HANMI FINANCIAL CORP
Form 10-Q
August 09, 2010

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2010
or

o **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 þ No o

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 o No o

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 Filero	Accelerated Filer þ	Non-Accelerated Filero	Smaller Reporting Company o
		(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 o No þ

As of July 30, 2010, there were 151,198,390 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, 2010 AND 2009
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS *(UNAUDITED)*

(In Thousands, Except Share Data)

	June 30, 2010	December 31, 2009
ASSETS		
Cash and Due From Banks	$ 60,034	$ 55,263
Interest-Bearing Deposits in Other Banks	170,711	98,847
Federal Funds Sold	20,000	
Cash and Cash Equivalents	250,745	154,110
Securities Held to Maturity, at Amortized Cost (Fair Value of $859 as of June 30, 2010 and $871 as of December 31, 2009)	856	869
Investment Securities Available for Sale, at Fair Value (Amortized Cost of $185,953 as of June 30, 2010 and $130,995 as of December 31, 2009)	190,238	132,420
Loans Receivable, Net of Allowance for Loan Losses of $176,667 as of June 30, 2010 and $144,996 as of December 31, 2009	2,296,215	2,669,054
Loans Held for Sale, at the Lower of Cost or Fair Value	30,544	5,010
Due from Customers on Acceptances	1,072	994
Premises and Equipment, Net	17,917	18,657
Accrued Interest Receivable	7,802	9,492
Other Real Estate Owned, Net	24,064	26,306
Deferred Tax Assets		3,608
Servicing Assets	3,356	3,842
Other Intangible Assets, Net	2,754	3,382
Investment in Federal Home Loan Bank Stock, at Cost	29,556	30,697
Investment in Federal Reserve Bank Stock, at Cost	6,783	7,878
Income Taxes Receivable	9,697	56,554
Bank-Owned Life Insurance	26,874	26,408
Other Assets	16,477	13,425
TOTAL ASSETS	**$ 2,914,950**	**$ 3,162,706**
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-Bearing	$ 574,843	$ 556,306
Interest-Bearing	2,000,271	2,193,021
Total Deposits	2,575,114	2,749,327

Accrued Interest Payable	14,024	12,606
Bank Acceptances Outstanding	1,072	994
Deferred Tax Liabilities	1,203	
Federal Home Loan Bank Advances	153,816	153,978
Other Borrowings	3,062	1,747
Junior Subordinated Debentures	82,406	82,406
Accrued Expenses and Other Liabilities	11,073	11,904
Total Liabilities	**2,841,770**	**3,012,962**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $0.001 Par Value; Authorized 200,000,000 Shares; Issued 55,830,890 Shares (51,198,390 Shares Outstanding) and 55,814,890 shares (51,182,390 Shares Outstanding) as of June 30, 2010 and December 31, 2009, Respectively	56	56
Additional Paid-In Capital	357,641	357,174
Unearned Compensation	(261)	(302)
Accumulated Other Comprehensive Income Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes of $1,805 and $602 as of June 30, 2010 and December 31, 2009, Respectively	2,530	859
Accumulated Deficit	(216,774)	(138,031)
Less Treasury Stock, at Cost: 4,632,500 Shares as of June 30, 2010 and December 31, 2009	(70,012)	(70,012)
Total Stockholders Equity	**73,180**	**149,744**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,914,950**	**$ 3,162,706**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS *(UNAUDITED)*
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
INTEREST AND DIVIDEND INCOME:				
Interest and Fees on Loans	$ 34,486	$ 44,718	$ 71,181	$ 89,803
Taxable Interest on Investment Securities	1,359	1,370	2,443	2,720
Tax-Exempt Interest on Investment Securities	77	621	154	1,264
Dividends on Federal Reserve Bank Stock	103	153	207	306
Dividends on Federal Home Loan Bank Stock	20		41	
Interest on Interest-Bearing Deposits in Other Banks	99	11	154	13
Interest on Federal Funds Sold and Securities Purchased Under Resale Agreements	16	112	33	194
Interest on Term Federal Funds Sold	11	695	11	1,395
Total Interest and Dividend Income	36,171	47,680	74,224	95,695
INTEREST EXPENSE:				
Interest on Deposits	8,813	22,686	18,517	45,471
Interest on Federal Home Loan Bank Advances	339	1,010	685	2,122
Interest on Other Borrowings	31	2	31	2
Interest on Junior Subordinated Debentures	692	846	1,361	1,834
Total Interest Expense	9,875	24,544	20,594	49,429
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	26,296	23,136	53,630	46,266
Provision for Credit Losses	37,500	23,934	95,496	69,887
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR CREDIT LOSSES	(11,204)	(798)	(41,866)	(23,621)
NON-INTEREST INCOME:				
Service Charges on Deposit Accounts	3,602	4,442	7,328	8,757
Insurance Commissions	1,206	1,185	2,484	2,367
Remittance Fees	523	545	985	1,068
Trade Finance Fees	412	499	763	1,005

Other Service Charges and Fees		372		467		784		950
Bank-Owned Life Insurance Income		235		227		466		461
Net Gain on Sales of Investment Securities				1		105		1,168
Net Gain on Sales of Loans		220				214		2
Other Operating Income		106		214		552		280
Total Non-Interest Income		6,676		7,580		13,681		16,058
NON-INTEREST EXPENSE:								
Salaries and Employee Benefits		9,011		8,508		17,797		16,011
Deposit Insurance Premiums and Regulatory Assessments		4,075		3,929		6,299		5,419
Occupancy and Equipment		2,674		2,788		5,399		5,672
Other Real Estate Owned Expense		1,718		1,502		7,418		1,645
Data Processing		1,487		1,547		2,986		3,083
Professional Fees		1,022		890		2,088		1,506
Supplies and Communication		574		599		1,091		1,169
Advertising and Promotion		503		624		1,038		1,193
Loan-Related Expense		310		1,217		617		1,398
Amortization of Other Intangible Assets		301		406		629		835
Other Operating Expenses		3,090		3,595		5,627		6,024
Total Non-Interest Expense		24,765		25,605		50,989		43,955
LOSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES		(29,293)		(18,823)		(79,174)		(51,518)
Benefit for Income Taxes		(36)		(9,288)		(431)		(24,787)
NET LOSS	**$**	**(29,257)**	**$**	**(9,535)**	**$**	**(78,743)**	**$**	**(26,731)**
LOSS PER SHARE:								
Basic	$	(0.57)	$	(0.21)	$	(1.54)	$	(0.58)
Diluted	$	(0.57)	$	(0.21)	$	(1.54)	$	(0.58)
WEIGHTED-AVERAGE SHARES OUTSTANDING:								
Basic		51,036,573		45,924,767		51,017,885		45,907,998
Diluted		51,036,573		45,924,767		51,017,885		45,907,998
DIVIDENDS DECLARED PER SHARE	$		$		$		$	

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)*(UNAUDITED)*

(In Thousands; Except Share Data)

	Common Stock Number of Shares			Stockholders Equity						
	Issued	Treasury Stock	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 AS OF JANUARY 1, 2009	**50,538,049**	**(4,632,500)**	**45,905,549**	**$ 51**	**$ 349,304**	**$ (218)**	**$ 544**	**$ (15,754)**	**$ (70,012)**	**$ 263,915**
Shares Issued for Business Acquisitions	39,418		39,418		46					46
Share-Based Compensation Expense					460	29				489
Restricted Stock Awards	190,000		190,000		259	(259)				
Forfeiture of Restricted Stock Award	(4,000)		(4,000)		(64)	64				
Comprehensive Loss:										
Net Loss								(26,731)		(26,731)
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							1,407			1,407
Total Comprehensive Loss										(25,324)
BALANCE AS OF JUNE 30, 2009	**50,763,467**	**(4,632,500)**	**46,130,967**	**$ 51**	**$ 350,005**	**$ (384)**	**$ 1,951**	**$ (42,485)**	**$ (70,012)**	**$ 239,126**

BALANCE AS OF JANUARY 1, 2010	**55,814,890**	**(4,632,500)**	**51,182,390**	**$ 56**	**$ 357,174**	**$ (302)**	**$ 859**	**$ (138,031)**	**$ (70,012)**	**$ 149,744**
Exercises of Stock Options and Stock Warrants	16,000		16,000		22					22
Share-Based Compensation Expense					445	41				486
Comprehensive Loss:										
Net Loss								(78,743)		(78,743)
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							1,671			1,671
Total Comprehensive Loss										(77,072)
BALANCE AS OF JUNE 30, 2010	**55,830,890**	**(4,632,500)**	**51,198,390**	**$ 56**	**$ 357,641**	**$ (261)**	**$ 2,530**	**$ (216,774)**	**$ (70,012)**	**$ 73,180**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(UNAUDITED)*
(In Thousands)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (78,743)	$ (26,731)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	1,204	1,329
Amortization of Premiums and Accretion of Discounts on Investment Securities, Net	288	(957)
Amortization of Other Intangible Assets	629	835
Amortization of Servicing Assets	496	421
Share-Based Compensation Expense	486	489
Provision for Credit Losses	95,496	69,887
Net Gain on Sales of Investment Securities	(105)	(1,168)
Net Gain on Sales of Loans	(214)	(2)
(Gain) Loss on Sales of Other Real Estate Owned	(154)	324
Provision for Valuation Allowance on Other Real Estate Owned	6,503	1,001
Deferred Tax Benefit	3,608	
Origination of Loans Held for Sale	(1,782)	(199)
Net Proceeds from Sales of Loans Held for Sale	79,254	3,354
Decrease in Accrued Interest Receivable	1,690	229
Increase in Servicing Asset	(10)	(74)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(466)	(461)
Increase in Other Assets	(3,039)	(16,497)
Decrease in Income Tax Receivable	46,857	
Increase in Accrued Interest Payable	1,418	13,320
Increase in Other Liabilities	682	390
Net Cash Provided By Operating Activities	**154,098**	**45,490**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Redemption of Federal Home Loan Bank and Federal Reserve Bank Stock	2,236	175
Proceeds from Matured or Called Investment Securities Available for Sale	37,023	38,494
Proceeds from Matured or Called Investment Securities Held to Maturity	13	
Proceeds from Sales of Investment Securities Available for Sale	3,252	38,448
Proceeds from Sales of Other Real Estate Owned	5,042	215
Net Decrease in Loans Receivable	163,888	130,866
Purchases of Investment Securities Available for Sale	(95,415)	(93,511)
Purchases of Premises and Equipment	(464)	(883)

Net Cash Provided By Investing Activities	**115,575**	**113,804**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Deposits	(174,213)	217,843
Proceeds from Exercise of Stock Options	22	
Repayment of Long-Term Federal Home Loan Bank Advances	(162)	(107,061)
Net Change in Short-Term Federal Home Loan Bank Advances and Other Borrowings	1,315	(102,438)
Net Cash Provided By (Used In) Financing Activities	**(173,038)**	**8,344**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**96,635**	**167,638**
Cash and Cash Equivalents at Beginning of Period	154,110	215,188
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 250,745**	**$ 382,826**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest Paid	$ 8,457	$ 36,109
Income Taxes Paid, Net of Refunds	$ (49,971)	$
Non-Cash Activities:		
Stock Issued for Business Acquisition	$	$ 46
Transfer of Loans to Other Real Estate Owned	$ 10,366	$ 34,735
Transfer of Loans to Loan Held for Sale	$ 101,620	$
Loans Provided in the Sale of Other Real Estate Owned	$ 1,217	$

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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. (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, 2010, 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 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 2009 Annual Report on Form 10-K.

