
Interest-Earning Assets:						
Gross Loans, Net <sup>(1)</sup>	\$ 3,317,061	\$ 55,905	6.78%	\$ 3,014,895	\$ 65,212	8.68%
Municipal Securities <sup>(2)</sup>	63,177	662	4.19%	72,284	762	4.22%
Obligations of Other U.S. Government Agencies	84,088	884	4.21%	118,696	1,233	4.16%
Other Debt Securities	149,525	1,694	4.53%	184,618	2,141	4.64%
Equity Securities	38,031	486	5.11%	25,290	336	5.31%
Federal Funds Sold	5,621	31	2.21%	13,340	176	5.28%
Interest-Earning Deposits	173	1	2.31%			
<b>Total Interest-Earning Assets</b>	<b>3,657,676</b>	<b>59,663</b>	<b>6.56%</b>	<b>3,429,123</b>	<b>69,860</b>	<b>8.17%</b>
Noninterest-Earning Assets:						
Cash and Cash Equivalents	85,600			91,690		
Allowance for Loan Losses	(52,685)			(31,046)		
Other Assets	230,205			328,403		
<b>Total Noninterest-Earning Assets</b>	<b>263,120</b>			<b>389,047</b>		
<b>TOTAL ASSETS</b>	<b>\$ 3,920,796</b>			<b>\$ 3,818,170</b>		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Interest-Bearing Liabilities:						
Deposits:						
Savings	\$ 91,803	527	2.31%	\$ 99,457	502	2.02%
Money Market Checking and NOW Accounts	718,257	5,707	3.20%	432,408	3,666	3.40%

Edgar Filing: HANMI FINANCIAL CORP - Form 10-Q

Time Deposits of \$100,000 or More	1,098,990	11,040	4.04%	1,411,099	18,778	5.34%
Other Time Deposits	320,732	3,213	4.03%	303,957	3,851	5.08%
FHLB Advances and Other Borrowings	538,833	3,944	2.94%	222,338	2,919	5.27%
Junior Subordinated Debentures	82,406	1,164	5.68%	82,406	1,660	8.08%
Total Interest-Bearing Liabilities	2,851,021	25,595	3.61%	2,551,665	31,376	4.93%
Noninterest-Bearing Liabilities:						
Demand Deposits	652,724			720,827		
Other Liabilities	39,955			49,959		
Total Noninterest-Bearing Liabilities	692,679			770,786		
Total Liabilities	3,543,700			3,322,451		
Stockholders Equity	377,096			495,719		
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 3,920,796</b>			<b>\$ 3,818,170</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 34,068</b>			<b>\$ 38,484</b>	
<b>NET INTEREST SPREAD <sup>(3)</sup></b>			<b>2.95%</b>			<b>3.24%</b>
<b>NET INTEREST MARGIN <sup>(4)</sup></b>			<b>3.75%</b>			<b>4.50%</b>

<sup>(1)</sup> Loans are net of deferred fees and related direct costs, but excluding 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 \$851,000 and \$870,000 for the three months ended June 30, 2008 and 2007, respectively.

<sup>(2)</sup> If computed on a tax-equivalent basis using an effective marginal rate of 35 percent, tax-exempt income would be \$1.0 million and \$1.2 million, and the yields would be 6.45 percent and 6.49 percent, for the three months ended June 30, 2008 and 2007, respectively.

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

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

**Table of Contents**

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.

