HANMI FINANCIAL CORP
Form 10-Q
November 02, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

or

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

For the Transition Period From To

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

(213) 382-2200

(Registrant s Telephone Number, Including Area Code)

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 x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x 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.

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

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

As of October 26, 2012, there were 31,491,141 outstanding shares of the Registrant s Common Stock.

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

PART 1 FINANCIAL INFORMATION

ITEM 1.	FINANCIAL STATEMENTS	1
	Consolidated Balance Sheets *(Unaudited)*	1
	Consolidated Statements of Operations *(Unaudited)*	2
	Consolidated Statements of Comprehensive Income *(Unaudited)*	3
	Consolidated Statements of Changes in Stockholders Equity *(Unaudited)*	4
	Consolidated Statements of Cash Flows *(Unaudited)*	5
	Notes to Consolidated Financial Statements *(Unaudited)*	6
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	62
ITEM 4.	CONTROLS AND PROCEDURES	62

PART II OTHER INFORMATION

ITEM 1.	LEGAL PROCEEDINGS	63
ITEM 1A.	RISK FACTORS	63
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	63
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	63
ITEM 4.	MINE SAFETY DISCLOSURES	63
ITEM 5.	OTHER INFORMATION	63
ITEM 6.	EXHIBITS	63
SIGNATURES		64

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS *(UNAUDITED)*

(In Thousands, Except Share Data)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and Due From Banks	$ 72,053	$ 80,582
Interest-Bearing Deposits in Other Banks	217,375	101,101
Federal Funds Sold	13,000	20,000
Cash and Cash Equivalents	302,428	201,683
Restricted Cash	4,393	1,818
Term Federal Funds Sold	55,000	115,000
Securities Available for Sale, at Fair Value (Amortized Cost of $402,978 as of September 30, 2012 and $377,747 as of December 31, 2011)	410,210	381,862
Securities Held to Maturity, at Amortized Cost (Fair Value of $59,363 as of December 31, 2011)		59,742
Loans Held for Sale, at the Lower of Cost or Fair Value	10,736	22,587
Loans Receivable, Net of Allowance for Loan Losses of $66,107 as of September 30, 2012 and $89,936 as of December 31, 2011	1,892,813	1,849,020
Accrued Interest Receivable	7,467	7,829
Premises and Equipment, Net	15,412	16,603
Other Real Estate Owned, Net	364	180
Customers Liability on Acceptances	2,157	1,715
Servicing Assets	5,148	3,720
Other Intangible Assets, Net	1,376	1,533
Investment in Federal Home Loan Bank Stock, at Cost	19,621	22,854
Investment in Federal Reserve Bank Stock, at Cost	10,261	8,558
Deferred Tax Assets	48,826	
Current Tax Assets	11,689	9,073
Bank-Owned Life Insurance	28,816	28,289
Prepaid Expenses	2,239	1,598
Other Assets	12,901	11,160
TOTAL ASSETS	**$ 2,841,857**	**$ 2,744,824**
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-Bearing	$ 694,345	$ 634,466
Interest-Bearing	1,669,040	1,710,444
Total Deposits	2,363,385	2,344,910
Accrued Interest Payable	15,266	16,032
Bank s Liability on Acceptances	2,157	1,715
Federal Home Loan Bank Advances	3,029	3,303
Junior Subordinated Debentures	82,406	82,406

Accrued Expenses and Other Liabilities	11,627	10,850
TOTAL LIABILITIES	2,477,870	2,459,216
STOCKHOLDERS EQUITY:		
Common Stock, $0.001 Par Value; Authorized 62,500,000 Shares; Issued 32,067,095 Shares (31,489,201 Shares Outstanding) as of September 30, 2012 and December 31, 2011	257	257
Additional Paid-In Capital	549,814	549,744
Unearned Compensation	(92)	(166)
Accumulated Other Comprehensive Income Unrealized Gain on Securities Available for Sale and Loss on Interest-Only Strip, Net of Income Taxes of $1,882 as of September 30, 2012 and $602 as of December 31, 2011	5,364	3,524
Accumulated Deficit	(121,498)	(197,893)
Less Treasury Stock, at Cost; 577,894 Shares as of September 30, 2012 and December 31, 2011	(69,858)	(69,858)
TOTAL STOCKHOLDERS EQUITY	363,987	285,608
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,841,857**	**$ 2,744,824**

See Accompanying Notes to Consolidated Financial Statements. (Unaudited)

1

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS *(UNAUDITED)*

(In Thousands, Except Per Share Data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
INTEREST AND DIVIDEND INCOME:				
Interest and Fees on Loans	$ 26,781	$ 29,355	$ 81,564	$ 89,509
Taxable Interest on Investment Securities	1,992	2,022	6,280	7,789
Tax-Exempt Interest on Investment Securities	98	39	299	116
Interest on Term Federal Funds Sold	191	49	684	94
Interest on Federal Funds Sold	20	5	53	22
Interest on Interest-Bearing Deposits in Other Banks	142	75	269	243
Dividends on Federal Reserve Bank Stock	154	112	430	336
Dividends on Federal Home Loan Bank Stock	24	17	82	58
Total Interest and Dividend Income	29,402	31,674	89,661	98,167
INTEREST EXPENSE:				
Interest on Deposits	3,639	5,730	12,511	18,657
Interest on Federal Home Loan Bank Advances	40	46	126	618
Interest on Junior Subordinated Debentures	804	739	2,400	2,148
Interest on Other Borrowings				1
Total Interest Expense	4,483	6,515	15,037	21,424
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	24,919	25,159	74,624	76,743
Provision for Credit Losses		8,100	6,000	8,100
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	24,919	17,059	68,624	68,643
NON-INTEREST INCOME:				
Service Charges on Deposit Accounts	2,851	3,225	8,955	9,644
Insurance Commissions	1,092	940	3,622	3,403
Remittance Fees	476	469	1,417	1,430
Trade Finance Fees	274	341	858	966
Other Service Charges and Fees	361	389	1,105	1,090
Bank-Owned Life Insurance Income	235	237	872	700
Gain on Sales of SBA Loans Guaranteed Portion	1,772	1,612	7,245	1,612
Net Loss on Sales of Other Loans	(515)	(3,057)	(8,234)	(3,472)
Net Gain on Sales of Investment Securities	10	1,704	1,392	1,634
Impairment Loss on Investment Securities:				
Total Other-Than-Temporary Impairment Loss on Investment Securities	(176)		(292)	
Less: Portion of Loss Recognized in Other Comprehensive Income				
Net Impairment Loss Recognized in Earnings	(176)		(292)	
Other Operating Income	140	118	402	496