Certain reclassifications were made to the prior period s presentation to conform to the current period s presentation.

NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION

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). On the same date, Hanmi Financial and the Bank entered into a Written Agreement (the Agreement) with the Federal Reserve Bank of San Francisco (the FRB). The Final Order and the Agreement contain a list of strict requirements ranging from a capital directive to developing a contingency funding plan.

While Hanmi Financial intends to take such actions as may be necessary to enable Hanmi Financial and the Bank to comply with the requirements of the Final Order and Agreement, there can be no assurance that Hanmi Financial or the Bank will be able to comply fully with the provisions of the Final Order and the Agreement, or that compliance with the Final Order and the 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 Final Order and the Agreement could result in further enforcement actions by both DFI and FRB, or the placing of the Bank into conservatorship or receivership.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION *(Continued)*

Final Order and Written Agreement

The Final Order and the Agreement contain substantially similar provisions. The Final Order and the Agreement require the Board of Directors of the Bank to prepare and submit written plans to the DFI and the FRB that address 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, with respect to the Agreement, of Hanmi Financial; (vii) improving the Bank s earnings through a strategic plan and a budget for 2010; (viii) improving the Bank s liquidity position and funds management practices; and (ix) contingency funding. In addition, the Final Order and the Agreement place restrictions on the Bank s lending to borrowers who have adversely classified loans with the Bank and requires the Bank to charge off or collect certain problem loans. The Final Order and the Agreement also require the Bank to review and revise its methodology for calculating allowance for loan and lease losses consistent with relevant supervisory guidance. The Bank is also prohibited from paying dividends, incurring, increasing or guaranteeing any debt, or making certain changes to its business without prior approval from the DFI, and Hanmi Financial and the Bank must obtain prior approval from the FRB prior to declaring and paying dividends.

Under the Final Order, the Bank is also required to increase its capital and maintain certain regulatory capital ratios prior to certain dates specified in the Final Order. By July 31, 2010, the Bank was required to increase its contributed equity capital by not less than an additional $100 million. The Bank will be required to maintain a ratio of tangible stockholders equity to total tangible assets as follows:

Date	Ratio of Tangible Stockholders Equity to Total Tangible Assets
By July 31, 2010	Not Less Than 9.0 Percent
From December 31, 2010 and Until the Final Order is Terminated	Not Less Than 9.5 Percent

If the Bank is not able to maintain the capital ratios identified in the Final Order, it must notify the DFI, and 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 to be approved by the FRB. As of June 30, 2010, the Bank had tangible stockholders equity to total tangible assets ratio of 5.20 percent.

To comply with the provisions of the Order and the Agreement, we entered into a definitive securities purchase agreement with Woori Finance Holdings Co. Ltd. (Woori) on May 25, 2010 which provides that upon satisfactions of all conditions to closing , we will issue 175 million shares of common stock to Woori at a purchase price per share of $1.20, for aggregate gross consideration of $210 million. In addition, pursuant to the terms of the securities purchase agreement, Woori has the option to purchase an additional 25 million shares of common stock at a purchase price of $1.20 for additional aggregate gross consideration of $30 million. See *Note 12-Subsequent Events.*

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION *(Continued)*

Furthermore, on June 27, 2010, we completed a $120 million registered rights and best efforts offering and satisfied the capital contribution requirement set forth in the Final Order. See *Note 12-Subsequent Events.* The following additional actions which have been taken to comply with the provisions of the Final Order and the Agreement include the following:

The Board Committees have been reorganized after a Board assessment was conducted to leverage the experience and skill base of our directors and to improve Board oversight of the Bank s operations.

Tools such as a master calendar of scheduled events and policy exception trigger tables have been created to assist the Board in its ability to monitor the Bank s operations more effectively.

Jung Hak Son, a 24 year employee of the Bank, was appointed to the Chief Credit Officer position on December 23, 2009 and the Bank received notice that the regulatory agency interposed no objection to his appointment on March 18, 2010.

Loan policies and procedures continue to be adjusted and enhanced to keep current with the rapidly changing credit and economic environment.

Quantitative and qualitative factors in our allowance for loan losses have been updated to reflect the higher risk in the loan portfolio due to the recessionary economy.

Allowance methodology has been enhanced to better allocate reserves according to more specified loss and concentration risks.

The credit department has also been reorganized and reinforced with additional personnel to increase the level of management loan review and loan monitoring.

Third party loan reviews have been conducted quarterly to validate the loan grading.

Written plans have been developed for each problem loan greater than $3 million and the plans have been implemented and are being monitored to improve loan work out and loan collection.

The Bank s strategic plan has been reviewed and revised, and the revised plan has been approved by the Board of Directors.

The Bank s liquidity management plan and contingency funding plan have been significantly revised to reflect the additional restrictions and challenges of the market.

The capital plan has been revised and we believe significant progress has been made as set forth above.

A Board Compliance Committee has been organized to monitor the progress toward full compliance with all the provisions of the Agreement and the Final Order and approves the related progress reports at least on a monthly basis prior to submission to the DFI and FRB according to the schedule established.

Policies and procedures have been developed, plans have been formulated, documented, approved and submitted and administrative requirements such as submission of quarterly progress reports are also being met. The results of these actions, however, are still subject to review by our regulators.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION *(Continued)*

Risk-Based Capital

The regulatory agencies require 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, regulators require banking organizations to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent. For a bank rated in the highest of the five categories used by regulators to rate banks, the minimum leverage ratio is 3.0 percent. In addition to these uniform risk-based capital guidelines that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

As of June 30, 2010, Hanmi Financial s Tier 1 capital (stockholders equity plus qualified junior subordinated debentures less intangible assets) was $91.1 million. This represented a decrease of $103.6 million, or 53.2 percent, over Tier 1 capital of $194.7 million as of December 31, 2009. The capital ratios of Hanmi Financial and the Bank were as follows as of June 30, 2010:

	Actual		Minimum Regulatory Requirement		To be Categorized as Well Capitalized under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
June 30, 2010						
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 180,545	7.31%	$ 197,634	8.00%	N/A	N/A
Hanmi Bank	$ 181,093	7.35%	$ 197,189	8.00%	$ 246,486	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	$ 91,111	3.69%	$ 98,817	4.00%	N/A	N/A
Hanmi Bank	$ 148,300	6.02%	$ 98,594	4.00%	$ 147,891	6.00%
Tier 1 Capital (to Average Assets):						
Hanmi Financial	$ 91,111	3.06%	$ 118,922	4.00%	N/A	N/A
Hanmi Bank	$ 148,300	4.99%	$ 118,763	4.00%	$ 148,454	5.00%

Going Concern

As previously mentioned, we are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. As part of the DFI Final Order issued on November 2, 2009, the Bank is also required to increase its capital and maintain certain regulatory capital ratios prior to certain dates specified in the Final Order. By July 31, 2010, the Bank will be required to increase its contributed equity capital by not less than an additional $100 million and maintain a ratio of tangible stockholders equity to total tangible assets of at least 9.0 percent. As a result of the successful completion of the registered rights and best efforts offering in July 2010, the capital contribution requirement set forth in the Final Order has been satisfied. See *Note 12 Subsequent Event.*

We have also committed to the FRB to adopt a consolidated capital plan to augment and maintain a sufficient capital position. Our capital resources at June 30, 2010 do not currently satisfy our capital requirements for the foreseeable future and are not sufficient to offset additional problem assets. Further, should our asset quality continue to erode and require significant additional provision for credit losses, resulting in added future net operating losses at the Bank, our capital levels will additionally decline requiring the raising of more capital than the amount currently required to satisfy our agreements with our regulators. An inability to raise additional Capital when needed or comply with the terms of the Final Order or Agreement, raises substantial doubt about our ability to continue as a going concern.

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NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION *(Continued)*

The accompanying interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets, and the amounts or classification of liabilities that may result from the outcome of any regulatory action including being placed into receivership or conservatorship.

As set forth above, on May 25, 2010, we entered into a definitive securities purchase agreement with Woori and are currently awaiting for approval from the regulatory agencies on the application filed on June 22, 2010. On July 27, 2010, we completed the registered rights and best efforts offering. We intend to contribute a substantial portion of the net proceeds from the Woori transaction as new capital into Hanmi Bank. However, we cannot provide assurance that we will be successful in consummating the transaction with Woori.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value Option and Fair Value Measurements

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 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 providing disclosures for 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 security during both interim and annual periods. FASB ASC 825 is effective for interim and annual reporting periods ending after June 15, 2009 and does 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. The adoption of FASB ASC 825 resulted in additional disclosures that are presented in *Note 3 Fair Value Measurements.*

FASB ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820)* ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation, entities will be required to provide fair value measurement disclosures for each class of assets and liabilities, and about inputs and valuation techniques used to measure fair value. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The adoption of FASB ASU 2010-06 resulted in additional disclosures that are presented in *Note 3 Fair Value Measurements.*

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NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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-dealer. We review the market prices provided by the broker-dealer for our securities for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

Securities classified as Level 3 investment securities are preferred stocks 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 into the Company s proprietary valuation model. The fair value of the securities is determined by discounting contractual cash flows at a discount rate derived from a synthetic bond-rating method. This method relies on significant unobservable assumptions such as default spread and expected cash flows, and therefore, the Company has determined that classification of the instrument as Level 3 is appropriate.

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 these loans as Level 2 and subject to non-recurring fair value adjustments.

Impaired Loans FASB ASC 820 applies to loans measured for impairment using the practical expedients permitted by FASB ASC 310, *Receivables,* 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 loans are classified as Level 2 and subject to non-recurring fair value adjustments.

Other Real Estate Owned Other real estate owned is measured at fair value less selling costs. Fair value was determined based on third-party appraisals of fair value in an orderly sale. Selling costs were based on standard market factors. We classify other real estate owned as Level 2 and subject to non-recurring fair value adjustments.

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NOTE 3 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 using discount rates and a constant prepayment rate. The discount rate is based on the interest rate charged to a borrower plus a risk adjustment factor of one percent. We utilize the industrial constant prepayment rate provided by Bloomberg. The valuation model incorporates assumptions that market participants would use in estimating future cash flows. Fair value measurements of servicing assets and servicing liabilities use significant unobservable inputs. As such, we classify them as Level 3.

Other Intangible Assets Other intangible assets consists of a core deposit intangible and acquired intangible assets arising from acquisitions, including non-compete agreements, trade names, carrier relationships and client/insured relationships. The valuation of other intangible assets is based on information and assumptions available to us at the time of acquisition, using income and market approaches to determine fair value. We test our other intangible assets annually for impairment, or when indications of potential impairment exist. Fair value measurements of other intangible assets use significant unobservable inputs. As such, we classify them as Level 3 and subject to non-recurring fair value adjustments.

FASB ASC 320, *Investments Debt and Equity Securities,* amended current other-than-temporary impairment (OTTI) guidance in GAAP for debt securities by requiring a write-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. FASB ASC 320 did not amend existing recognition and measurement guidance related to OTTI write-downs of equity securities. FASB ASC 320 also extended disclosure requirements about debt and equity securities to interim reporting periods. FASB ASC 320 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FASB ASC 320 requires comparative disclosures only for periods ending after initial adoption. We adopted FASB ASC 320 in the second quarter of 2009 and it had no impact on our financial condition or results of operations.