	<b>Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007 Increases (Decreases) Due to Change in</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
	<i>(In Thousands)</i>		
<b>Interest and Dividend Income:</b>			
Gross Loans, Net	\$ 6,014	\$ (15,321)	\$ (9,307)
Municipal Securities	(95)	(5)	(100)
Obligations of Other U.S. Government Agencies	(364)	15	(349)
Other Debt Securities	(399)	(48)	(447)
Equity Securities	163	(13)	150
Federal Funds Sold	(72)	(73)	(145)
Interest-Earning Deposits	1		1
Total Interest and Dividend Income	5,248	(15,445)	(10,197)
<b>Interest Expense:</b>			
Savings	(41)	66	25
Money Market Checking and NOW Accounts	2,274	(233)	2,041
Time Deposits of \$100,000 or More	(3,687)	(4,051)	(7,738)
Other Time Deposits	201	(839)	(638)
FHLB Advances and Other Borrowings	2,743	(1,718)	1,025
Junior Subordinated Debentures		(496)	(496)
Total Interest Expense	1,490	(7,271)	(5,781)
<b>Change in Net Interest Income</b>	<b>\$ 3,758</b>	<b>\$ (8,174)</b>	<b>\$ (4,416)</b>

For the three months ended June 30, 2008 and 2007, net interest income before provision for credit losses was \$34.1 million and \$38.5 million, respectively. The net interest spread and net interest margin for the three months ended June 30, 2008 were 2.95 percent and 3.75 percent, respectively, compared to 3.24 percent and 4.50 percent, respectively, for the same period in 2007. The compression in the net interest margin continues to be driven by intense competition among Korean-American banks, particularly in the pricing of deposits; and the Federal Reserve Board's 225 basis point cut in short-term interest rates in the first four months of 2008.

Average interest-earning assets increased 6.7 percent to \$3.66 billion for the three months ended June 30, 2008 from \$3.43 billion for the same period in 2007. Average gross loans increased 10.0 percent to \$3.32 billion for the three months ended June 30, 2008 from \$3.01 billion for the same period in 2007. Average investment securities decreased 21.0 percent to \$296.8 million for the three months ended June 30, 2008 from \$375.6 million for the same period in 2007.

The yield on average interest-earning assets decreased by 161 basis points from 8.17 percent for the three months ended June 30, 2007 to 6.56 percent for the same period in 2008, reflecting a decrease in the average yield on loans.

Total loan interest income decreased by 14.3 percent for the three months ended June 30, 2008 due primarily to a decrease in the average yield on loans from 8.68 percent for the three months ended June 30, 2007 to 6.78 percent for the same period in 2008. During this period, the average Wall Street Journal Prime Rate dropped 317 basis points from 8.25 percent for the three months ended June 30, 2007 to 5.08 percent for the same period in 2008. The mix of average interest-earning assets was 90.7 percent loans, 8.1 percent investment securities and 1.2 percent other interest-earning assets for the three months ended June 30, 2008, compared to 87.9 percent loans, 11.0 percent investment securities and 1.1 percent other interest-earning assets for the same period in 2007.

The majority of interest-earning assets growth was funded by a \$316.5 million, or 142.3 percent, increase in average FHLB advances and other borrowings. Total average interest-bearing liabilities grew by 11.7 percent to \$2.85 billion for the three months ended June 30, 2008 compared to \$2.55 billion for the same period in 2007. The average interest rate paid for interest-bearing liabilities decreased by 132 basis points from 4.93 percent for the three months ended June 30, 2007 to 3.61 percent for the same period in 2008. The decrease was primarily due to the Federal Reserve Board's rate cuts, partially offset by intense competition, primarily among Korean-American banks.



**Table of Contents****Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007**

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.