Total Non-Interest Income		6,520		5,978		17,342		17,503
NON-INTEREST EXPENSE:								
Salaries and Employee Benefits		9,148		8,146		27,707		26,032
Occupancy and Equipment		2,623		2,605		7,839		7,820
Deposit Insurance Premiums and Regulatory Assessments		283		1,552		3,182		4,999
Data Processing		1,211		1,383		3,762		4,269
Other Real Estate Owned Expense		352		(86)		377		1,549
Professional Fees		1,112		1,147		2,950		3,074
Directors and Officers Liability Insurance		296		737		888		2,204
Supplies and Communications		669		712		1,803		1,786
Advertising and Promotion		1,023		631		2,633		2,105
Loan-Related Expense		164		222		452		631
Amortization of Other Intangible Assets		41		161		157		569
Expense related to Unconsummated Capital Offerings								2,220
Other Operating Expenses		1,882		1,642		5,563		5,541
Total Non-Interest Expense		18,804		18,852		57,313		62,799
INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES		12,635		4,185		28,653		23,347
(Benefit) Provision for Income Taxes		(644)		(18)		(47,742)		706
NET INCOME	**$**	**13,279**	**$**	**4,203**	**$**	**76,395**	**$**	**22,641**
EARNINGS PER SHARE:								
Basic	$	0.42	$	0.22	$	2.43	$	1.20
Diluted	$	0.42	$	0.22	$	2.42	$	1.20
WEIGHTED-AVERAGE SHARES OUTSTANDING:								
Basic		31,475,976		18,888,474		31,474,042		18,886,415
Diluted		31,545,111		18,907,299		31,506,767		18,905,843

See Accompanying Notes to Consolidated Financial Statements. (Unaudited)

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(UNAUDITED)*

(In Thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
NET INCOME	$ 13,279	$ 4,203	$ 76,395	$ 22,641
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized Gain on Securities				
Unrealized Holding Gain Arising During Period	1,655	2,289	2,248	8,505
Unrealized Holding Gain Arising from the reclassification of held-to-maturity securities to available-for-sale securities	1,968		1,968	
Less: Reclassification Adjustment for Loss (Gain) Included in Net Income	166	(1,704)	(1,100)	(1,634)
Unrealized Gain on Interest Rate Swap		1	9	3
Unrealized Gain (Loss) on Interest-Only Strip of Servicing Assets	2	(9)	(4)	(8)
Income Tax Related to Items of Other Comprehensive Income	(1,581)		(1,281)	
Other Comprehensive Income	2,210	577	1,840	6,866
COMPREHENSIVE INCOME	**$ 15,489**	**$ 4,780**	**$ 78,235**	**$ 29,507**

See Accompanying Notes to Consolidated Financial Statements. (Unaudited)

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY *(UNAUDITED)*

(In Thousands, Except Number of Shares)

	Common Stock Number of Shares			Stockholders Equity						
	Gross Shares Issued and Outstanding	Treasury Shares	Net Shares Issued and Outstanding	Common Stock	Additional Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock, at Cost	Total Stockholders Equity
BALANCE AT JANUARY 1, 2011	19,478,862	(579,063)	18,899,799	$ 156	$ 472,335	$ (219)	$ (2,964)	$ (226,040)	$ (70,012)	$ 173,256
Share-Based Compensation Expense					335	105				440
Restricted Stock Awards	7,500		7,500		78	(78)				
Comprehensive Income:										
Net Income								22,641		22,641
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							6,866			6,866
Total Comprehensive Income										29,507
BALANCE AT SEPTEMBER 30, 2011	**19,486,362**	**(579,063)**	**18,907,299**	**$ 156**	**$ 472,748**	**$ (192)**	**$ 3,902**	**$ (203,399)**	**$ (70,012)**	**$ 203,203**
BALANCE AT JANUARY 1, 2012	32,067,095	(577,894)	31,489,201	$ 257	$ 549,744	$ (166)	$ 3,524	$ (197,893)	$ (69,858)	$ 285,608
Share-Based Compensation Expense					95	49				144
Restricted Stock Awards					(25)	25				
Comprehensive Income:										
Net Income								76,395		76,395
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							1,840			1,840
Total Comprehensive Income										78,235
BALANCE AT SEPTEMBER 30, 2012	**32,067,095**	**(577,894)**	**31,489,201**	**$ 257**	**$ 549,814**	**$ (92)**	**$ 5,364**	**$ (121,498)**	**$ (69,858)**	**$ 363,987**

See Accompanying Notes to Consolidated Financial Statements. (Unaudited)

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(UNAUDITED)*

(In Thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 76,395	$ 22,641
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	1,606	1,605
Amortization of Premiums and Accretion of Discounts on Investment Securities, Net	2,743	2,052
Amortization of Other Intangible Assets	157	569
Amortization of Servicing Assets	720	487
Share-Based Compensation Expense	144	440
Provision for Credit Losses	6,000	8,100
Net Gain on Sales of Investment Securities	(1,392)	(1,634)
Other-Than-Temporary Loss on Investment Securities	292	
Deferred Tax Benefit	(50,098)	
Net Gain on Sales of Loans	(1,311)	(1,044)
Loss on Sales of Other Real Estate Owned	92	599
Valuation Impairment on Other Real Estate Owned	301	470
Lower of Cost or Fair Value Adjustment for Loans Held for Sale	2,300	2,903
Gain on Bank-Owned Life Insurance Settlement	(163)	
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(709)	(701)
Origination of Loans Held for Sale	(86,311)	(28,656)
Proceeds from Sales of SBA Loans Guaranteed Portion	95,856	20,011
Changes in Fair Value of Stock Warrants	177	
Loss on Sale of Premises and Equipment	5	
Loss on Investment in Affordable Housing Partnership	660	660
Decrease in Accrued Interest Receivable	362	823
Increase in Servicing Assets	(2,148)	(481)
Increase in Restricted Cash	(2,575)	
Increase in Prepaid Expenses	(641)	(1,253)
(Increase) Decrease in Other Assets	(2,843)	852
Increase in Current Tax Assets	(2,616)	
Decrease in Accrued Interest Payable	(766)	(2,476)
Increase (Decrease) in Other Liabilities	1,923	(510)
Net Cash Provided By Operating Activities	38,160	25,457
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Redemption of Federal Home Loan Bank and Federal Reserve Bank Stock	3,233	3,320
Proceeds from Matured or Called Securities Available for Sale	108,701	171,490
Proceeds from Sales of Securities Available for sale	96,538	152,468
Proceeds from Matured or Called Securities Held to Maturity	6,704	35
Proceeds from Sales of Other Real Estate Owned	1,850	5,598
Proceeds from Sales of Loans Held for Sale	87,979	73,126
Proceeds from Matured Term Federal Funds	215,000	
Proceeds from Insurance Settlement on Bank-Owned Life Insurance	345	
Net (Increase) Decrease in Loans Receivable	(56,878)	114,269
Purchase of Federal Reserve Bank Stock	(1,703)	(40)
Purchases of Loans Receivable	(82,885)	