Fair Value Measurement

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.

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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 three and six months periods ended June 30, 2010.

As of June 30, 2010, 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 as of June 30, 2010
	(In Thousands)			
ASSETS:				
Debt Securities Available for Sale:				
Residential Mortgage-Backed Securities	$	$ 57,195	$	$ 57,195
U.S. Government Agency Securities	95,172			95,172
Collateralized Mortgage Obligations		19,291		19,291
Asset-Backed Securities		7,911		7,911
Municipal Bonds		5,318		5,318
Other Securities		3,309	1,258	4,567
Total Debt Securities Available for Sale	$ 95,172	$ 93,024	$ 1,258	$ 189,454
Equity Securities Available for Sale:				
Financial Service Industry	$ 784			$ 784
Total Equity Securities Available for Sale	$ 784	$	$	$ 784
Total Securities Available for Sale	$ 95,956	$ 93,024	$ 1,258	$ 190,238
Servicing Assets	$	$	$ 3,356	$ 3,356
LIABILITIES:				
Servicing Liabilities	$	$	$ 193	$ 193

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, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance as of April 1, 2010	**Purchases, Issuances and Settlements**	**Realized and Unrealized Gains or Losses in Earnings**	**Realized and Unrealized Gains or Losses in Other Comprehensive Income**	**Transfers In and/or Out of Level 3**	**Ending Balance as of June 30, 2010**
	(In Thousands)					
ASSETS:						
Securities Available for Sale:						
Other Securities	$ 1,258	$	$	$	$	$ 1,258
Servicing Assets	$ 3,590	$	$ (234)	$	$	$ 3,356
LIABILITIES:						
Servicing Liabilities	$ (200)	$	$ 7	$	$	$ (193)

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NOTE 3 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, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance as of January 1, 2010	**Purchases, Issuances and Settlements**	**Realized and Unrealized Gains or Losses in Earnings**	**Realized and Unrealized Gains or Losses in Other Comprehensive Income**	**Transfers In and/or Out of Level 3**	**Ending Balance as of June 30, 2010**
			(In Thousands)			
ASSETS:						
Securities Available for Sale:						
Other Securities	$ 1,258	$	$	$	$	$ 1,258
Servicing Assets	$ 3,842	$	$ (486)	$	$	$ 3,356
LIABILITIES:						
Servicing Liabilities	$ (216)	$	$ 23	$	$	$ (193)

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

As of June 30, 2010, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1	*Level 2*	*Level 3*	
	Quoted Prices in Active Markets for Identical Assets	**Significant Observable Inputs With No Active Market With Identical Characteristics**	**Significant Unobservable Inputs**	**Balance as of June 30, 2010**
		(In Thousands)		
ASSETS:				
Loans Held for Sale	$	$ 30,544(1)	$	$ 30,544

Impaired Loans	$	$ 235,899(2)	$	$ 235,899
Other Real Estate Owned	$	$ 24,064(3)	$	$ 24,064
Other Intangible Assets	$	$	$ 2,754	$ 2,754

(1) *Includes commercial property loans of $14.8 million, commercial term loan of $8.8 millions, and SBA loans of $6.9 million.*

(2) *Includes real estate loans of $100.9 million and commercial and industrial loans of $134.9 million.*

(3) *Includes real estate loans of $20.3 million and commercial and industrial loans of $3.7 million.*

Assets and Liabilities Not Measured at Fair Value on a Recurring or Non-Recurring Basis

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
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NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

The estimated fair values of financial instruments were as follows:

	June 30, 2010		December 31, 2009	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In Thousands)			
Financial Assets:				
Cash and Cash Equivalents	$ 250,745	$ 250,745	$ 154,110	$ 154,110
Investment Securities Held to Maturity	856	859	869	871
Investment Securities Available for Sale	190,238	190,238	132,420	132,420
Loans Receivable, Net of Allowance for Loan Losses	2,326,759	2,297,093	2,674,064	2,573,080
Accrued Interest Receivable	7,802	7,802	9,492	9,492
Investment in Federal Home Loan Bank Stock	29,556	29,556	30,697	30,697
Investment in Federal Reserve Bank Stock	6,783	6,783	7,878	7,878
Financial Liabilities:				
Noninterest-Bearing Deposits	574,843	574,843	556,306	556,306
Interest-Bearing Deposits	2,000,271	2,003,379	2,193,021	2,197,866
Borrowings	239,284	239,947	236,453	237,354
Accrued Interest Payable	14,024	14,024	12,606	12,606
Off-Balance Sheet Items:				
Commitments to Extend Credit	150,661	182	262,821	177
Standby Letters of Credit	17,665	56	17,225	37

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 approximate fair value due to the short-term nature of these instruments.

Investment Securities The fair value of securities was generally obtained from market bids for similar or identical securities or obtained from independent securities brokers or dealers.

Loans Receivable, Net of Allowance for Loan Losses Fair values were estimated for loans 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.

Accrued Interest Receivable The carrying amount of accrued interest receivable approximates its fair value.

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

Interest-Bearing Deposits The fair value of interest-bearing deposits, such as certificates of deposit, was estimated based on discounted cash flows. The discount rate used was based on interest rates currently being offered by the Bank on comparable deposits as to amount and term.

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NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

Borrowings Borrowings consist of FHLB advances, junior subordinated debentures and other borrowings. The fair values disclosed for FHLB advances and junior subordinated debentures are determined by discounting contractual cash flows at current market interest rates for similar instruments. The fair values of overnight FHLB advances and other borrowings are considered to be equivalent to the carrying amount due to the short-term maturity.

Accrued Interest Payable The carrying amount of accrued interest payable approximates its fair value.

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.

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)		
June 30, 2010:				
Municipal Bonds	$ 696	$	$	$ 696
Mortgage-Backed Securities [(1)]	160	3		163
	$ 856	**$ 3**	**$**	**$ 859**
December 31, 2009:				
Municipal Bonds	$ 696	$	$	$ 696
Mortgage-Backed Securities [(1)]	173	2		175
	$ 869	**$ 2**	**$**	**$ 871**

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

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NOTE 4 INVESTMENT SECURITIES *(Continued)*

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In Thousands)		
June 30, 2010:				
Mortgage-Backed Securities [(1)]	$ 54,788	$ 2,407	$	$ 57,195
U.S. Government Agency Securities	94,660	512		95,172
Collateralized Mortgage Obligations [(1)]	18,912	379		19,291
Asset-Backed Securities	7,587	324		7,911
Municipal Bonds	5,265	88	(35)	5,318
Other Securities	4,230	361	(24)	4,567
Equity Securities	511	273		784
	$ 185,953	**$ 4,344**	**$ (59)**	**$ 190,238**
December 31, 2009:				
Mortgage-Backed Securities [(1)]	$ 65,218	$ 1,258	$ 144	$ 66,332
U.S. Government Agency Securities	33,325		562	32,763
Collateralized Mortgage Obligations [(1)]	12,520	269		12,789
Asset-Backed Securities	8,127	61		8,188
Municipal Bonds	7,369	82	92	7,359
Other Securities	3,925	332	62	4,195
Equity Securities	511	283		794
	$ 130,995	**$ 2,285**	**$ 860**	**$ 132,420**

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

The amortized cost and estimated fair value of investment securities at June 30, 2010, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2039, 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	Estimated Fair	Amortized	Estimated Fair

	Cost	Value	Cost	Value
		(In Thousands)		
Within One Year	$	$	$	$
Over One Year Through Five Years	42,574	42,698	696	696
Over Five Years Through Ten Years	48,708	49,229		
Over Ten Years	20,460	21,041		
Mortgage-Backed Securities	54,788	57,195	160	163
Collateralized Mortgage Obligations	18,912	19,291		
Equity Securities	511	784		
	$ 185,953	**$ 190,238**	**$ 856**	**$ 859**

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NOTE 4 INVESTMENT SECURITIES *(Continued)*

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 June 30, 2010 and December 31, 2009:

	Holding Period								
	Less than 12 Months			12 Months or More			Total		
Investment Securities Available for Sale	Gross Unrealized Losses	Estimated Fair Value	*Number of Securities*	Gross Unrealized Losses	Estimated Fair Value	*Number of Securities*	Gross Unrealized Losses	Estimated Fair Value	*Number of Securities*
	(In Thousands)								
June 30, 2010:									
Mortgage-Backed Securities	$	$		$	$		$	$	
Municipal Bonds	8	307	*1*	27	846	*1*	35	1,153	*2*
U.S. Government Agency Securities									
Other Securities				24	976	*1*	24	976	*1*
	$ 8	**$ 307**	*1*	**$ 51**	**$ 1,822**	*2*	**$ 59**	**$ 2,129**	*3*
December 31, 2009:									
Mortgage-Backed Securities	$ 144	$ 14,584	*3*	$	$		$ 144	$ 14,584	*3*
Municipal Bonds	12	303	*1*	80	793	*1*	92	1,096	*2*
U.S. Government Agency Securities	562	32,764	*6*				562	32,764	*6*
Other Securities	24	1,976	*2*	38	961	*1*	62	2,937	*3*
	$ 742	**$ 49,627**	*12*	**$ 118**	**$ 1,754**	*2*	**$ 860**	**$ 51,381**	*14*

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2010 and December 31, 2009 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 June 30, 2010. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires an entity to assess whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. We do 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. 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, 2010 and December 31, 2009 are not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2010 and December 31, 2009 are warranted.

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NOTE 4 INVESTMENT SECURITIES *(Continued)*

Investment securities available for sale with carrying values of $70.3 million and $91.6 million as of June 30, 2010 and December 31, 2009, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(In Thousands)			
Gross Realized Gains on Sales of Investment Securities	$	$ 1	$ 210	$ 1,277
Gross Realized Losses on Sales of Investment Securities			(105)	(109)
Net Realized Gains on Sales of Investment Securities	**$**	**$ 1**	**$ 105**	**$ 1,168**
Proceeds from Sales of Investment Securities	$	$	$ 3,252	$ 38,448
Tax Expense on Sales of Investment Securities	$	$	$ 45	$ 491

For the three months ended June 30, 2010, $1.9 million ($1.1 million, net of income taxes) of net unrealized gains arose during the period and was included in comprehensive income. For the three months ended June 30, 2009, $226,000 ($131,000, net of income taxes) of net unrealized losses arose during the period and was included in comprehensive income. For the six months ended June 30, 2010, $2.9 million ($1.7 million, net of income taxes) of net unrealized gains arose during the period and was included in comprehensive income and $99,000 ($57,000, net of income taxes) of previously net unrealized gains were realized in earnings. For the six months ended June 30, 2009, $3.2 million ($1.9 million, net of income taxes) of net unrealized gains arose during the period and was included in comprehensive income and $975,000 ($565,000, net of income taxes) of previously net unrealized gains were realized in earnings.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 5 LOANS

Loans Receivable

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

	June 30, 2010	December 31, 2009
	(In Thousands)	
Real Estate Loans:		
Commercial Property	$ 772,231	$ 839,598
Construction	72,361	126,350
Residential Property	69,374	77,149
Total Real Estate Loans	913,966	1,043,097
Commercial and Industrial Loans: [(1)]		
Commercial Term Loans	1,255,256	1,420,034
SBA Loans	115,667	134,521
Commercial Lines of Credit	85,758	101,159
International Loans	47,267	53,488
Total Commercial and Industrial Loans	1,503,948	1,709,202
Consumer Loans	55,790	63,303
Total Gross Loans	**2,473,704**	**2,815,602**
Deferred Loan Fees	(822)	(1,552)
Allowance for Loan Losses	(176,667)	(144,996)
Loans Receivable, Net	**$ 2,296,215**	**$ 2,669,054**

(1) Commercial and industrial loans include owner-occupied property loans of $995.1 million and

$1.15 billion as of June 30, 2010 and December 31, 2009, respectively.