	June 30, 2008		Six Months Ended		June 30, 2007	
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<i>(Dollars in Thousands)</i>						
<b>ASSETS</b>						
Interest-Earning Assets:						
Gross Loans, Net <sup>(1)</sup>	\$ 3,310,101	\$ 116,503	7.08%	\$ 2,949,129	\$ 127,773	8.74%
Municipal Securities <sup>(2)</sup>	67,528	1,421	4.21%	72,340	1,526	4.22%
Obligations of Other U.S. Government Agencies	96,974	2,129	4.39%	118,483	2,489	4.20%
Other Debt Securities	154,955	3,565	4.60%	190,290	4,416	4.64%
Equity Securities	35,760	900	5.03%	25,149	705	5.61%
Federal Funds Sold	8,258	114	2.76%	34,317	902	5.26%
Term Federal Funds Sold				193	5	5.18%
Interest-Earning Deposits	87	1	2.30%			
<b>Total Interest-Earning Assets</b>	<b>3,673,663</b>	<b>124,633</b>	<b>6.82%</b>	<b>3,389,901</b>	<b>137,816</b>	<b>8.20%</b>
Noninterest-Earning Assets:						
Cash and Cash Equivalents	89,727			91,221		
Allowance for Loan Losses	(47,615)			(29,076)		
Other Assets	228,424			328,101		
<b>Total Noninterest-Earning Assets</b>	<b>270,536</b>			<b>390,246</b>		
<b>TOTAL ASSETS</b>	<b>\$ 3,944,199</b>			<b>\$ 3,780,147</b>		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Interest-Bearing Liabilities:						
Deposits:						
Savings	\$ 92,135	1,054	2.30%	\$ 100,114	963	1.94%
	637,875	10,367	3.27%	430,152	7,138	3.35%

Money Market Checking and NOW Accounts						
Time Deposits of \$100,000 or More	1,226,728	26,727	4.38%	1,408,718	37,276	5.34%
Other Time Deposits	330,188	7,186	4.38%	302,425	7,609	5.07%
FHLB Advances and Other Borrowings	504,783	8,421	3.35%	195,910	5,090	5.24%
Junior Subordinated Debentures	82,406	2,613	6.38%	82,406	3,299	8.07%
Total Interest-Bearing Liabilities	2,874,115	56,368	3.94%	2,519,725	61,375	4.91%
Noninterest-Bearing Liabilities:						
Demand Deposits	651,984			715,220		
Other Liabilities	40,070			47,758		
Total Noninterest-Bearing Liabilities	692,054			762,978		
Total Liabilities	3,566,169			3,282,703		
Stockholders' Equity	378,030			497,444		
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 3,944,199</b>			<b>\$ 3,780,147</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 68,265</b>			<b>\$ 76,441</b>	
<b>NET INTEREST SPREAD <sup>(3)</sup></b>			<b>2.88%</b>			<b>3.29%</b>
<b>NET INTEREST MARGIN <sup>(4)</sup></b>			<b>3.74%</b>			<b>4.55%</b>

<sup>(1)</sup> Loans are net of deferred fees and related direct costs, but excluding 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 and \$1.8 million for the six months ended June 30, 2008 and 2007, respectively.*

- (2) *If computed on a tax-equivalent basis using an effective marginal rate of 35 percent, tax-exempt income would be \$2.2 million and \$2.3 million, and the yields would be 6.47 percent and 6.49 percent, for the six months ended June 30, 2008 and 2007, respectively.*
- (3) *Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
- (4) *Represents annualized net interest income*

*as a percentage  
of average  
interest-earning  
assets.*

**Table of Contents**

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.

	<b>Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007</b>		
	<b>Increases (Decreases) Due to Change in</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
	<i>(In Thousands)</i>		
<b>Interest and Dividend Income:</b>			
Gross Loans, Net	\$ 14,655	\$ (25,925)	\$ (11,270)
Municipal Securities	(101)	(4)	(105)
Obligations of Other U.S. Government Agencies	(468)	108	(360)
Other Debt Securities	(813)	(38)	(851)
Equity Securities	273	(78)	195
Federal Funds Sold	(485)	(303)	(788)
Term Federal Funds Sold	(2)	(3)	(5)
Interest-Earning Deposits	1		1
Total Interest and Dividend Income	13,060	(26,243)	(13,183)
<b>Interest Expense:</b>			
Savings	(81)	172	91
Money Market Checking and NOW Accounts	3,399	(170)	3,229
Time Deposits of \$100,000 or More	(4,424)	(6,125)	(10,549)
Other Time Deposits	670	(1,093)	(423)
FHLB Advances and Other Borrowings	5,702	(2,371)	3,331
Junior Subordinated Debentures		(686)	(686)
Total Interest Expense	5,266	(10,273)	(5,007)
<b>Change in Net Interest Income</b>	<b>\$ 7,794</b>	<b>\$ (15,970)</b>	<b>\$ (8,176)</b>