Purchases of Term Federal Fund	(155,000)	
Purchases of Securities Available for Sale	(179,080)	(267,432)
Purchases of Securities Held to Maturity		(51,844)
Purchases of Premises and Equipment	(420)	(633)
Net Cash Provided By Investing Activities	44,384	200,357
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Deposits	18,475	(113,552)
Repayment of Long-Term Federal Home Loan Bank Advances	(274)	(259)
Net Change in Short-Term Federal Home Loan Bank Advances and Other Borrowings		(132,861)
Net Cash Provided By (Used In) Financing Activities	18,201	(246,672)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	100,745	(20,858)
Cash and Cash Equivalents at Beginning of Year	201,683	249,720
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 302,428**	**$ 228,862**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest Paid	$ 15,803	$ 23,900
Income Taxes Paid	$ 4,912	$ 3
Non-Cash Activities:		
Transfer of Loans Receivable to Other Real Estate Owned	$ 2,558	$ 3,938
Transfer of Loans Receivable to Loans Held for Sale	$ 89,792	$ 66,287
Transfer of Loans Held for Sale to Loans Receivable	$ 1,779	$
Loans Provided in the Sale of Loans Held for Sale	$	$ 5,750
Loans Provided in the Sale of Other Real Estate Owned	$	$ 510
Reclassification of held-to-maturity securities to available-for-sale securities at amortized cost	$ 52,674	$

See Accompanying Notes to Consolidated Financial Statements. (Unaudited)

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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), a California state chartered bank. Our other subsidiaries are Chun-Ha Insurance Services, Inc., a California corporation (Chun-Ha), and All World Insurance Services, Inc., a California corporation (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 September 30, 2012, 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 consolidated 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 interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the 2011 Annual Report on Form 10-K).

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

Descriptions of our significant accounting policies are included in *Note 2 Summary of Significant Accounting Policies* in our 2011 Annual Report on Form 10-K.

The number of shares of Hanmi Financial s common stock and the computation of basic and diluted earnings per share were adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split of Hanmi Financial s common stock, which became effective on December 19, 2011.

NOTE 2 REGULATORY MATTERS

On November 2, 2009, the members of the Board of Directors of the Bank consented to the issuance of the Final Order (Final Order) with the California Department of Financial Institutions (the DFI). The Final Order contained a list of requirements ranging from a capital directive to developing a contingency funding plan. Following a target joint examination of the Bank by the DFI and Federal Reserve Bank of San Francisco (the FRB), which commenced in February 2012, and based on the improved condition of the Bank noted at the examination, the Bank entered into a Memorandum of Understanding (MOU) with the DFI on May 1, 2012. Concurrently with the entry into the MOU, the DFI issued an order terminating the Final Order. On October 29, 2012, the DFI informed the Bank that the Bank s overall condition has improved and that the MOU has been terminated. Accordingly, the Bank is no longer subject to any of the requirements imposed by the MOU.

On November 2, 2009, Hanmi Financial and the Bank entered into a Written Agreement (the Written Agreement) with the FRB. The Written Agreement contains a list of strict requirements ranging from a capital directive to developing a contingency funding plan.

While Hanmi Financial has taken such actions as necessary to enable Hanmi Financial and the Bank to comply with the requirements of the Written Agreement, there can be no assurance that compliance with the Written Agreement will not have material and adverse effects on the operations and financial condition of Hanmi Financial and the Bank. Any material failure to comply with the provisions of the Written Agreement could result in further enforcement actions by the FRB, or the placing of the Bank into conservatorship or receivership.

Written Agreement

Pursuant to the Written Agreement, the Board of Directors of the Bank prepared and submitted written plans to the FRB that addressed the following items: (i) strengthening board oversight of the management and operation of the Bank; (ii) strengthening credit risk management practices; (iii) improving credit administration policies and procedures; (iv) improving the Bank s position with respect to problem assets;

(v) maintaining adequate reserves for loan and lease losses; (vi) improving the capital position of the Bank and of Hanmi Financial; (vii) improving the Bank s earnings through a strategic plan and a budget; and

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 2 REGULATORY MATTERS *(Continued)*

(viii) improving the Bank s liquidity position, funds management practices, and contingency funding plan. In addition, the Written Agreement places restrictions on the Bank s lending to borrowers who have adversely classified loans with the Bank. The Written Agreement also requires the Bank to charge off or collect certain problem loans and review and revise its methodology for calculating allowance for loan and lease losses consistent with relevant supervisory guidance. Hanmi Financial and the Bank are also prohibited from paying dividends without prior approval from the FRB.

Hanmi Financial and the Bank are required to notify the FRB if their respective capital ratios fall below those set forth in the capital plan approved by the FRB.

Based on submissions to and consultations with the FRB, we believe that the Bank has taken the required corrective action and has complied with substantially all of the requirements of the Written Agreement.

Risk-Based Capital

Federal bank regulatory agencies require bank holding companies such as Hanmi Financial to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require bank holding companies to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent. In order to be considered well capitalized, federal bank regulatory agencies require depository institutions such as the Bank to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, the federal bank regulatory agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 5.0 percent. For a bank rated in the highest of the five categories used by federal bank regulatory agencies to rate banks, the minimum leverage ratio is 3.0 percent.

The capital ratios of Hanmi Financial and the Bank were as follows as of September 30, 2012 and December 31, 2011:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In Thousands)			
September 30, 2012						
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 438,822	20.79%	$ 168,853	8.00%	N/A	N/A
Hanmi Bank	$ 419,546	19.91%	$ 168,584	8.00%	$ 210,730	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 411,921	19.52%	$ 84,426	4.00%	N/A	N/A
Hanmi Bank	$ 392,687	18.63%	$ 84,292	4.00%	$ 126,438	6.00%
Tier 1 Capital (to Average Assets):						
Hanmi Financial	$ 411,921	14.71%	$ 111,982	4.00%	N/A	N/A
Hanmi Bank	$ 392,687	14.05%	$ 111,790	4.00%	$ 139,738	5.00%
December 31, 2011						

Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 387,328	18.66%	$ 166,082	8.00%	N/A	N/A
Hanmi Bank	$ 364,041	17.57%	$ 165,795	8.00%	$ 207,243	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 360,500	17.36%	$ 83,041	4.00%	N/A	N/A
Hanmi Bank	$ 337,309	16.28%	$ 82,897	4.00%	$ 124,346	6.00%
Tier 1 Capital (to Average Assets):						
Hanmi Financial	$ 360,500	13.34%	$ 108,106	4.00%	N/A	N/A
Hanmi Bank	$ 337,309	12.50%	$ 107,924	4.00%	$ 134,905	5.00%

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 2 REGULATORY MATTERS *(Continued)*

Reserve Requirement

The Bank is required to maintain a certain percentage of its deposits as reserves at the FRB. The daily average reserve balance required to be maintained with the FRB was $0 and $1.5 million, and the Bank was in compliance with such requirement as of September 30, 2012 and December 31, 2011, respectively.