Accrued interest on loans receivable amounted to $7.0 million and $8.8 million at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, loans receivable totaling $1.22 billion and $1.38 billion, respectively, was pledged to secure FHLB advances and the Fed Discount Window.

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 Six Months Ended	
	June 30, 2010	**March 31, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
			(In Thousands)		
Allowance for Loan Losses:					
Balance at Beginning of Period	$ 177,820	$ 144,996	$ 104,943	$ 144,996	$ 70,986
Actual Charge-Offs	(40,718)	(30,114)	(24,332)	(70,832)	(36,848)
Recoveries on Loans Previously Charged Off	1,772	3,721	735	5,493	1,438
Net Loan Charge-Offs	(38,946)	(26,393)	(23,597)	(65,339)	(35,410)
Provision Charged to Operating Expenses	37,793	59,217	23,922	97,010	69,692
Balance at End of Period	**$ 176,667**	**$ 177,820**	**$ 105,268**	**$ 176,667**	**$ 105,268**
Allowance for Off-Balance Sheet Items:					
Balance at Beginning of Period	$ 2,655	$ 3,876	$ 4,279	$ 3,876	$ 4,096
Provision Charged to Operating Expenses	(293)	(1,221)	12	(1,514)	195
Balance at End of Period	**$ 2,362**	**$ 2,655**	**$ 4,291**	**$ 2,362**	**$ 4,291**

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 5 LOANS *(Continued)*

Impaired Loans

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

	Amount	Allowance
	(In Thousands)	
June 30, 2010:		
With No Allocated Allowance:		
Without Charge-Offs	$ 86,336	$
With Charge-Offs	83,208	
	$ 169,544	**$**
With Allocated Allowance:		
Without Charge-Offs	$ 42,271	$ 24,279
With Charge-Offs	50,565	4,202
	$ 92,836	**$ 28,481**
December 31, 2009:		
With No Allocated Allowance:		
Without Charge-Offs	$ 44,055	$
With Charge-Offs	84,674	
	$ 128,729	**$**
With Allocated Allowance:		
Without Charge-Offs	$ 41,476	$ 20,413
With Charge-Offs	30,529	2,735
	$ 72,005	**$ 23,148**

The average recorded investment in impaired loans was $350.0 million and $209.0 million for the six months ended June 30, 2010 and 2009, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(In Thousands)			
Interest Income That Would Have Been Recognized Had Impaired Loans Performed in Accordance With Their Original Terms	$ 5,795	$ 6,653	$ 11,364	$ 11,830

Less: Interest Income Recognized on Impaired Loans	(2,277)	(3,604)	(5,048)	(5,259)
Interest Foregone on Impaired Loans	**$ 3,518**	**$ 3,049**	**$ 6,316**	**$ 6,571**

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 5 LOANS *(Continued)*

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

Non-Performing Assets

The following table details non-performing assets as of the dates indicated:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Non-Performing Loans:		
Non-Accrual Loans:		
Real Estate Loans:		
Commercial Property	$ 77,867	$ 58,927
Construction	9,823	15,185
Residential Property	2,612	3,335
Commercial and Industrial Loans:		
Commercial Term Loans	116,108	102,677
Commercial Lines of Credit	4,038	1,906
SBA Loans	30,601	35,609
International Loans	566	739
Consumer Loans	518	622
Total Non-Accrual Loans	242,133	219,000
Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest):		
Consumer Loans		67
Total Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest)		67
Total Non-Performing Loans	242,133	219,067
Other Real Estate Owned	24,064	26,306
Total Non-Performing Assets	**$ 266,197**	**$ 245,373**
Non-Performing Loans as a Percentage of Total Gross Loans	9.67%	7.77%
Non-Performing Assets as a Percentage of Total Assets	9.13%	7.76%
Troubled Debt Restructurings on Accrual Status	$ 21,831	$

Non-performing loans increased by $23.1 million, or 10.5 percent, to $242.1 million as of June 30, 2010, compared to $219.1 million as of December 31, 2009. Loans on non-accrual status totaled $242.1 million and $219.0 million as of June 30, 2010 and December 31, 2009, respectively. Delinquent loans on accrual status (defined as performing loans with 30 to 89 days past due) were $21.7 million as of June 30, 2010, compared to $41.2 million as of December 31, 2009, representing a 47.3 percent decrease.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 6 INCOME TAXES

Under GAAP, a valuation allowance must be recorded if it is more likely than not that such deferred tax assets will not be realized. Appropriate consideration is given to all available evidence (both positive and negative) related to the realization of the deferred tax assets on a quarterly basis.

In conducting our regular quarterly evaluation, we decided to keep establishing a deferred tax asset valuation allowance as of June 30, 2010 based primarily upon the existence of a three-year cumulative loss including management s current projected results for the year ending December 31, 2010. Although our current financial forecasts indicate that sufficient taxable income will be generated in the future to ultimately realize the existing deferred tax benefits, those forecasts were not considered to constitute sufficient positive evidence to overcome the observable negative evidence associated with the three-year cumulative loss position determined as of June 30, 2010.

During the second quarter of 2010, we recorded a valuation allowance of $14.2 million against our deferred tax assets, totaling $83.0 million of valuation allowance as of June 30, 2010. We have $1.2 million of net deferred tax liabilities as of June 30, 2010.

NOTE 7 SHARE-BASED COMPENSATION

Share-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Share-Based Compensation Expense	$ 280	$ 247	$ 486	$ 489
Related Tax Benefits	$ 118	$ 104	$ 205	$ 206

Unrecognized Share-Based Compensation Expense

As of June 30, 2010, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	(Dollars in Thousands)	
Stock Option Awards	$ 923	1.3 years
Restricted Stock Awards	261	3.6 years
Total Unrecognized Share-Based Compensation Expense	**$ 1,184**	**1.8 years**

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 7 SHARE-BASED COMPENSATION *(Continued)*

Share-Based Payment Award Activity

The table below provides stock option information for the three months ended June 30, 2010:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options
	(Dollars in Thousands, Except Per Share Data)			
Options Outstanding at Beginning of Period	1,137,515	$ 11.55	6.0 years	$
Options Exercised	(16,000)	$ 1.35	8.8 years	
Options Expired	(3,200)	$ 15.20	4.5 years	
Options Forfeited	(600)	$ 18.00	5.8 years	
Options Outstanding at End of Period	**1,117,715**	**$ 11.68**	**5.7 years**	**$**
Options Exercisable at End of Period	832,315	$ 13.47	4.9 years	$

The table below provides stock option information for the six months ended June 30, 2010:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options
	(Dollars in Thousands, Except Per Share Data)			
Options Outstanding at Beginning of Period	1,180,358	$ 11.78	6.2 years	$
Options Exercised	(16,000)	$ 1.35	8.8 years	
Options Expired	(40,443)	$ 18.07	5.0 years	
Options Forfeited	(6,200)	$ 16.81	6.7 years	
Options Outstanding at End of Period	**1,117,715**	**$ 11.68**	**5.7 years**	**$**
Options Exercisable at End of Period	832,315	$ 13.47	4.9 years	$

Total intrinsic value of options exercised during the three and six months ended June 30, 2010 was $14,000 and there was no option exercised during the same period of 2009.

Restricted Stock Awards

The table below provides restricted stock award information for the periods indicated:

	Three Months Ended	Six Months Ended

	June 30, 2010		June 30, 2010	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted Stock at Beginning of Period	183,400	$ 1.87	183,400	$ 1.87
Restricted Stock Vested	(35,000)	$ 1.40	(35,000)	$ 1.40
Restricted Stock at End of Period	148,400	$ 1.99	148,400	$ 1.99

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 8 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.

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

	2010			2009		
	(Numerator) Net Loss	*(Denominator)* Weighted-Average Shares	Per Share Amount	*(Numerator)* Net Loss	*(Denominator)* Weighted-Average Shares	Per Share Amount
	(Dollars in Thousands, Except Per Share Data)					
Three Months Ended June 30:						
Basic EPS	$ (29,257)	51,036,573	$ (0.57)	$ (9,535)	45,924,767	$ (0.21)
Effect of Dilutive Securities Options, Warrants and Unvested Restricted Stock						
Diluted EPS	$ (29,257)	51,036,573	$ (0.57)	$ (9,535)	45,924,767	$ (0.21)
Six Months Ended June 30:						
Basic EPS	$ (78,743)	51,017,885	$ (1.54)	$ (26,731)	45,907,998	$ (0.58)
Effect of Dilutive Securities Options, Warrants and Unvested Restricted Stock						
Diluted EPS	$ (78,743)	51,017,885	$ (1.54)	$ (26,731)	45,907,998	$ (0.58)

For the three and six months ended June 30, 2010 and 2009, there were 1,266,115 and 1,562,117 options, warrants and unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

NOTE 9 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.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 9 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:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Commitments to Extend Credit	$ 150,661	$ 262,821
Standby Letters of Credit	17,665	17,225
Commercial Letters of Credit	13,695	13,544
Unused Credit Card Lines	24,191	23,408
Total Undisbursed Loan Commitments	**$ 206,212**	**$ 316,998**

NOTE 10 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 11 LIQUIDITY

FASB ASC 275, *Risks and Uncertainties,* requires reporting entities to disclose information about the nature of their operations and vulnerabilities due to certain concentrations. Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally affect our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 11 LIQUIDITY *(Continued)*

Hanmi Financial

Currently, management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through December 31, 2010. On August 29, 2008, we elected to suspend payment of quarterly dividends on our common stock in order to preserve our capital position. In addition, Hanmi Financial has elected to defer quarterly interest payments on its outstanding junior subordinated debentures until further notice, beginning with the interest payment that was due on January 15, 2009. As of June 30, 2010, Hanmi Financial s liquid assets, including amounts deposited with the Bank, totaled $2.6 million, down from $3.5 million as of December 31, 2009.

Hanmi Bank

Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank s primary funding source will continue to be deposits originated through its branch platform. As of June 30, 2010, the Bank was considered to be undercapitalized under the regulatory framework for prompt corrective action, as the Bank s total risk-based capital ratio fell below 8%. Section 29 of the Federal Deposit Insurance Act (FDIA) limits the use of brokered deposits by institutions that are less than well-capitalized and allows the FDIC to place restrictions on interest rates that institutions may pay. On May 29, 2009, the FDIC approved a final rule to implement new interest rate restrictions on institutions that are not well capitalized. The rule, which became effective on January 1, 2010, limits the interest rate paid by such institutions to 75 basis points above a national rate, as derived from the interest rate average of all institutions. According to the FDIC s Financial Institution Letter, FIL-69-2009, requires institutions that are not well capitalized must use national rate caps to determine conformance for non-local depositors beginning January 1, 2010 and for local depositors beginning March 1, 2010. Due to the FDIC s rules, the Bank is currently restricted from accepting brokered deposits and offering deposit rates above the national rate caps.