For the six months ended June 30, 2008 and 2007, net interest income before provision for credit losses was \$68.3 million and \$76.4 million, respectively. The net interest spread and net interest margin for the six months ended June 30, 2008 were 2.88 percent and 3.74 percent, respectively, compared to 3.29 percent and 4.55 percent, respectively, for the same period in 2007. The compression in the net interest margin continues to be driven by intense competition among Korean-American banks, particularly in the pricing of deposits; and the Federal Reserve Board's 225 basis point cut in short-term interest rates in the first four months of 2008.

Average interest-earning assets increased 8.4 percent to \$3.67 billion for the six months ended June 30, 2008 from \$3.39 billion for the same period in 2007. Average gross loans increased 12.2 percent to \$3.31 billion for the six months ended June 30, 2008 from \$2.95 billion for the same period in 2007. Average investment securities decreased 16.2 percent to \$319.4 million for the six months ended June 30, 2008 from \$381.1 million for the same period in 2007.

The yield on average interest-earning assets decreased by 138 basis points from 8.20 percent for the six months ended June 30, 2007 to 6.82 percent for the same period in 2008, reflecting a decrease in the average yield on loans. Total loan interest income decreased by 8.8 percent for the six months ended June 30, 2008 due primarily to a decrease in the average yield on loans from 8.74 percent for the six months ended June 30, 2007 to 7.08 percent for the same period in 2008. During this period, the average Wall Street Journal Prime Rate dropped 260 basis points from 8.25 percent for the six months ended June 30, 2007 to 5.65 percent for the same period in 2008. The mix of average interest-earning assets was 90.1 percent loans, 8.7 percent investment securities and 1.2 percent other interest-earning assets for the six months ended June 30, 2008, compared to 87.0 percent loans, 11.2 percent investment securities and 1.8 percent other interest-earning assets for the same period in 2007.

The majority of interest-earning assets growth was funded by a \$308.9 million, or 157.7 percent, increase in average FHLB advances and other borrowings. Total average interest-bearing liabilities grew by 14.1 percent to \$2.87 billion for the six months ended June 30, 2008 compared to \$2.52 billion for the same period in 2007. The average interest rate paid for interest-bearing liabilities decreased by 97 basis points from 4.91 percent for the six months ended June 30, 2007 to 3.94 percent for the same period in 2008. The decrease was primarily due to the Federal Reserve Board's rate cuts, partially offset by intense competition, primarily among Korean-American banks.

**Table of Contents****Provision for Credit Losses**

For the three months ended June 30, 2008 and 2007, the provision for credit losses was \$19.2 million and \$3.0 million, respectively. For the six months ended June 30, 2008 and 2007, the provision for credit losses was \$37.1 million and \$9.2 million, respectively. The increase in the provision for credit losses for both periods is attributable to increases in net charge-offs, non-performing and delinquent loans, and criticized and classified loans. See *Non-Performing Assets* and *Allowance for Loan Losses and Allowance for Off-Balance Sheet Items* for further details. While the level of non-performing and delinquent loans are indicators of the credit quality of the portfolio, the provision for credit losses is determined based primarily on loan classifications and the historical loss experience.

**Non-Interest Income**

We earn non-interest income from four major sources: service charges on deposit accounts, fees generated from international trade finance, insurance commissions and other service charges and fees. In addition, we sell certain assets. Such sales are determined mainly for risk management purposes.

**Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007**

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

	<b>Three Months Ended June 30,</b>		<b>Increase (Decrease)</b>	
	<b>2008</b>	<b>2007</b>	<b>Amount</b>	<b>Percentage</b>
			<i>(Dollars in Thousands)</i>	
Service Charges on Deposit Accounts	\$ 4,539	\$ 4,438	\$ 101	2.3%
Insurance Commissions	1,384	1,279	105	8.2%
Trade Finance Fees	825	1,177	(352)	(29.9%)
Remittance Fees	539	520	19	3.7%
Other Service Charges and Fees	703	574	129	22.5%
Bank-Owned Life Insurance Income	234	229	5	2.2%
Change in Fair Value of Derivatives	(41)	222	(263)	(118.5%)
Other Income	917	491	426	86.8%
Gain on Sales of Loans	552	1,762	(1,210)	(68.7%)
<b>Total Non-Interest Income</b>	<b>\$ 9,652</b>	<b>\$ 10,692</b>	<b>\$ (1,040)</b>	<b>(9.7%)</b>

For the three months ended June 30, 2008, non-interest income was \$9.7 million, a decrease of \$1.0 million, or 9.7 percent, from \$10.7 million for the same period in 2007. The decrease in non-interest income is primarily attributable to decreases in gain on sales of loans and trade finance fees, partially offset by higher other income.

Service charges on deposit accounts increased by \$101,000, or 2.3 percent, from \$4.4 million for the three months ended June 30, 2007 to \$4.5 million for the same period in 2008. The increase was due to higher fees from returned check items.

Insurance commissions increased by \$105,000, or 8.2 percent, from \$1.3 million for the three months ended June 30, 2007 to \$1.4 million for the same period in 2008. The increase was due to business growth at Chun-Ha and All World.

Fees generated from international trade finance decreased by \$352,000, or 29.9 percent, from \$1.2 million for the three months ended June 30, 2007 to \$825,000 for the same period in 2008. Trade finance fees relate primarily to import and export letters of credit. The decrease is attributable primarily to a decline in export letter of credit volume due to a soft economy.

**Table of Contents**

Other service charges and fees increased by \$129,000, or 22.5 percent, from \$574,000 for the three months ended June 30, 2007 to \$703,000 for the same period in 2008. Other service charges and fees consist primarily of late charges, annual fees and loan servicing fee income. The increase is attributable primarily to higher late charges and loan servicing fee income.

Other income increased by \$426,000, or 86.8 percent, from \$491,000 for the three months ended June 30, 2007 to \$917,000 for the same period in 2008. The increase was attributable primarily to a \$450,000 refund of a previously paid consulting fee to an outside vendor.

Gain on sales of loans was \$552,000 for the three months ended June 30, 2008, compared to \$1.8 million for the same period in 2007. During the three months ended June 30, 2008, there were SBA loan sales of \$15.3 million at an average gain of 3.2 percent, compared to SBA loan sales of \$35.6 million at an average gain of 4.9 percent for the same period in 2007.

**Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007**

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

	Six Months Ended June 30,		Increase (Decrease)	
	2008	2007	Amount	Percentage
	<i>(Dollars in Thousands)</i>			
Service Charges on Deposit Accounts	\$ 9,256	\$ 8,926	\$ 330	3.7%
Insurance Commissions	2,699	2,404	295	12.3%
Trade Finance Fees	1,690	2,467	(777)	(31.5%)
Remittance Fees	1,044	991	53	5.3%
Other Service Charges and Fees	1,419	1,190	229	19.2%
Bank-Owned Life Insurance Income	474	459	15	3.3%
Change in Fair Value of Derivatives	198	314	(116)	(36.9%)
Other Income	1,254	766	488	63.7%
Gain on Sales of Loans	765	3,162	(2,397)	(75.8%)
Gain on Sales of Securities Available for Sale	618		618	
<b>Total Non-Interest Income</b>	<b>\$ 19,417</b>	<b>\$ 20,679</b>	<b>\$ (1,262)</b>	<b>(6.1%)</b>

For the six months ended June 30, 2008, non-interest income was \$19.4 million, a decrease of \$1.3 million, or 6.1 percent, from \$20.7 million for the same period in 2007. The decrease in non-interest income is primarily attributable to decreases in gain on sales of loans and trade finance fees, partially offset by gain on sales of securities available for sale and an increase in other income.