Federal Reserve Notices of Proposed Rulemaking

On June 7, 2012, the Board of Governors of the Federal Reserve System approved for publication in the Federal Register three related notices of proposed rulemaking (collectively, the Notices) relating to the implementation of revised capital rules to reflect the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 as well as the Basel III international capital standards. Among other things, if adopted as proposed, the Notices would establish a new capital standard consisting of common equity Tier 1 capital; increase the capital ratios required for certain existing capital categories and add a requirement for a capital conservation buffer (failure to meet these standards would result in limitations on capital distributions as well as executive bonuses); and add more conservative standards for including securities in regulatory capital, which would phase-out trust preferred securities as a component of Tier 1 capital effective January 1, 2013. In addition, the Notices contemplate the deduction of certain assets from regulatory capital and revisions to the methodologies for determining risk weighted assets, including applying a more risk-sensitive treatment to residential mortgage exposures and to past due or nonaccrual loans. The Notices provide for various phase-in periods over the next several years. Hanmi Financial and the Bank will be subject to many provisions in the Notices, but until final regulations are issued pursuant to the Notices, Hanmi Financial cannot predict the actual effect of the Notices.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value Option and Fair Value Measurements

FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820), provides guidance on fair value measurement and disclosure requirements that the FASB deemed largely identical across U.S. GAAP and IFRS. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or allowed. ASU 2011-04 supersedes most of the guidance in ASC topic 820, but many of the changes are clarifications of existing guidance or wording changes to reflect IFRS 13. FASB ASU 2011-04 became effective for interim and annual reporting periods beginning after December 15, 2011, and early application was not permitted. The changes to U.S. GAAP as result of ASU 2011-04 are as follows: (i) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or liabilities); (ii) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets (ASU 2011-04 extends that prohibition to all fair value measurements); (iii) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity s net exposure to either of those risks (this exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position); (iv) Aligns the fair value measurement of instruments classified within an entity s stockholders equity with the guidance for liabilities; (v) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. Our adoption of FASB ASU 2011-04 did not have a significant impact on our financial condition or result of operations.

FASB ASC 820, Fair Value Measurements and Disclosures, 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. FASB ASC 820 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. FASB ASC 820 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.

FASB ASC 825, Financial Instruments, provides additional guidance for estimating fair value in accordance with FASB ASC 820 when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. FASB ASC 825 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. FASB ASC 825 also requires additional disclosures relating to fair value measurement inputs and valuation techniques, as well as disclosures of all debt and equity investment securities by major security types rather than by major security categories that should be based on the nature and risks of the securities during both interim and annual periods. FASB ASC 825 became effective for interim and annual reporting periods ending after June 15, 2009 and did not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FASB ASC 825 requires comparative disclosures only for periods ending after initial adoption. We adopted FASB ASC 825 in the second quarter of 2009. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with FASB ASC 825 Financial Instruments. The adoption of FASB ASC 825 resulted in additional disclosures that are presented in Note 4 Investment Securities.

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

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

Investment Securities Available for Sale The fair values of investment securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve,

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

prepayment speeds, and default rates. Level 1 investment securities include U.S. government and agency debentures and equity securities that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 investment securities primarily include mortgage-backed securities, municipal bonds, collateralized mortgage obligations, and asset-backed securities. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security we hold as of each reporting date. The broker-dealers use observable market information to value our fixed income securities, with the primary sources being nationally recognized pricing services. The fair value of the municipal securities is based on a proprietary model maintained by the broker-dealers. We review the market prices provided by the broker-dealers for our securities for reasonableness based on our understanding of the marketplace, and we also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 investment securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available. This necessitates the use of significant unobservable inputs. As of September 30, 2012, we had a zero coupon tax credit municipal bond of $788,000. The zero coupon tax credit municipal bond is recorded at estimated fair value using a discounted cash flow method. We measured the zero coupon tax credit municipal bond on a recurring basis with Level 3 inputs.

SBA Loans Held for Sale Small Business Administration (SBA) loans held for sale are carried at the lower of cost or fair value. As of September 30, 2012 and December 31, 2011, we had $4.8 and $5.1 million of SBA loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At September 30, 2012 and December 31, 2011, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Non-performing Loans Held for Sale We reclassify certain non-performing loans as held-for-sale when we make the decision to sell those loans. The fair value of non-performing loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Non-performing loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of September 30, 2012 and December 31, 2011, we had $4.4 million and $15.0 million of non-performing loans held for sale, respectively. We measure non-performing loans held for sale at fair value on a nonrecurring basis with Level 3 inputs.

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the nine months ended September 30, 2012. As of September 30, 2012 and December 31, 2011, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1 Quoted Prices in Active Markets For Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs	Balance
		(In Thousands)		
September 30, 2012				
ASSETS:				
Debt Securities Available for Sale:				
Mortgage-Backed Securities	$	$ 142,168	$	$ 142,168
Collateralized Mortgage Obligations		101,390		101,390
U.S. Government Agency Securities	79,164			79,164
Municipal Bonds-Tax Exempt		11,950	788	12,738
Municipal Bonds-Taxable		46,234		46,234
Corporate Bonds		19,897		19,897
Other Securities		8,328		8,328
Total Debt Securities Available for Sale	79,164	329,967	788	409,919
Equity Securities Available for Sale:				
Financial Services Industry	291			291
Total Equity Securities Available for Sale	291			291
Total Securities Available for Sale	$ 79,455	$ 329,967	$ 788	$ 410,210
LIABILITIES:				
Stock Warrants	$	$	$ 1,060	$ 1,060
December 31, 2011:				
ASSETS:				
Debt Securities Available for Sale:				
Mortgage-Backed Securities	$	$ 113,005	$	$ 113,005
Collateralized Mortgage Obligations		162,837		162,837
U.S. Government Agency Securities	72,548			72,548

Municipal Bonds-Tax Exempt		3,482		3,482
Municipal Bonds-Taxable		6,138		6,138
Corporate Bonds		19,836		19,836
Other Securities		3,335		3,335
Total Debt Securities Available for Sale	72,548	308,633		381,181
Equity Securities Available for Sale:				
Financial Services Industry	681			681
Total Equity Securities Available for Sale	681			681
Total Securities Available for Sale	$ 73,229	$ 308,633	$	$ 381,862
LIABILITIES:				
Stock Warrants	$	$	$ 883	$ 883

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 nine months ended September 30, 2012:

	Beginning Balance as of January 1, 2012	Purchase, Issuances, Sales and Settlement	Realized Gains or Losses In Earnings	Unrealized Gains or Losses In Other Comprehensive Income	Ending Balance as of September 30, 2012
			(In Thousands)		
ASSETS:					
Municipal Bonds-Tax Exempt (1)	$	$ 698	$	$ 90	$ 788
LIABILITIES:					
Stock Warrants (2)	$ 883	$	$ 177	$	$ 1,060

(1) *Reflects a zero coupon tax credit municipal bond that was previously classified as a held-to-maturity security, which was reclassified as an available-for-sale security during the three months ended September 30, 2012. As the Company was not able to obtain a price from independent external pricing service providers, the discounted cash flow method was used to determine its fair value. The bond carried a par value of $700,000 and an amortized value of $698,000 with a remaining life of 2.5 years at September 30, 2012.*

(2) *Reflects warrants for our common stock issued in connection with services it provided to us as a placement agent in connection with our best efforts public offering and as our financial adviser in connection with our completed rights offering. The warrants were immediately exercisable when issued at an exercise price of $9.60 per share of our common stock and expire on October 14, 2015. See Note 8 Stockholders Equity for more details.*