In an effort to preserve liquidity under the restrictions, the Bank deployed innovative products, such as Advantage and Diamond Freedom CDs, and utilized Internet rate service providers in the month of March 2010. Through this campaign and the use of Internet rate service providers, the Bank achieved the objectives of maintaining adequate liquidity and reducing its reliance on brokered deposits. Total deposits decreased by $174.2 million, or 6.3 percent, from $2.75 billion as of December 31, 2009 to $2.58 billion as of June 30, 2010, primarily due to a $203.5 million decrease in brokered deposits. The Bank s wholesale funds historically consisted of FHLB advances and brokered deposits. As of June 30, 2010, the Bank had no brokered deposits, and had only FHLB advances of $153.8 million that slightly decreased $162,000 during the first half of 2010.

The Bank s primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 15 percent of its total assets. As of June 30, 2010, our total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $451.7 million and $297.9 million, respectively**.** The Bank s FHLB borrowings as of June 30, 2010 totaled $153.8 million, representing 5.3 percent of total assets. As of August 9, 2010, the Bank s FHLB borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $451.7 million and $297.7 million, respectively. The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 *(Continued)*

NOTE 11 LIQUIDITY *(Continued)*

As a means of augmenting its liquidity, the Bank had an available borrowing source of $187.9 million from the Federal Reserve Discount Window (the Fed Discount Window), to which the Bank pledged loans with a carrying value of $445.0 million, and had no borrowings as of June 30, 2010. The Bank is currently in the secondary program of the Borrower in Custody Program of the Fed Discount Window, which allows the Bank to request very short-term credit (typically overnight) at a rate that is above the primary credit rate within a specified period. In August 2009, South Street Securities LLC extended a line of credit to the Bank for reverse repurchase agreements up to a maximum of $100.0 million. This line of credit will continue for a term of one year, and, unless amended or terminated, will automatically renew for successive one-year terms.

Current market conditions have limited the Bank s liquidity sources principally to secured funding outlets such as the FHLB and Fed Discount Window. There can be no assurance that actions by the FHLB or FRB would not reduce the Bank s borrowing capacity or that the Bank would be able to continue to replace deposits at competitive rates. The Bank is currently restricted from accepting brokered deposits as a funding source. As of June 30, 2010, there were no brokered deposits. The Bank believes that it nonetheless has adequate liquidity resources to fund its obligations through an additional stock issuance in addition to its secured credit lines with the FHLB and Fed Discount Window.

NOTE 12 SUBSEQUENT EVENTS

Rights and Best Efforts Public Offering

In connection with the transactions contemplated by the securities purchase agreement with Woori discussed above, Hanmi Financial commenced a $120 million registered rights and best efforts offering on June 11, 2010. The price per share for our common stock issued in the registered rights and best efforts offering was $1.20. We conducted the registered rights and best efforts offering to raise equity capital and to provide our existing shareholders with the opportunity to purchase our common stock at the same price per share being offered to Woori pursuant to the terms of its securities purchase agreement. On July 27, 2010, we successfully completed the registered rights and best efforts offering of $120 million.

Securities Purchase Agreement with Woori

On July 28, 2010, our stockholders approved the increase in our authorized shares of common stock from 200 million to 500 million and the issuance of up to 200 million shares of our common stock to Woori to the securities purchase agreement. Woori and Hanmi Financial are currently awaiting approval from the regulatory agencies and satisfaction of other closing conditions to consummate the transactions contemplated by the securities purchase agreement. We cannot provide any assurance that the transactions contemplated by the securities purchase agreement with Woori will be consummated.

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

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, 2010. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 and with the unaudited consolidated financial statements and notes thereto set forth in this Report.

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 (the Exchange Act). In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, po negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following:

- our ability to continue as going concern;
- closure of Hanmi Bank and appointment of the Federal Deposit Insurance Corporation as receiver;
- failure to complete the transaction contemplated by the securities purchase agreement with Woori;
- failure to raise enough capital to support our operations or meet our regulatory requirements;
- failure to maintain adequate levels of capital to support our operations;
- a significant number of customers failing to perform under their loans and other terms of credit agreements;
- the effect of regulatory orders we have entered into and potential future supervisory actions against us or Hanmi Bank;
- fluctuations in interest rates and a decline in the level of our interest rate spread;
- failure to attract or retain deposits;
- sources of liquidity available to us and to Hanmi Bank becoming limited or our potential inability to access sufficient sources of liquidity when needed or the requirement that we obtain government waivers to do so;
- adverse changes in domestic or global financial markets, economic conditions or business conditions;
- regulatory restrictions on Hanmi Bank s ability to pay dividends to us and on our ability to make payments on our obligations;
- significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;
- failure to attract or retain our key employees;

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;

volatility and disruption in financial, credit and securities markets, and the price of our common stock;

deterioration in financial markets that may result in impairment charges relating to our securities portfolio;

competition in our primary market areas;

demographic changes in our primary market areas;

global hostilities, acts of war or terrorism, including but not limited to, conflict between North and South Korea;

significant government regulations, legislation and potential changes thereto; and

other risks described herein and in the other reports and statements we file with the SEC.

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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.* Also, see *Item 1A. Risk Factors* and *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, 2009 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.

CRITICAL ACCOUNTING POLICIES

We have established various accounting policies that govern the application of GAAP 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, 2009. 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, 2009. 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.

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SELECTED FINANCIAL DATA

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

	As of and for the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands, Except Per Share Data)			
AVERAGE BALANCES:				
Average Gross Loans, Net [1]	$ 2,611,178	$ 3,282,152	$ 2,688,012	$ 3,315,434
Average Investment Securities	$ 158,543	$ 179,129	$ 142,034	$ 180,698
Average Interest-Earning Assets	$ 2,965,975	$ 3,786,788	$ 2,988,332	$ 3,796,434
Average Total Assets	$ 2,978,245	$ 3,897,158	$ 3,031,917	$ 3,922,648
Average Deposits	$ 2,617,738	$ 3,223,309	$ 2,640,224	$ 3,212,728
Average Borrowings	$ 240,189	$ 386,477	$ 248,614	$ 413,117
Average Interest-Bearing Liabilities	$ 2,292,121	$ 3,083,774	$ 2,326,367	$ 3,099,465
Average Stockholders Equity	$ 91,628	$ 240,207	$ 114,651	$ 252,658
PER SHARE DATA:				
Earnings (Loss) Per Share Basic	$ (0.57)	$ (0.21)	$ (1.54)	$ (0.58)
Earnings (Loss) Per Share Diluted	$ (0.57)	$ (0.21)	$ (1.54)	$ (0.58)
Common Shares Outstanding	51,198,390	46,130,967	51,198,390	46,130,967
Book Value Per Share [2]	$ 1.43	$ 5.18	$ 1.43	$ 5.18
SELECTED PERFORMANCE RATIOS:				
Return on Average Assets [3] [4]	(3.94%)	(0.98%)	(5.24%)	(1.37%)
Return on Average Stockholders Equity [3] [5]	(128.07%)	(15.92%)	(138.50%)	(21.34%)
Efficiency Ratio [6]	75.11%	83.36%	75.75%	70.53%
Net Interest Spread [7]	3.17%	1.90%	3.22%	1.90%
Net Interest Margin [8]	3.56%	2.49%	3.62%	2.49%
Average Stockholders Equity to Average Total Assets	3.08%	6.16%	3.78%	6.44%
SELECTED CAPITAL RATIOS: [9]				
Total Risk-Based Capital Ratio:				
Hanmi Financial	7.31%	10.72%		
Hanmi Bank	7.35%	10.70%		
Tier 1 Risk-Based Capital Ratio:				
Hanmi Financial	3.69%	9.43%		
Hanmi Bank	6.02%	9.42%		
Tier 1 Leverage Ratio:				
Hanmi Financial	3.06%	8.02%		
Hanmi Bank	4.99%	8.01%		
SELECTED ASSET QUALITY RATIOS:				
	9.67%	5.30%	9.67%	5.30%

Non-Performing Loans to Total Gross Loans (10)				
Non-Performing Assets to Total Assets (11)	9.13%	5.20%	9.13%	5.20%
Net Loan Charge-Offs to Average Total Gross Loans (12)	5.98%	2.88%	4.90%	2.15%
Allowance for Loan Losses to Total Gross Loans	7.05%	3.33%	7.05%	3.33%
Allowance for Loan Losses to Non-Performing Loans	72.96%	62.92%	72.96%	62.92%

(1) *Loans are net of deferred fees and related direct costs.*

(2) *Total stockholders equity divided by common shares outstanding.*

(3) *Calculation based upon annualized net loss.*

(4) *Net loss divided by average total assets.*

(5) *Net loss divided by average stockholders equity.*

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

(7) *Average yield earned on interest-earning*

assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.

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

(9) *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 the Total Risk-Based Capital Ratio (total capital divided by total risk-weighted assets); 6 percent for the Tier 1 Risk-Based Capital Ratio (Tier 1 capital divided by total*

risk-weighted assets); and 5 percent for the Tier 1 Leverage Ratio (Tier 1 capital divided by average total assets).

(10) *Non-performing loans consist of non-accrual loans and loans past due 90 days or more and still accruing interest.*

(11) *Non-performing assets consist of non-performing loans (see footnote (10) above) and other real estate owned.*

(12) *Calculation based upon annualized net loan charge-offs.*

EXECUTIVE OVERVIEW

Our operating results improved in the second quarter of 2010 as compared to the first quarter of 2010. During the second quarter of 2010, we incurred net loss of $29.3 million, or $(0.57) per share compared to the prior quarter s net loss of $49.5 million, or $(0.97) per share. The loss for the three months ended June 30, 2010 was primarily driven by provisions for credit losses of $37.5 million. Although this second quarter provision represents a substantial reduction from $58.0 million in the prior quarter and $77.0 million in the fourth quarter of 2009, we believe that our credit costs will continue to be at elevated levels for the next few quarters as a result of among other things, challenges facing our borrowers, difficult economic conditions in our regional market and the sustained weakness in the national economy.

For the first half of 2010, our total assets decreased by $247.8 million or 7.8 percent to $2.91 billion with $2.50 billion in total gross loans and $2.58 billion in total deposits as of June 30, 2010. We continued to undertake aggressive actions to proactively manage our credit risk exposure through accelerated problem loan resolutions, prudent charge-offs of loans lacking cash flow and collateral equity, sales of problem and non-performing loans, and enhanced methodology for allowance for loan losses to better allocate reserves according to more specified portfolio risks. As a result of aforementioned strategic actions, we were able to improve our credit risk profile by reducing our non-performing loans to $242.1 million as of June 30, 2010, representing a decrease of 7.7 percent from the prior quarter s $262.2 million. Our allowance for loan losses were $176.7 million as of June 30, 2010 and allowance coverage ratios were improved to 7.05 percent of gross loans and 72.96 percent of total non-performing loans as compared with 6.63 percent and 67.81 percent, respectively, as of March 31, 2010.

Despite challenging economic conditions, we successfully maintained a strong liquidity position with $440.1 million in cash and marketable securities as of June 30, 2010. We believe our marketing efforts enhanced core deposits while reducing wholesale funds and rate sensitive deposits. Non-time deposits increased to $1.14 billion dollars, representing 44% of total deposits at the end of the second quarter as compared to $1.06 billion and 32% at June 30, 2009. Between June 30, 2009 and June 30, 2010, we reduced our brokered deposits to zero and our borrowings from the FHLB to $154 million as compared with $432 million and $211 million, respectively a year ago. As a result of these changes in our funding mix, our average funding cost decreased 11 bps to 1.73% in the second quarter of 2010 as compared to 1.84% in the first quarter of 2010, and by 146 bps from 3.19% for the second quarter of 2009.