Service charges on deposit accounts increased by \$330,000, or 3.7 percent, from \$8.9 million for the six months ended June 30, 2007 to \$9.3 million for the same period in 2008. The increase was due to higher fees from returned check items.

Insurance commissions increased by \$295,000, or 12.3 percent, from \$2.4 million for the six months ended June 30, 2007 to \$2.7 million for the same period in 2008. The increase was due to business growth at Chun-Ha and All World.

Fees generated from international trade finance decreased by \$777,000, or 31.5 percent, from \$2.5 million for the six months ended June 30, 2007 to \$1.7 million for the same period in 2008. Trade finance fees relate primarily to import and export letters of credit. The decrease is attributable primarily to a decline in export letter of credit volume due to a soft economy.

Other service charges and fees increased by \$229,000, or 19.2 percent, from \$1.2 million for the three months ended June 30, 2007 to \$1.4 million for the same period in 2008. Other service charges and fees consist primarily of late charges, annual fees and loan servicing fee income. The increase is attributable primarily to higher late charges



and loan servicing fee income.

**Table of Contents**

Other income increased by \$488,000, or 63.7 percent, from \$766,000 for the six months ended June 30, 2007 to \$1.3 million for the same period in 2008. The increase was attributable primarily to a \$450,000 refund of a previously paid consulting fee to an outside vendor.

Gain on sales of loans was \$765,000 for the six months ended June 30, 2008, compared to \$3.2 million for the same period in 2007. During the six months ended June 30, 2008, there were SBA loan sales of \$20.5 million at an average gain of 3.6 percent, compared to SBA loan sales of \$66.4 million at an average gain of 4.7 percent for the same period in 2007.

**Non-Interest Expenses*****Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007***

The following table sets forth the breakdown of non-interest expenses for the periods indicated:

	<b>Three Months Ended June 30,</b>		<b>Increase (Decrease)</b>	
	<b>2008</b>	<b>2007</b>	<b>Amount</b>	<b>Percentage</b>
	<i>(Dollars in Thousands)</i>			
Salaries and Employee Benefits	\$ 11,301	\$ 10,782	\$ 519	4.8%
Occupancy and Equipment	2,792	2,571	221	8.6%
Data Processing	1,698	1,665	33	2.0%
Professional Fees	995	647	348	53.8%
Advertising and Promotion	888	889	(1)	(0.1%)
Supplies and Communications	623	704	(81)	(11.5%)
Amortization of Other Intangible Assets	502	592	(90)	(15.2%)
Decrease in Fair Value of Embedded Options		196	(196)	(100.0%)
Other Operating Expenses	3,251	3,444	(193)	(5.6%)
Impairment Loss on Goodwill	107,393		107,393	
<b>Total Non-Interest Expenses</b>	<b>\$ 129,443</b>	<b>\$ 21,490</b>	<b>\$ 107,953</b>	<b>502.3%</b>

For the three months ended June 30, 2008 and 2007, non-interest expenses were \$129.4 million and \$21.5 million, respectively. Excluding the impact of the goodwill impairment charge, non-interest expenses were \$22.1 million for the three months ended June 30, 2008. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income) for the three months ended June 30, 2008 was 296.07 percent (50.43 percent excluding the goodwill impairment charge), compared to 43.70 percent for the same period in 2007. The overall increase in non-interest expenses was due to the impairment loss on goodwill, and two new branches (Rancho Cucamonga and Beverly Hills) opened since the second quarter of 2007.