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

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

For the nine months ended September 30, 2012 and 2011, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1 Quoted Prices in Active Markets For Identical Assets	*Level 2* Significant Observable Inputs With No Active Market With Identical Characteristics	*Level 3* Significant Unobservable Inputs	Loss During The Three Months Ended September 30, 2012 and 2011	Loss During The Nine Months Ended September 30, 2012 and 2011
			(In Thousands)		
September 30, 2012					
ASSETS:					
Non-Performing Loans Held for Sale [(1)]	$	$	$ 4,421	$ 519	$ 2,300
Impaired Loans [(2)]	$	$ 19,919	$ 10,594	$ 2,259	$ 4,303
Other Real Estate Owned [(3)]	$	$	$ 364	$ 244	$ 301
September 30, 2011					
ASSETS:					
Non-Performing Loans Held for Sale [(4)]	$	$	$ 4,246	$	$ 2,488
Impaired Loans [(5)]	$	$	$ 103,410	$ 16,328	$ 29,264
Other Real Estate Owned [(6)]	$	$	$ 248	$	$ 194

(1) Includes commercial term loans of $3.2 million and SBA loans of $1.2 million
(2) Includes real estate loans of $4.6 million, commercial and industrial loans of $25.3 million, and consumer loans of $574,000
(3) Includes properties from the foreclosure of a commercial property loan of $103,000 and a SBA loan of $261,000
(4) Includes commercial term loans of $3.8 million and SBA loans of $434,000
(5) Includes real estate loans of $35.6 million, commercial and industrial loans of $66.9 million, and consumer loans of $875,000
(6) Includes a property from the foreclosure of a SBA loan

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

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

The estimated fair values of financial instruments were as follows:

	September 30, 2012		December 31, 2011	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In Thousands)			
Financial Assets:				
Cash and Cash Equivalents	$ 302,428	$ 302,428	$ 201,683	$ 201,683
Restricted Cash	4,393	4,393	1,818	1,818
Term Federal Funds	55,000	55,015	115,000	115,173
Investment Securities Available for Sale	410,210	410,210	381,862	381,862
Investment Securities Held to Maturity			59,742	59,363
Loans Receivable, Net of Allowance for Loan Losses	1,892,813	1,833,112	1,849,020	1,802,511
Loans Held for Sale	10,736	10,736	22,587	22,587
Accrued Interest Receivable	7,467	7,467	7,829	7,829
Investment in Federal Home Loan Bank Stock	19,621	19,621	22,854	22,854
Investment in Federal Reserve Bank	10,261	10,261	8,558	8,558
Financial Liabilities:				
Noninterest-Bearing Deposits	694,345	694,345	634,466	634,466
Interest-Bearing Deposits	1,669,040	1,675,056	1,710,444	1,710,878
Borrowings	85,435	85,517	85,709	83,853
Accrued Interest Payable	15,266	15,266	16,032	16,032
Off-Balance Sheet Items:				
Commitments to Extend Credit	205,833	175	158,748	194
Standby Letters of Credit	10,544	26	12,742	26

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

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

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

Restricted Cash The carrying amount of restricted cash approximates its fair value (Level 1).

Term Federal Funds The fair value of term federal funds with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates (Level 2).

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

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

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

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

Investment in Federal Home Loan Bank and Federal Reserve Bank Stock The carrying amounts of investment in Federal Home Loan Bank (FHLB) and FRB stock approximate fair value as such stock may be resold to the issuer at carrying value (Level 1).

Non-Interest-Bearing Deposits The fair value of non-interest-bearing deposits is the amount payable on demand at the reporting date (Level 2).

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

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

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

Stock Warrants The fair value of stock warrants is determined by the Black-Scholes option pricing model. The expected stock volatility is based on historical volatility of our common stock over expected term of the warrants. The expected life assumption is based on the contract term. The dividend yield of zero is based on the fact that we have no present intention to pay cash dividends. The risk free rate used for the warrant is equal to the zero coupon rate in effect at the time of the grant (Level 3).

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

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 4 INVESTMENT SECURITIES

The following is a summary of investment securities held to maturity:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In Thousands)		
December 31, 2011				
Municipal Bonds-Tax Exempt	$ 9,815	$ 98	$ 46	$ 9,867
Municipal Bonds-Taxable	38,797	117	522	38,392
Mortgage-Backed Securities [(1)]	3,137	2	11	3,128
U.S. Government Agency Securities	7,993	2	19	7,976
Total Securities Held to Maturity	**$ 59,742**	**$ 219**	**$ 598**	**$ 59,363**

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

The following is a summary of investment securities available for sale:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In Thousands)		
September 30, 2012				
Mortgage-Backed Securities [(1)]	$ 138,173	$ 3,996	$ 1	$ 142,168
Collateralized Mortgage Obligations [(1)]	100,125	1,296	31	101,390
U.S. Government Agency Securities	79,027	185	48	79,164
Municipal Bonds-Tax Exempt	12,232	506		12,738
Municipal Bonds-Taxable	44,336	2,025	127	46,234
Corporate Bonds	20,467	62	632	19,897
Other Securities	8,264	99	35	8,328
Equity Securities	354		63	291
Total Securities Available for Sale	**$ 402,978**	**$ 8,169**	**$ 937**	**$ 410,210**
December 31, 2011				
Mortgage-Backed Securities [(1)]	$ 110,433	$ 2,573	$ 1	$ 113,005
Collateralized Mortgage Obligations [(1)]	161,214	1,883	260	162,837
U.S. Government Agency Securities	72,385	168	5	72,548
Municipal Bonds-Tax Exempt	3,389	93		3,482
Municipal Bonds-Taxable	5,901	237		6,138

Corporate Bonds	20,460		624	19,836
Other Securities	3,318	58	41	3,335
Equity Securities	647	85	51	681
Total Securities Available for Sale	**$ 377,747**	**$ 5,097**	**$ 982**	**$ 381,862**

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

The amortized cost and estimated fair value of investment securities at September 30, 2012, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2042, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	**Estimated Fair Value**
	(In Thousands)	
Within One Year	$	$
Over One Year Through Five Years	33,266	32,891
Over Five Years Through Ten Years	94,078	95,429
Over Ten Years	36,982	38,041
Mortgage-Backed Securities	138,173	142,168
Collateralized Mortgage Obligations	100,125	101,390
Equity Securities	354	291
Total	**$ 402,978**	**$ 410,210**

During the three months ended September 30, 2012, all held-to-maturity securities were reclassified to available-for-sale securities. The reclassified securities carried a fair value of $52.6 million and an amortized cost of $50.6 million at September 30, 2012. As more than 95% of the reclassified securities were municipal bonds, the Company decided to reclassify all held-to-maturity securities to available-for-sale securities to be more proactive under the current municipal market with a rising risk of default.

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 4 INVESTMENT SECURITIES *(Continued)*

In accordance with FASB ASC 320, Investments Debt and Equity Securities, which amended current other-than-temporary impairment (OTTI) guidance, we periodically evaluate our investments for OTTI. For the three and nine months ended September 30, 2012, we recorded $176,000 and $292,000, respectively, in OTTI charges in earnings on an available-for-sale security.