Recent Developments

We entered into a definitive securities purchase agreement with Woori Finance Holdings Co. Ltd. (Woori) on May 25, 2010, which provides that upon consummation, we will issue 175 million shares of common stock to Woori at a purchase price per share of $1.20, for aggregate gross consideration of $210 million. In addition, pursuant to the terms of the securities purchase agreement, Woori has the option to purchase an additional 25 million shares of our common stock at a purchase price per share of $1.20. On July 28, 2010, our stockholders approved an amendment to our certificate of incorporation to increase our authorized shares of common stock from 200 million to 500 million and approved the issuance of up to 200 million shares of our common stock to Woori. The closing of the transactions with Woori is subject to various closing conditions, including, among others, the receipt of certain required governmental and regulatory approvals, including the approval of the Federal Reserve Board, the California Department of Financial Institutions and the Korean Financial Services Commission. If the transaction with Woori is completed, Woori will own a majority of our outstanding shares of common stock. We cannot provide any assurance that the transactions with Woori will be consummated on the terms set forth in the securities purchase agreement or at all.

Furthermore, on June 11, 2010 we commenced a $120 million registered rights and best efforts offering. The price per share for our common stock issued in the registered rights and best efforts offering was $1.20. We conducted the registered rights and best efforts offering to raise equity capital and to provide our existing shareholders with the opportunity to purchase our common stock at the same price per share being offered to Woori pursuant to the terms of its securities purchase agreement. On July 27, 2010, we successfully completed the registered rights and best efforts offering of $120 million. Hanmi Financial received net proceeds of approximately $116.7 million, in conjunction with this registered rights and best efforts offering. As a result, we have been able to satisfy the requirement in the Final Order that we increase the Bank s contributed equity capital by not less than an additional $100 million by July 31, 2010.

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Outlook for the Remainder of 2010

Our priorities for the remainder of 2010 are to improve credit quality and consummate the transaction contemplated by the securities purchase agreement with Woori.

Under the Final Order, Hanmi Bank is required to increase its capital and maintain certain capital ratios prior to certain dates specified in the Final Order. Further, under the Written Agreement and based on the most recent capital ratios of Hanmi Bank, we and Hanmi Bank are required to submit a capital plan and maintain sufficient capital that is satisfactory to the Federal Reserve Bank. We believe that we need the additional capital from the transaction with Woori to provide us with adequate capital resources to support our business, our levels of problem assets and our operations. If we consummate the transactions with Woori, we anticipate that we will be positioned to strengthen and grow our operations and activities. However, there can be no assurance that the transaction with Woori will be consummated.

We expect our credit quality to remain a challenge for 2010 and anticipate elevated levels of problem assets, reserves and charge-offs. A number of initiatives have been implemented in an effort to minimize our continuously deteriorating credit quality. We will continue to refine our credit risk management system to meet the changing external and internal environments.

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 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 FRB.

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Three Months Ended June 30, 2010 vs. Three Months Ended June 30, 2009

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.

	Three Months Ended					
	June 30, 2010			June 30, 2009		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in Thousands)					
ASSETS						
Interest-Earning Assets:						
Gross Loans, Net (1)	$ 2,611,178	$ 34,486	5.30%	$ 3,282,152	$ 44,718	5.46%
Municipal Securities (2)	7,484	119	6.36%	59,222	956	6.46%
Obligations of Other U.S. Government Agencies	65,894	560	3.40%	13,177	144	4.37%
Other Debt Securities	85,165	800	3.76%	106,730	1,226	4.59%
Equity Securities (5)	37,979	123	1.30%	41,532	153	1.47%
Federal Funds Sold	12,198	16	0.52%	135,362	112	0.33%
Term Federal Funds Sold	7,253	11	0.61%	147,692	695	1.88%
Interest-Earning Deposits	138,824	99	0.29%	921	11	4.78%
Total Interest-Earning Assets (2)	2,965,975	36,214	4.90%	3,786,788	48,015	5.09%
Noninterest-Earning Assets:						
Cash and Cash Equivalents	68,536			78,781		
Allowance for Loan Losses	(182,103)			(115,116)		
Other Assets	125,837			146,705		
Total Noninterest-Earning Assets	12,270			110,370		
TOTAL ASSETS	**$ 2,978,245**			**$ 3,897,158**		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-Bearing Liabilities:						
Deposits:						
Savings	$ 125,016	922	2.96%	$ 84,588	527	2.50%
Money Market Checking and NOW Accounts	458,137	1,217	1.07%	319,319	1,426	1.79%
Time Deposits of $100,000 or More	1,090,412	5,057	1.86%	1,313,683	12,108	3.70%
Other Time Deposits	378,367	1,617	1.71%	979,707	8,625	3.53%
Federal Home Loan Bank Advances	153,859	339	0.88%	302,220	1,010	1.34%
Other Borrowings	3,924	31	3.17%	1,851	2	0.43%
Junior Subordinated Debentures	82,406	692	3.37%	82,406	846	4.12%
Total Interest-Bearing Liabilities	2,292,121	9,875	1.73%	3,083,774	24,544	3.19%
Noninterest-Bearing Liabilities:						

Demand Deposits	565,806		526,012	
Other Liabilities	28,690		47,165	
Total Noninterest-Bearing Liabilities	594,496		573,177	
Total Liabilities	2,886,617		3,656,951	
Stockholders Equity	91,628		240,207	
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,978,245**		**$ 3,897,158**	
NET INTEREST INCOME		**$ 26,339**		**$ 23,471**
NET INTEREST SPREAD *(2) (3)*		**3.17%**		**1.90%**
NET INTEREST MARGIN *(2) (4)*		**3.56%**		**2.49%**

(1) *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 $477,000 and $504,000 for the three months ended June 30, 2010 and 2009, respectively.*

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

(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.*

(5) *Includes investment in Federal Home Loan Bank stock and investment in Federal Reserve Bank stock.*

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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 were 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.

	Three Months Ended June 30, 2010 vs. Three Months Ended June 30, 2009 Increases (Decreases) Due to Change in		
	Volume	**Rate**	**Total**
		(In Thousands)	
Interest and Dividend Income:			
Gross Loans, Net	$ (8,898)	$ (1,334)	$ (10,232)
Municipal Securities	(823)	(14)	(837)
Obligations of Other U.S. Government Agencies	455	(39)	416
Other Debt Securities	(224)	(202)	(426)
Equity Securities	(13)	(17)	(30)
Federal Funds Sold	(138)	42	(96)
Term Federal Funds Sold	(399)	(285)	(684)
Interest-Earning Deposits	107	(19)	88
Total Interest and Dividend Income	(9,933)	(1,868)	(11,801)
Interest Expense:			
Savings	286	109	395
Money Market Checking and NOW Accounts	490	(699)	(209)
Time Deposits of $100,000 or More	(1,797)	(5,254)	(7,051)
Other Time Deposits	(3,812)	(3,196)	(7,008)
Federal Home Loan Bank Advances	(396)	(275)	(671)
Other Borrowings	4	25	29
Junior Subordinated Debentures		(154)	(154)
Total Interest Expense	(5,225)	(9,444)	(14,669)
Change in Net Interest Income	**$ (4,708)**	**$ 7,576**	**$ 2,868**

For the three months ended June 30, 2010 and 2009, net interest income before provision for credit losses on a tax equivalent basis was $26.3 million and $23.1 million, respectively. Interest income decreased 24.6 percent to $36.2 million for the three months ended June 30, 2010 from $48.0 million for the same period in 2009 and interest expense decreased 59.8 percent to $9.9 million for the three months ended June 30, 2010 from $24.5 million for the same period in 2009. The net interest spread and net interest margin for the three months ended June 30, 2010 were 3.17 percent and 3.56 percent, respectively, compared to 1.90 percent and 2.49 percent, respectively, for the same period in 2009. The increase in net interest income was primarily due to lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposit products through a series of core deposit campaigns. This increase is partially offset by the impact of a higher level of nonaccrual loans.

Average gross loans decreased by $671.0 million, or 20.4 percent, to $2.61 billion for the three months ended June 30, 2010 from $3.28 billion for the same period in 2009. Average interest-earning assets decreased by $820.8 million, or 21.7 percent, to $2.97 billion for the three months ended June 30, 2010 from $3.79 billion for the same period in 2009. The $820.8 million decrease in average interest earning assets for the three months ended

June 30, 2010 was attributable primarily to our preplanned deleveraging strategy implemented since early 2009. Consistent with this strategy, the average interest-bearing liabilities decreased by $791.7 million, or 25.7 percent to $2.29 billion for the three months ended June 30, 2010 from $3.08 billion for the same period in 2009. Average FHLB advances decreased by $148.4 million, or 49.1 percent, to $153.9 million for the three months ended June 30, 2010 from $302.2 million for the same period in 2009.

The yield on average interest-earning assets decreased by 19 basis points from 5.09 percent for the three months ended June 30, 2009 to 4.90 percent for the same period in 2010, primarily reflecting a decrease in the average yield on loans. Total loan interest and fee income decreased by $10.2 million, or 22.9 percent to $34.5 million for the three months ended June 30, 2010 from $44.7 million for the same period in 2009 due primarily to a 20.4 percent decrease in the average gross loans. The average yield on loans decreased from 5.46 percent for the three months ended June 30, 2009 to 5.30 percent for the same period in 2010. This decrease resulted from an increase in our overall level of nonaccrual loans. Our interest income reversal on nonaccrual loans increased by $180,000, or 20.2 percent from $885,000 for the three months ended June 30, 2009 to $1.1 million for the same period in 2010. The average cost on interest-bearing liabilities significantly decreased by 146 basis points from 3.19 percent for the three months ended June 30, 2009 to 1.73 percent for the same period in 2010. This decrease was primarily due to a continued shift in funding sources toward lower-cost funds through successful core deposits campaigns in the second half of 2009. Total average non-time deposits, a low-cost funding source, increased by $219.0 million, or 23.6 percent, to $1.15 billion for the three months ended June 30, 2010 from $929.9 million for the same period in 2009.

Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009

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.