Salaries and employee benefits increased \$519,000, or 4.8 percent, from \$10.8 million for the three months ended June 30, 2007 to \$11.3 million for the same period in 2008. Salaries and employee benefits increased due to additional personnel for the new branches, partially offset by a lower bonus accrual. We anticipate a reduction in our salaries and employee benefits expense as we implement our plan to reduce our overall headcount by approximately 10 percent.

Occupancy and equipment expense increased \$221,000, or 8.6 percent, from \$2.6 million for the three months ended June 30, 2007 to \$2.8 million for the same period in 2008. The increase was due primarily to additional office space leased for the new branches.

Professional fees increased \$348,000, or 53.8 percent, from \$647,000 for the three months ended June 30, 2007 to \$995,000 for the same period in 2008. The increase was due primarily to additional professional fees incurred in 2008 for credit, legal and valuation services.



**Table of Contents****FINANCIAL CONDITION****Investment Portfolio**

Investment securities are classified as held to maturity or available for sale in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Those securities that we have the ability and 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 at June 30, 2008 or December 31, 2007. 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 securities currently held consist primarily of mortgage-backed securities, municipal bonds, U.S. Government agency securities ( Agency ) and collateralized mortgage obligations.

As of June 30, 2008, securities held to maturity, at amortized cost, totaled \$926,000 and securities available for sale, at fair value, totaled \$261.7 million, compared to \$940,000 and \$349.5 million, respectively, at December 31, 2007. The following table summarizes the amortized cost, estimated fair value and unrealized gain (loss) of investment securities as of the dates indicated:

	June 30, 2008			December 31, 2007		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
<i>(In Thousands)</i>						
<b>Held to Maturity:</b>						
Municipal Bonds	\$ 694	\$ 694	\$	\$ 694	\$ 694	\$
Mortgage-Backed Securities	232	231	(1)	246	247	1
<b>Total Held to Maturity</b>	<b>\$ 926</b>	<b>\$ 925</b>	<b>\$ (1)</b>	<b>\$ 940</b>	<b>\$ 941</b>	<b>\$ 1</b>
<b>Available for Sale:</b>						
Mortgage-Backed Securities	\$ 86,208	\$ 85,341	\$ (867)	\$ 99,332	\$ 99,198	\$ (134)
Municipal Bonds	60,642	61,268	626	69,907	71,751	1,844
U.S. Government Agency Securities	59,570	59,643	73	104,893	105,089	196
Collateralized Mortgage Obligations	43,394	43,064	(330)	51,881	51,418	(463)
Corporate Bonds	7,874	7,823	(51)	18,295	18,226	(69)
Other Securities	4,675	4,536	(139)	3,925	3,835	(90)
<b>Total Available for Sale</b>	<b>\$ 262,363</b>	<b>\$ 261,675</b>	<b>\$ (688)</b>	<b>\$ 348,233</b>	<b>\$ 349,517</b>	<b>\$ 1,284</b>

Investment securities available for sale, at fair value, decreased \$87.8 million, or 25.1 percent, to \$261.7 million at June 30, 2008 from \$349.5 million at December 31, 2007. The decrease was primarily due to the sale of \$23.0 million of investment securities, with a \$618,000 gain realized, during the first quarter of 2008 and \$45.0 million of Agency securities maturing during the second quarter of 2008.

The amortized cost and estimated fair value of investment securities as of June 30, 2008, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2037, expected maturities may differ from contractual maturities because borrowers may have the

right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		<i>(In Thousands)</i>		
Within One Year	\$ 41,673	\$ 41,648	\$	\$
Over One Year Through Five Years	33,559	33,512		
Over Five Years Through Ten Years	7,474	7,610	694	694
Over Ten Years	50,055	50,500		
Mortgage-Backed Securities	86,208	85,341	232	231
Collateralized Mortgage Obligations	43,394	43,064		
	<b>\$ 262,363</b>	<b>\$ 261,675</b>	<b>\$ 926</b>	<b>\$ 925</b>

**Table of Contents**

We periodically evaluate our investments for other-than-temporary impairment. We had investments in Community Reinvestment Act ( CRA ) preferred securities with an aggregate par value of \$2.0 million as of December 31, 2007. During the fourth quarter of 2007, based on an evaluation of the length of time and extent to which the estimated fair value of the CRA preferred securities had been less than their carrying value, and the financial condition and near-term prospects of the issuers, we recorded an other-than-temporary impairment charge of \$1.1 million to write down the value of the CRA preferred securities to their estimated fair value.