The Company had an equity security with a carrying value of $218,000 at September 30, 2012. During 2012, the issuer s financial condition had deteriorated and it was determined that the value on the investment is other-than-temporarily impaired. Based on the closing price of the shares at September 30, 2012, we recorded an OTTI charge of $176,000 to write down the value of the investment security to its fair value. For the nine months ended September 30, 2012, the total OTTI charge on this equity security was $292,000.

We perform periodic reviews for impairment in accordance with FASB ASC 320. Gross unrealized losses on investment securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of September 30, 2012 and December 31, 2011:

	Holding Period								
Investment Securities	**Less Than 12 Months**			**12 Months or More**			**Total**		
Available for Sale	**Gross Unrealized Loss**	**Estimated Fair Value**	**Number of Securities**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Number of Securities**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Number of Securities**
	(In Thousands, Except Number of Securities)								
September 30, 2012									
Mortgage-Backed Securities	$ 1	$ 5,988	1	$	$		$ 1	$ 5,988	1
Collateralized Mortgage Obligations	31	9,890	4				31	9,890	4
U.S. Government Agency Securities	48	19,448	6				48	19,448	6
Municipal Bonds-Taxable	108	2,544	2	19	1,962	3	127	4,506	5
Corporate Bonds				632	10,350	3	632	10,350	3
Other Securities				35	965	1	35	965	1
Equity Securities	63	73	1				63	73	1
Total	**$ 251**	**$ 37,943**	**14**	**$ 686**	**$ 13,277**	**7**	**$ 937**	**$ 51,220**	**21**
December 31, 2011									
Mortgage-Backed Securities	$ 1	$ 3,076	1	$	$		$ 1	$ 3,076	1
Collateralized Mortgage Obligations	260	36,751	16				260	36,751	16
U.S. Government Agency Securities	5	6,061	2				5	6,061	2
Corporate Bonds	41	4,445	2	583	15,391	4	624	19,836	6
Other Securities	1	12	1	40	959	1	41	971	2
Equity Securities	51	85	1				51	85	1
Total	**$ 359**	**$ 50,430**	**23**	**$ 623**	**$ 16,350**	**5**	**$ 982**	**$ 66,780**	**28**

The impairment losses described previously are not included in the table above. All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2012 and December 31, 2011 had investment grade ratings upon purchase.

The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of September 30, 2012. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

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

The Company does not intend to sell these securities and it is not more likely than not that we will be required to sell the investments before the recovery of its amortized cost bases. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management s opinion, all securities, other than the OTTI write-down related to an equity security, that have been in a continuous unrealized loss position for the past 12 months or longer as of September 30, 2012 and December 31, 2011 are not other-than-temporarily impaired, and therefore, no other impairment charges as of September 30, 2012 and December 31, 2011 are warranted.

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 4 INVESTMENT SECURITIES *(Continued)*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In Thousands)			
Gross Realized Gains on Sales of Investment Securities	$ 10	$ 1,704	$ 1,442	$ 2,673
Gross Realized Losses on Sales of Investment Securities			(50)	(1,039)
Net Realized Gains on Sales of Investment Securities	**$ 10**	**$ 1,704**	**$ 1,392**	**$ 1,634**
Proceeds from Sales of Investment Securities	$ 8,000	$ 38,691	$ 96,538	$ 152,468
Tax Expense on Sales of Investment Securities	$ 4	$ 716	$ 585	$ 687

For the three months ended September 30, 2012, $3.8 million of net unrealized gains arose during the period and was included in comprehensive income, and there was a $10,000 gain in earnings resulting from the sale of investment securities that had previously recorded net unrealized gains of $4,000 in comprehensive income. Among the $3.8 million increase in net unrealized gains, a $2.0 million increase was driven from the net unrealized gains on newly reclassified available-for-sale securities from held-to-maturity securities. For the three months ended September 30, 2011, $584,000 of net unrealized gains arose during the period and was included in comprehensive income, and there was a $1.7 million gain in earnings resulting from the sale of investment securities that had previously recorded net unrealized gains of $1.6 million in comprehensive income.

For the nine months ended September 30, 2012, $3.1 million of net unrealized gains arose during the period and were included in comprehensive income, and there was a $1.4 million gain in earnings resulting from the sale of investment securities that had previously recorded net unrealized gains of $1.7 million in comprehensive income. Among the $3.1 million increase in net unrealized gains, a $2.0 million increase was driven from the net unrealized gains on newly reclassified available-for-sale securities from held-to-maturity securities. For the nine months ended September 30, 2011, $6.9 million of net unrealized gains arose during the period and was included in comprehensive income, and there was a $1.6 million gain in earnings resulting from the sale of investment securities that had previously recorded net unrealized losses of $249,000 million in comprehensive income.

Investment securities available for sale with carrying values of $19.4 million and $45.8 million as of September 30, 2012 and December 31, 2011, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

NOTE 5 LOANS

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

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

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

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

Loans Receivable

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

	September 30, 2012	December 31, 2011
	(In Thousands)	
Real Estate Loans:		
Commercial Property	$ 728,419	$ 663,023
Construction	7,868	33,976
Residential Property	103,774	52,921
Total Real Estate Loans	840,061	749,920
Commercial and Industrial Loans:		
Commercial Term [(1)]	861,906	944,836
Commercial Lines of Credit [(2)]	54,266	55,770
SBA Loans [(3)]	134,264	116,192
International Loans	29,378	28,676
Total Commercial and Industrial Loans	1,079,814	1,145,474
Consumer Loans	38,415	43,346
Total Gross Loans	1,958,290	1,938,740
Allowance for Loans Losses	(66,107)	(89,936)
Deferred Loan Fees	630	216
Loan Receivables, Net	**$ 1,892,813**	**$ 1,849,020**

(1) *Includes owner-occupied property loans of $743.1 million and $776.3 million as of September 30, 2012 and December 31, 2011, respectively.*

(2) *Includes owner-occupied property loans of $1.3 million and $936,000 as of September 30, 2012 and December 31, 2011, respectively.*

(3) *Includes owner-occupied property loans of $115.3 million and $93.6 million as of September 30, 2012 and December 31, 2011, respectively.*

Accrued interest on loans receivable amounted to $5.5 million and $5.7 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012 and December 31, 2011, loans receivable totaling $517.0 million and $797.1 million, respectively, were pledged to secure advances from the FHLB and the Federal Reserve Discount Window.