	Six Months Ended					
	June 30, 2010			June 30, 2009		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
			(Dollars in Thousands)			
ASSETS						
Interest-Earning Assets:						
Gross Loans, Net (1)	$ 2,688,012	$ 71,181	5.34%	$ 3,315,434	$ 89,803	5.46%
Municipal Securities (2)	7,517	237	6.31%	59,055	1,945	6.59%
Obligations of Other U.S. Government Agencies	49,100	943	3.84%	11,387	240	4.22%
Other Debt Securities	85,417	1,500	3.51%	110,256	2,480	4.50%
Equity Securities (5)	38,671	248	1.28%	41,629	306	1.47%
Federal Funds Sold	13,152	33	0.50%	115,086	194	0.34%
Term Federal Funds Sold	3,646	11	0.60%	143,044	1,395	1.95%
Interest-Earning Deposits	102,817	154	0.30%	543	13	4.79%
Total Interest-Earning Assets (2)	2,988,332	74,307	5.01%	3,796,434	96,376	5.12%
Noninterest-Earning Assets:						
Cash and Cash Equivalents	67,850			81,402		
Allowance for Loan Losses	(169,768)			(93,851)		
Other Assets	145,503			138,663		
Total Noninterest-Earning Assets	43,585			126,214		
TOTAL ASSETS	**$ 3,031,917**			**$ 3,922,648**		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-Bearing Liabilities:						
Deposits:						
Savings	$ 120,347	1,745	2.92%	$ 83,315	1,032	2.50%
Money Market Checking and NOW Accounts	508,248	2,839	1.13%	331,270	3,280	2.00%
Time Deposits of $100,000 or More	1,007,693	9,734	1.95%	1,196,816	22,430	3.78%
Other Time Deposits	441,465	4,198	1.92%	1,074,947	18,729	3.51%
Federal Home Loan Bank Advances	163,407	685	0.85%	329,056	2,122	1.30%
Other Borrowings	2,801	31	2.23%	1,655	2	0.24%
Junior Subordinated Debentures	82,406	1,361	3.33%	82,406	1,834	4.49%

Total Interest-Bearing Liabilities	2,326,367	20,593	1.79%	3,099,465	49,429	3.22%
Noninterest-Bearing Liabilities:						
Demand Deposits	562,471			526,380		
Other Liabilities	28,428			44,145		
Total Noninterest-Bearing Liabilities	590,899			570,525		
Total Liabilities	2,917,266			3,669,990		
Stockholders Equity	114,651			252,658		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,031,917**			**$ 3,922,648**		
NET INTEREST INCOME		**$ 53,714**			**$ 46,947**	
NET INTEREST SPREAD (3)			**3.22%**			**1.90%**
NET INTEREST MARGIN (4)			**3.62%**			**2.49%**

(1) *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 $927,000 and $895,000 for the six months ended June 30, 2010 and 2009, respectively.*

(2) *Computed on a tax-equivalent*

basis using an effective marginal rate of 35 percent.

(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.*

(5) *Includes investment in Federal Home Loan Bank stock and investment in Federal Reserve Bank stock.*

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.

	Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009 Increases (Decreases) Due to Change in		
	Volume	**Rate**	**Total**
		(In Thousands)	
Interest and Dividend Income:			
Gross Loans, Net	$ (16,655)	$ (1,967)	$ (18,622)
Municipal Securities	(1,628)	(80)	(1,708)
Obligations of Other U.S. Government Agencies	768	(65)	703
Other Debt Securities	(496)	(484)	(980)
Equity Securities	(21)	(37)	(58)
Federal Funds Sold	(349)	188	(161)
Term Federal Funds Sold	(810)	(574)	(1,384)
Interest-Earning Deposits	188	(47)	141
Total Interest and Dividend Income	(19,003)	(3,066)	(22,069)
Interest Expense:			
Savings	515	198	713
Money Market Checking and NOW Accounts	1,332	(1,773)	(441)
Time Deposits of $100,000 or More	(3,122)	(9,574)	(12,696)
Other Time Deposits	(8,206)	(6,325)	(14,531)
Federal Home Loan Bank Advances	(847)	(590)	(1,437)
Other Borrowings	2	27	29
Junior Subordinated Debentures		(473)	(473)
Total Interest Expense	(10,326)	(18,510)	(28,836)
Change in Net Interest Income	**$ (8,677)**	**$ 15,444**	**$ 6,767**

For the six months ended June 30, 2010 and 2009, net interest income before provision for credit losses on a tax equivalent basis was $53.7 million and $46.9 million, respectively. Interest income decreased 22.9 percent to $74.3 million for the six months ended June 30, 2010 from $96.4 million for the same period in 2009 and interest expense decreased 58.3 percent to $20.6 million for the three months ended June 30, 2010 from $49.4 million for the same period in 2009. The net interest spread and net interest margin for the six months ended June 30, 2010 were 3.22 percent and 3.62 percent, respectively, compared to 1.90 percent and 2.49 percent, respectively, for the same period in 2009. The increase in net interest income was primarily due to lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposit products through a series of core deposit campaigns. This increase is partially offset by the impact of a higher level of nonaccrual loans.

Average gross loans decreased by $627.4 million, or 18.9 percent, to $2.69 billion for the six months ended June 30, 2010 from $3.32 billion for the same period in 2009. Average interest-earning assets decreased by

$808.1 million, or 21.3 percent, to $2.99 billion for the six months ended June 30, 2010 from $3.80 billion for the same period in 2009. The $808.1 million decrease in average interest earning assets for the six months ended June 30, 2010 was attributable primarily to our preplanned deleveraging strategy implemented since early 2009. Consistent with this strategy, the average interest-bearing liabilities decreased by $773.1 million, or 24.9 percent to $2.33 billion for the six months ended June 30, 2010 from $3.10 billion for the same period in 2009. Average FHLB advances decreased by $165.6 million, or 50.3 percent, to $163.4 million for the six months ended June 30, 2010 from $329.1 million for the same period in 2009.

The yield on average interest-earning assets decreased by 11 basis points from 5.12 percent for the six months ended June 30, 2009 to 5.01 percent for the same period in 2010, primarily reflecting a decrease in the average yield on loans. Total loan interest and fee income decreased by $18.6 million, or 20.7 percent to $71.2 million for the six months ended June 30, 2010 from $89.8 million for the same period in 2009 due primarily to an 18.9 percent decrease in the average gross loans. The average yield on loans decreased from 5.46 percent for the six months ended June 30, 2009 to 5.34 percent for the same period in 2010. This decrease resulted from an increase in our overall level of nonaccrual loans. Our interest income reversal on nonaccrual loans increased by $562,000, or 34.9 percent from $1.6 million for the six months ended June 30, 2009 to $2.2 million for the same period in 2010. The average cost on interest-bearing liabilities significantly decreased by 143 basis points from 3.22 percent for the six months ended June

30, 2009 to 1.79 percent for the same period in 2010. This decrease was primarily due to a continued shift in funding sources toward lower-cost funds through successful core deposits campaigns in the second half of 2009. Total average non-time deposits, a low-cost funding source, increased by $250.1 million, or 26.6%, to $1.19 billion for the six months ended June 30, 2010 from $941.0 million for the same period in 2009.

Provision for Credit Losses

For the three months ended June 30, 2010 and 2009, the provision for credit losses was $37.5 million and $23.9 million, respectively. For the six months ended June 30, 2010 and 2009, the provision for credit losses was $95.5 million and $69.9 million, respectively. The increases in the provision for credit losses for both periods are attributable to increases in net charge-offs, non-performing loans and criticized and classified loans, reflecting a continued severe economic downturn and weakness in the loan portfolio. Net charge-offs increased $15.3 million, or 65.0 percent, from $23.6 million for the three months ended June 30, 2009 to $38.9 million for the same period in 2010. Non-performing loans increased from $219.1 million, or 7.77 percent of total gross loans, as of December 31, 2009 to $242.1 million, or 9.67 percent of total gross loans, as of June 30, 2010. See *Non-Performing Assets* and *Allowance for Loan Losses and Allowance for Off-Balance Sheet Items* for further details. We continually assess the quality of our loan portfolio to determine whether additional provision for credit losses is necessary. We anticipate future provisions will be required to account for probable credit losses.

Non-Interest Income

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

Three Months Ended June 30, 2010 vs. Three Months Ended June 30, 2009

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

	Three Months Ended June 30,		**Increase (Decrease)**	
	2010	**2009**	**Amount**	**Percentage**
		(Dollars in Thousands)		
Service Charges on Deposit Accounts	$ 3,602	$ 4,442	$ (840)	(18.9%)
Insurance Commissions	1,206	1,185	21	1.8%
Remittance Fees	523	545	(22)	(4.0%)
Trade Finance Fees	412	499	(87)	(17.4%)
Other Service Charges and Fees	372	467	(95)	(20.3%)
Bank-Owned Life Insurance Income	235	227	8	3.5%
Net Gain on Sales of Investment Securities		1	(1)	%
Net Gain on Sales of Loans	220		220	%
Other Operating Income	106	214	(108)	(50.5%)
Total Non-Interest Income	**$ 6,676**	**$ 7,580**	**$ (904)**	**(11.9%)**

For the three months ended June 30, 2010, non-interest income was $6.7 million, a decrease of $904,000, or 11.9 percent, from $7.6 million for the same period in 2009. The decrease in non-interest income is primarily attributable to decreases in service charges on deposit accounts, partially offset by an increase in net gain on sales of loans.

Service charges on deposit accounts decreased by $840,000, or 18.9 percent, from $4.4 million for the three months ended June 30, 2009 to $3.6 million for the same period in 2010. The decrease was primarily due to a decrease of $703,000 in NSF charges and a decrease in account analysis fees, reflecting the slowed business activities of our customer in the worsening economy.

Fees generated from international trade finance decreased by $87,000, or 17.4 percent, from $499,000 for the three months ended June 30, 2009 to $412,000 for the same period in 2010. Trade finance fees relate primarily to import and export letters of credit. The decrease was primarily attributable to a decline in the volume of export letter of credit due to the continuation of stressed conditions in the international trade market.

Other service charges and fees decreased by $95,000, or 20.3 percent, from $467,000 for the three months ended

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June 30, 2009 to $372,000 for the same period in 2010. The decrease was primarily attributable to decreases in late charges on loans and loan application fees related to loan origination.

Net gain on sale of loans increased by $220,000 for the three months ended June 30, 2010, compared to the same period in 2009. The increase resulted from increased sales activity in SBA loans, reflecting a recovery in the SBA secondary market. There were no sales activities for the three months ended June 30, 2009.

Other operating income decreased by $108,000, or 50.5 percent, from $214,000 for the three months ended June 30, 2009 to $106,000 for the same period in 2010. The decrease was attributable primarily to an $89,000 decrease in foreign exchange gain driven by changes in exchange rates.

Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009

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

	Six Months Ended June 30,		Increase (Decrease)	
	2010	**2009**	**Amount**	**Percentage**
	(Dollars in Thousands)			
Service Charges on Deposit Accounts	$ 7,328	$ 8,757	$ (1,429)	(16.3%)
Insurance Commissions	2,484	2,367	117	4.9%
Remittance Fees	985	1,068	(83)	(7.8%)
Other Service Charges and Fees	784	950	(166)	(17.5%)
Trade Finance Fees	763	1,005	(242)	(24.1%)
Bank-Owned Life Insurance Income	466	461	5	1.1%
Net Gain on Sales of Loans	214	2	212	%
Net Gain on Sales of Investment Securities	105	1,168	(1,063)	(91.0%)
Other Operating Income	552	280	272	97.1%
Total Non-Interest Income	**$ 13,681**	**$ 16,058**	**$ (2,377)**	**(14.8%)**

For the six months ended June 30, 2010, non-interest income was $13.7 million, a decrease of $2.4 million, or 14.8 percent, from $16.1 million for the same period in 2009. The decrease in non-interest income is primarily attributable to decreases in service charges on deposit accounts and a decrease in net gain on sales of investment securities.

Service charges on deposit accounts decreased by $1.4 million, or 16.3 percent, from $8.8 million for the six months ended June 30, 2009 to $7.3 million for the same period in 2010. The decrease was primarily due to a decrease of $1.1 million in NSF charges and a decrease of $234,000 in account analysis fees, reflecting the slowed business activities of our customer in the worsening economy.

Fees generated from international trade finance decreased by $242,000, or 24.1 percent, from $1.0 million for the six months ended June 30, 2009 to $763,000 for the same period in 2010. Trade finance fees relate primarily to import and export letters of credit. The decrease was primarily attributable to a decline in the volume of export letter of credit due to the continuation of stressed conditions in the international trade market.