Gross unrealized losses on investment securities available for sale and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2008 and December 31, 2007:

	<b>Holding Period</b>					
	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>
	<i>(In Thousands)</i>					
<b>Available for Sale June 30, 2008:</b>						
Mortgage-Backed Securities	\$ 42,015	\$ 517	\$ 18,180	\$ 496	\$ 60,195	\$ 1,013
Municipal Bonds	8,663	76	1,804	65	10,467	141
U.S. Government Agency Securities	14,467	114			14,467	114
Collateralized Mortgage Obligations	12,950	108	11,113	321	24,063	429
Corporate Bonds	2,480		2,750	59	5,230	59
Other			3,786	140	3,786	140
	<b>\$ 80,575</b>	<b>\$ 815</b>	<b>\$ 37,633</b>	<b>\$ 1,081</b>	<b>\$ 118,208</b>	<b>\$ 1,896</b>
<b>Available for Sale December 31, 2007:</b>						
Mortgage-Backed Securities	\$ 5,319	\$ 31	\$ 42,143	\$ 636	\$ 47,462	\$ 667
Municipal Bonds			2,910	23	2,910	23
U.S. Government Agency Securities			46,895	81	46,895	81
Collateralized Mortgage Obligations			40,167	591	40,167	591
Corporate Bonds			7,834	112	7,834	112
Other			2,910	90	2,910	90
	<b>\$ 5,319</b>	<b>\$ 31</b>	<b>\$ 142,859</b>	<b>\$ 1,533</b>	<b>\$ 148,178</b>	<b>\$ 1,564</b>

The impairment losses described previously are not included in the table above as the impairment loss was recorded. All other individual securities that have been in a continuous unrealized loss position for 12 months or longer at June 30, 2008 and December 31, 2007 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status at June 30, 2008 and December 31, 2007. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability, and management intends to hold these securities until their fair values recover to cost. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2008 and December 31, 2007 are not other-than-temporarily impaired, and therefore, no additional impairment charges as of June 30, 2008 and December 31, 2007 are warranted.



**Table of Contents****Loan Portfolio**

All loans are carried at face amount, less principal repayments collected, net of deferred loan fees and the allowance for loan losses. Interest on all loans is accrued daily on a simple interest basis.

The following table shows the loan composition by type, including loans held for sale, as of the dates indicated.

	<b>June 30, 2008</b>	<b>December 31, 2007</b>	<b>Increase (Decrease)</b>	
			<b>Amount</b>	<b>Percentage</b>
	<i>(Dollars in Thousands)</i>			
<b>Real Estate Loans:</b>				
Commercial Property	\$ 863,047	\$ 795,675	\$ 67,372	8.5%
Construction	204,411	215,857	(11,446)	(5.3%)
Residential Property <sup>(1)</sup>	91,022	90,375	647	0.7%
Total Real Estate Loans	1,158,480	1,101,907	56,573	5.1%
<b>Commercial and Industrial Loans:</b>				
Commercial Term Loans	1,625,116	1,599,853	25,263	1.6%
Commercial Lines of Credit	241,681	256,978	(15,297)	(6.0%)
SBA Loans <sup>(2)</sup>	143,589	118,528	25,061	21.1%
International Loans	98,120	119,360	(21,240)	(17.8%)
Total Commercial and Industrial Loans	2,108,506	2,094,719	13,787	0.7%