The following table details the information on the purchases, sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the three months ended September 30, 2012 and 2011:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In Thousands)		
September 30, 2012				
Balance at Beginning of Period	$ 1,289	$ 3,849	$	$ 5,138
Origination of Loans Held For Sale		25,722		25,722
Reclassification from Loan Receivables to Loans Held for Sale	8,917	16,404		25,321
Sales of Loans Held for Sale	(8,828)	(36,050)		(44,878)
Principal Payoffs and Amortization	(21)	(27)		(48)
Valuation Adjustments		(519)		(519)
Balance at End of Period	**$ 1,357**	**$ 9,379**	**$**	**$ 10,736**
September 30, 2011				
Balance at Beginning of Period	$ 974	$ 43,131	$	$ 44,105
Origination of Loans Held For Sale		13,560		13,560
Reclassification from Loan Receivables to Loans Held for Sale	14,236	17,117		31,353
Sales of Loans Held for Sale	(5,506)	(46,238)		(51,744)
Principal Payoffs and Amortization	(7)	(65)		(72)
Valuation Adjustments				
Balance at End of Period	**$ 9,697**	**$ 27,505**	**$**	**$ 37,202**

For the three months ended September 30, 2012, loans receivable of $25.3 million were reclassified as loans held for sale, and loans held for sale of $44.9 million were sold. For the three months ended September 30, 2011, loans receivable of $31.4 million were reclassified as loans held for sale, and loans held for sale of $51.7 million were sold. There were no purchases of loans receivable for the three months ended September 30, 2012 and 2011.

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

The following table details the information on the purchases, sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the nine months ended September 30, 2012 and 2011:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In Thousands)		
September 30, 2012				
Balance at Beginning of Period	$ 11,068	$ 11,519	$	$ 22,587
Origination of Loans Held For Sale		86,311		86,311
Reclassification from Loan Receivables to Loans Held for Sale	41,141	48,651		89,792
Reclassification from Loans Held for Sale to Other Real Estate Owned	(360)			(360)
Reclassification from Loans Held for Sale to Loan Receivables	(1,647)	(132)		(1,779)
Sales of Loans Held for Sale	(47,531)	(135,505)		(183,036)
Principal Payoffs and Amortization	(190)	(289)		(479)
Valuation Adjustments	(1,124)	(1,176)		(2,300)
Balance at End of Period	**$ 1,357**	**$ 9,379**	**$**	**$ 10,736**
September 30, 2011				
Balance at Beginning of Period	$ 3,666	$ 32,954	$	$ 36,620
Origination of Loans Held For Sale		28,656		28,656
Reclassification from Loan Receivables to Loans Held for Sale	33,514	38,523		72,037
Sales of Loans Held for Sale	(27,329)	(68,682)		(96,011)
Principal Payoffs and Amortization	(21)	(1,177)		(1,198)
Valuation Adjustments	(133)	(2,769)		(2,902)
Balance at End of Period	**$ 9,697**	**$ 27,505**	**$**	**$ 37,202**

For the nine months ended September 30, 2012, loans receivable of $89.8 million were reclassified as loans held for sale, and loans held for sale of $183.0 million were sold. For the nine months ended September 30, 2012, $15.2 million of commercial real estate loans and $67.4 million of residential mortgage loans were purchased. For the nine months ended September 30, 2011, loans receivable of $72.0 million were reclassified as loans held for sale, and loans held for sale of $96.0 million were sold. There were no purchases of loans receivable for the nine months ended September 30, 2011.

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

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

	As of and for the Three Months Ended			As of and for the Nine Months Ended	
	September 30, 2012	**June 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
			(In Thousands)		
Allowance for Loan Losses:					
Beginning Balance	$ 71,893	$ 81,052	$ 109,029	$ 89,936	$ 146,059
Actual Charge-Offs	(7,223)	(14,716)	(16,551)	(34,260)	(62,384)
Recoveries on Loans Previously Charged Off	1,320	1,324	1,045	3,681	8,822
Net Loan Charge-Offs	(5,903)	(13,392)	(15,506)	(30,579)	(53,562)
Provision Charged to Operating Expense	117	4,233	7,269	6,750	8,295
Ending Balance	**$ 66,107**	**$ 71,893**	**$ 100,792**	**$ 66,107**	**$ 100,792**
Allowance for Off-Balance Sheet Items:					
Beginning Balance	$ 2,348	$ 2,581	$ 2,391	$ 2,981	$ 3,417
Provision Charged to (Reversal of Charged to) Operating Expense	(117)	(233)	831	(750)	(195)
Ending Balance	**$ 2,231**	**$ 2,348**	**$ 3,222**	**$ 2,231**	**$ 3,222**

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

The following table details the information on the allowance for credit losses by portfolio segment for the three months ended September 30, 2012 and 2011:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
			(In Thousands)		
September 30, 2012					
Allowance for Loan Losses:					
Beginning Balance	$ 21,406	$ 46,810	$ 1,757	$ 1,920	$ 71,893
Charge-Offs	1,321	5,571	331		7,223
Recoveries on Loans Previously Charged Off	58	1,251	11		1,320
Provision	1,080	174	783	(1,920)	117
Ending Balance	$ 21,223	$ 42,664	$ 2,220	$	$ 66,107
Ending Balance: Individually Evaluated for Impairment	$ 768	$ 5,148	$ 398	$	$ 6,314
Ending Balance: Collectively Evaluated for Impairment	$ 20,455	$ 37,516	$ 1,822	$	$ 59,793
Loans Receivables:					
Ending Balance	$ 840,061	$ 1,079,814	$ 38,415	$	$ 1,958,290
Ending Balance: Individually Evaluated for Impairment	$ 16,315	$ 41,084	$ 1,238	$	$ 58,637
Ending Balance: Collectively Evaluated for Impairment	$ 823,746	$ 1,038,730	$ 37,177	$	$ 1,899,653
September 30, 2011					
Allowance for Loan Losses:					
Beginning Balance	$ 24,115	$ 82,845	$ 1,587	$ 482	$ 109,029
Charge-Offs	2,142	14,023	386		16,551
Recoveries on Loans Previously Charged Off		1,014	31		1,045
Provision	(165)	4,961	992	1,481	7,269
Ending Balance	$ 21,808	$ 74,797	$ 2,224	$ 1,963	$ 100,792
Ending Balance: Individually Evaluated for Impairment	$ 3,630	$ 25,915	$ 285	$	$ 29,830
Ending Balance: Collectively Evaluated for Impairment	$ 18,178	$ 48,882	$ 1,939	$ 1,963	$ 70,962
Loans Receivables:					

Ending Balance	$ 754,472	$ 1,192,740	$ 44,819	$	$ 1,992,031
Ending Balance: Individually Evaluated for Impairment	$ 47,172	$ 95,959	$ 1,158	$	$ 144,289
Ending Balance: Collectively Evaluated for Impairment	$ 707,300	$ 1,096,781	$ 43,661	$	$ 1,847,742

The following table details the information on the allowance for credit losses by portfolio segment for the nine months ended September 30, 2012 and 2011:

	Real Estate	Commercial and Industrial	Consumer *(In Thousands)*	Unallocated	Total
September 30, 2012					
Allowance for Loan Losses:					
Beginning Balance	$ 19,637	$ 66,005	$ 2,243	$ 2,051	$ 89,936
Charge-Offs	9,406	24,079	775		34,260
Recoveries on Loans Previously Charged Off	575	3,053	53		3,681
Provision	10,419	(2,317)	699	(2,051)	6,750
Ending Balance	$ 21,223	$ 42,664	$ 2,220	$	$ 66,107
Ending Balance: Individually Evaluated for Impairment	$ 768	$ 5,148	$ 398	$	$ 6,314
Ending Balance: Collectively Evaluated for Impairment	$ 20,455	$ 37,516	$ 1,822	$	$ 59,793
Loans Receivables:					
Ending Balance	$ 840,061	$ 1,079,814	$ 38,415	$	$ 1,958,290
Ending Balance: Individually Evaluated for Impairment	$ 16,315	$ 41,084	$ 1,238	$	$ 58,637
Ending Balance: Collectively Evaluated for Impairment	$ 823,746	$ 1,038,730	$ 37,177	$	$ 1,899,653
September 30, 2011					
Allowance for Loan Losses:					
Beginning Balance	$ 32,766	$ 108,986	$ 2,079	$ 2,228	$ 146,059
Charge-Offs	14,786	46,715	883		62,384
Recoveries on Loans Previously Charged Off	2,744	6,025	53		8,822
Provision	1,084	6,501	975	(265)	8,295
Ending Balance	$ 21,808	$ 74,797	$ 2,224	$ 1,963	$ 100,792
Ending Balance: Individually Evaluated for Impairment	$ 3,630	$ 25,915	$ 285	$	$ 29,830
Ending Balance: Collectively Evaluated for Impairment	$ 18,178	$ 48,882	$ 1,939	$ 1,963	$ 70,962
Loans Receivables:					
Ending Balance	$ 754,472	$ 1,192,740	$ 44,819	$	$ 1,992,031
Ending Balance: Individually Evaluated for Impairment	$ 47,172	$ 95,959	$ 1,158	$	$ 144,289
Ending Balance: Collectively Evaluated for Impairment	$ 707,300	$ 1,096,781	$ 43,661	$	$ 1,847,742

18

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade (from (0) to (8)) for each and every loan in our loan portfolio. All loans are reviewed semi-annually. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:

Pass: pass loans, grade (0) to (4), are in compliance in all respects with the Bank s credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention (5), Substandard (6) or Doubtful (7). This is the strongest level of the Bank s loan grading system. It incorporates all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans. Following are sub categories within the Pass grade, or (0) to (4):

Pass or (0): loans secured in full by cash or cash equivalents.

Pass or (1): requires a very strong, well-structured credit relationship with an established borrower. The relationship should be supported by audited financial statements indicating cash flow, well in excess of debt service requirement, excellent liquidity, and very strong capital.

Pass or (2): requires a well-structured credit that may not be as seasoned or as high quality as grade 1. Capital, liquidity, debt service capacity, and collateral coverage must all be well above average. This category includes individuals with substantial net worth centered in liquid assets and strong income.

Pass or (3): loans or commitments to borrowers exhibiting a fully acceptable credit risk. These borrowers should have sound balance sheet proportions and significant cash flow coverage, although they may be somewhat more leveraged and exhibit greater fluctuations in earning and financing but generally would be considered very attractive to the Bank as a borrower. The borrower has historically demonstrated the ability to manage economic adversity. Real estate and asset-based loans which are designated this grade must have characteristics that place them well above the minimum underwriting requirements. Asset-based borrowers assigned this grade must exhibit extremely favorable leverage and cash flow characteristics and consistently demonstrate a high level of unused borrowing capacity.

Pass or (4): loans or commitments to borrowers exhibiting either somewhat weaker balance sheet proportions or positive, but inconsistent, cash flow coverage. These borrowers may exhibit somewhat greater credit risk, and as a result of this the Bank may have secured its exposure in an effort to mitigate the risk. If so, the collateral taken should provide an unquestionable ability to repay the indebtedness in full through liquidation, if necessary. Cash flows should be adequate to cover debt service and fixed obligations, although there may be a question about the borrower s ability to provide alternative sources of funds in emergencies. Better quality real estate and asset-based borrowers who fully comply with all underwriting standards and are performing according to projections would be assigned this grade.

Special Mention or (5): Special Mention credits are potentially weak, as the borrower is exhibiting deteriorating trends which, if not corrected, could jeopardize repayment of the debt and result in a substandard classification. Credits which have significant actual, not potential, weaknesses are considered more severely classified.

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

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

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

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

	Pass (Grade 0-4)	Criticized (Grade 5)	Classified (Grade 6-7)	Total Loans
		(In Thousands)		
September 30, 2012				
Real Estate Loans:				
Commercial Property				
Retail	$ 362,174	$ 3,073	$ 5,121	$ 370,368
Land	4,703		12,259	16,962
Other	318,598	20,988	1,503	341,089
Construction			7,868	7,868
Residential Property	99,815		3,959	103,774
Commercial and Industrial Loans:				
Commercial Term				
Unsecured	89,958	1,729	26,453	118,140
Secured By Real Estate	683,550	5,618	54,598	743,766
Commercial Lines of Credit	51,397	876	1,993	54,266
SBA Loans	121,260	1,442	11,562	134,264
International Loans	29,378			29,378
Consumer Loans	35,312	207	2,896	38,415
Total	**$ 1,796,145**	**$ 33,933**	**$ 128,212**	**$ 1,958,290**
December 31, 2011				
Real Estate Loans:				
Commercial Property				
Retail	$ 292,914	$ 8,858	$ 10,685	$ 312,457
Land	4,351		3,418	7,769
Other	297,734	8,428	36,635	342,797
Construction		14,080	19,896	33,976
Residential Property	48,592		4,329	52,921
Commercial and Industrial Loans:				
Commercial Term				
Unsecured	100,804	8,680	41,796	151,280
Secured By Real Estate	634,822	36,290	122,444	793,556
Commercial Lines of Credit	44,985	7,676	3,109	55,770
SBA Loans	96,983	1,496	17,713	116,192
International Loans	26,566		2,110	28,676
Consumer Loans	40,454	676	2,216	43,346
Total	**$ 1,588,205**	**$ 86,184**	**$ 264,351**	**$ 1,938,740**

Table of Contents

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS ***(UNAUDITED)***

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 *(Continued)*

NOTE 5 LOANS *(Continued)*

The following is an aging analysis of past due loans, disaggregated by class of loan, as of September 30, 2012 and December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing 90 Days or More Past Due
				(In Thousands)			
September 30, 2012							
Real Estate Loans:							
Commercial Property							
Retail	$	$	$	$	$ 370,368	$ 370,368	$
Land					16,962	16,962	
Other					341,089	341,089	
Construction			7,868	7,868		7,868	
Residential Property	512	241	319	1,072	102,702	103,774	
Commercial and Industrial Loans:							
Commercial Term							
Unsecured	1,125	731	613	2,469	115,671	118,140	
Secured By Real Estate			1,921	1,921	741,845	743,766	
Commercial Lines of Credit			416	416	53,850	54,266	
SBA Loans	2,267	592	3,212	6,071	128,193	134,264	
International Loans					29,378	29,378	
Consumer Loans	271	15	136	422	37,993	38,415	
Total	**$ 4,175**	**$ 1,579**	**$ 14,485**	**$ 20,239**	**$ 1,938,051**	**$ 1,958,290**	**$**

December 31, 2011