Other service charges and fees decreased by $166,000, or 17.5 percent, from $950,000 for the six months ended June 30, 2009 to $784,000 for the same period in 2010. The decrease was primarily attributable to decreases in late charges on loans and loan application fees related to loan origination.

Net gain on sales of investment securities decreased by $1.1 million, or 91.0 percent, from $1.2 million for the six months ended June 30, 2009 to $105,000 for the same period in 2010. The decrease was due to a decline in sale transactions of investment securities as the Bank had no liquidity need requiring a liquidation of investment securities.

Other operating income increased by $272,000, or 97.1 percent, from $280,000 for the six months ended June 30, 2009 to $552,000 for the same period in 2010. The increase was attributable primarily to a $274,000 recovery on a previously recorded loss on sale of OREO during the three months ended March 31, 2010. There was no such recovery for the same period in 2009.

Non-Interest Expense

Three Months Ended June 30, 2010 vs. Three Months Ended June 30, 2009

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
		(Dollars in Thousands)		
Salaries and Employee Benefits	$ 9,011	$ 8,508	$ 503	5.9%
Deposit Insurance Premiums and Regulatory Assessments	4,075	3,929	146	3.7%
Occupancy and Equipment	2,674	2,788	(114)	(4.1%)
Other Real Estate Owned Expense	1,718	1,502	216	14.4%
Data Processing	1,487	1,547	(60)	(3.9%)
Professional Fees	1,022	890	132	14.8%
Supplies and Communications	574	599	(25)	(4.2%)
Advertising and Promotion	503	624	(121)	(19.4%)
Loan-Related Expense	310	1,217	(907)	(74.5%)
Amortization of Other Intangible Assets	301	406	(105)	(25.9%)
Other Operating Expenses	3,090	3,595	(505)	(14.0%)
Total Non-Interest Expense	**$ 24,765**	**$ 25,605**	**$ (840)**	**(3.3%)**

For the three months ended June 30, 2010 and 2009, non-interest expense was $24.8 million and $25.6 million, respectively. The efficiency ratio for the three months ended June 30, 2010 was 75.11 percent, compared to 83.36 percent for the same period in 2009. The overall decrease in non-interest expense was primarily due to a $907,000 decrease in loan-related expenses and a $505,000 decrease in other operating expenses, partially offset by increases in salaries and employee benefits.

Salaries and employee benefits increased $503,000, or 5.9 percent, from $8.5 million for the three months ended June 30, 2009 to $9.0 million for the same period in 2010. The increase was primarily due to an overall compensation increase of 2.9 percent and an increase in compensation expense due to higher overtime costs associated with responding to issues raised in regulatory examinations.

Deposit insurance premiums and regulatory assessments increased $146,000, or 3.7 percent, from $3.9 million for the three months ended June 30, 2009 to $4.1 million for the same period in 2010. The increase was due to higher assessment rates for FDIC insurance on deposits, and was partially offset by the decrease in average total deposits and the absence of a special assessment imposed on each FDIC insured institution during the second quarter of 2009. The assessment rates increased by 23 basis points from 22 basis points for the three months ended June 30, 2009 to 45 basis points for the same period in 2010 resulting from the change in risk categories of the Bank. The average total deposits decreased $605.6 million, or 18.8 percent, from $3.22 billion for the three months ended June 30, 2009 to $2.62 billion for the same period in 2010.

Other real estate owned expense increased $216,000, or 14.4 percent, from $1.5 million for the three months ended June 30, 2009 to $1.7 million for the same period in 2010. The increase was due primarily to a $960,000 property tax payment on OREO properties, partially offset by a $266,000 gain on the sale of OREO during the second quarter of 2010 and the absence of $324,000 loss on the sale of OREO that was recognized during the second quarter of 2009.

Loan-related expense decreased $907,000, or 74.5 percent, from $1.2 million for the three months ended June 30, 2009 to $310,000 for the same period in 2010, primarily due to the absence of an $850,000 expense related to a legal settlement that was recognized during the second quarter of 2009.

Other operating expenses decreased by $505,000 from $3.6 million for the three months ended June 30, 2009 to $3.1 million for the same period in 2010. The decrease was attributable primarily to a $724,000 decrease in impairment charges on an investment in a Community Reinvestment Act equity fund that was included in other assets, partially offset by a $423,000 increase in directors and officers liability insurance premium driven by the change in risk categories of the Bank.

Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
	(Dollars in Thousands)			
Salaries and Employee Benefits	$ 17,797	$ 16,011	$ 1,786	11.2%
Other Real Estate Owned Expense	7,418	1,645	5,773	350.9%
Deposit Insurance Premiums and Regulatory Assessments	6,299	5,419	880	16.2%
Occupancy and Equipment	5,399	5,672	(273)	(4.8%)
Data Processing	2,986	3,083	(97)	(3.1%)
Professional Fees	2,088	1,506	582	38.6%
Supplies and Communications	1,091	1,169	(78)	(6.7%)
Advertising and Promotion	1,038	1,193	(155)	(13.0%)
Loan-Related Expense	617	1,398	(781)	(55.9%)
Amortization of Other Intangible Assets	629	835	(206)	(24.7%)
Other Operating Expenses	5,627	6,024	(397)	(6.6%)
Total Non-Interest Expense	**$ 50,989**	**$ 43,955**	**$ 7,034**	**16.0%**

For the six months ended June 30, 2010 and 2009, non-interest expense was $51.0 million and $44.0 million, respectively. The efficiency ratio for the six months ended June 30, 2010 was 75.75 percent, compared to 70.53 percent for the same period in 2009. The overall increase in non-interest expense was primarily due to a $5.8 million increase in OREO expense and an $880,000 increase in FDIC insurance premiums, partially offset by a $781,000 decrease in loan-related expense.

Salaries and employee benefits increased $1.8 million, or 11.2 percent, from $16.0 million for the six months ended June 30, 2009 to $17.8 million for the same period in 2010. The increase was primarily due to the absence of reversal of a $2.5 million previously accrued liability on a post-retirement death benefit through an amendment to our bank-owned life insurance policy that was recognized during the first quarter of 2009.

Other real estate owned expense increased $5.8 million from $1.6 million for the six months ended June 30, 2009 to $7.4 million for the same period in 2010. The increase was due primarily to a $5.5 million increase in our valuation allowance for six OREO properties resulting from the further declines in property values.

Deposit insurance premiums and regulatory assessments increased $880,000, or 16.2 percent, from $5.4 million for the six months ended June 30, 2009 to $6.3 million for the same period in 2010. The increase was due to higher assessment rates for FDIC insurance on deposits, and was partially offset by the decrease in average total deposits and the absence of a special assessment imposed on each FDIC insured institution during the second quarter of 2009. The assessment rates increased by 23 basis points from 22 basis points for the six months ended June 30, 2009 to 45 basis points for the same period in 2010 resulting from the change in risk categories of the Bank. The average total deposits decreased $572.5 million, or 17.8 percent, from $3.21 billion for the six months ended June 30, 2009 to $2.64 billion for the same period in 2010.

Loan-related expense decreased $781,000, or 55.9 percent, from $1.4 million for the six months ended June 30, 2009 to $617,000 for the same period in 2010, primarily due to the absence of an $850,000 expense related to a legal settlement that was recognized during the second quarter of 2009.

Other operating expenses decreased by $397,000 from $6.0 million for the six months ended June 30, 2009 to $5.6 million for the same period in 2010. The decrease was attributable primarily to an $822,000 decrease in impairment charges on an investment in a Community Reinvestment Act equity fund that was included in other assets and a $288,000 decrease in director related fees, partially offset by an $844,000 increase in directors and officers liability insurance premium driven by the change in risk categories of the Bank.

Provision for Income Taxes

For the three months ended June 30, 2010, income tax benefits of $36,000 were recognized on pre-tax losses of $29.3 million, representing an effective tax rate of 0.1 percent, compared to income tax benefits of $9.3 million recognized on pre-tax losses of $18.8 million, representing an effective tax rate of 49.3 percent, for the same period in 2009. For the six months ended June 30, 2010, income tax benefits of $431,000 were recognized on pre-tax losses of $79.2 million, representing an effective tax rate of 0.5 percent, compared to income tax benefits of $24.8 million recognized on pre-tax losses of $51.5 million, representing an effective tax rate of 48.1 percent, for the same period in 2009. The tax benefit recognized during the first half of 2010 was mostly due to the reversal of FIN 48 reserves related to lower assessment from the result of the State of California Franchise Tax Board audit for the tax year 2005 through 2007.

FINANCIAL CONDITION

Investment Portfolio

Investment securities are classified as held to maturity or available for sale in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading securities as of June 30, 2010 or December 31, 2009. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. The investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of June 30, 2010, the investment portfolio was composed primarily of U.S. Government agency securities, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities and municipal bonds. Investment securities available for sale were 99.6 percent and 99.4 percent of the total investment portfolio as of June 30, 2010 and December 31, 2009, respectively. Most of the securities held carried fixed interest rates. Other than holdings of U.S. Government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders equity as of June 30, 2010 and December 31, 2009.

As of June 30, 2010, securities available for sale were $190.2 million, or 6.6 percent of total assets, compared to $132.4 million, or 4.2 percent of total assets, as of December 31, 2009. Securities available for sale, at fair value, increased $57.8 million, or 43.7 percent, from December 31, 2009 to June 30, 2010. The increase was due primarily to $95.1 million of purchases and a $2.9 million increase in fair market value adjustment, partially offset by $3.1 million of matured and called bonds, $14.0 million in principal repayments, and $3.1 million from the sale of securities.

The following table summarizes the amortized cost, estimated fair value and unrealized gain (loss) on investment securities as of the dates indicated:

	June 30, 2010			December 31, 2009		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
	(In Thousands)					
Investment Securities Held to Maturity:						
Municipal Bonds	$ 696	$ 696	$	$ 696	$ 696	$
Mortgage-Backed Securities [(1)]	160	163	3	173	175	2
Total Investment Securities Held to Maturity	**$ 856**	**$ 859**	**$ 3**	**$ 869**	**$ 871**	**$ 2**

Investment Securities Available for Sale:						
U.S. Government Agency Securities	94,660	95,172	512	33,325	32,763	(562)
Mortgage-Backed Securities [1]	$ 54,788	$ 57,195	$ 2,407	$ 65,218	$ 66,332	$ 1,114
Collateralized Mortgage Obligations [1]	18,912	19,291	379	12,520	12,789	269
Asset-Backed Securities	7,587	7,911	324	8,127	8,188	61
Municipal Bonds	5,265	5,318	53	7,369	7,359	(10)
Other Securities	4,230	4,567	337	3,925	4,195	270
Equity Securities	511	784	273	511	794	283
Total Investment Securities Available for Sale	**$ 185,953**	**$ 190,238**	**$ 4,285**	**$ 130,995**	**$ 132,420**	**$ 1,425**

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

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The amortized cost and estimated fair value of investment securities as of June 30, 2010, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2039, 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
	(In Thousands)			
Within One Year	$	$	$	$
Over One Year Through Five Years	42,574	42,698	696	696
Over Five Years Through Ten Years	48,708	49,229		
Over Ten Years	20,460	21,041		
Mortgage-Backed Securities	54,788	57,195	160	163
Collateralized Mortgage Obligations	18,912	19,291		
Equity Securities	511	784		
	$ 185,953	**$ 190,238**	**$ 856**	**$ 859**

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 June 30, 2010 and December 31, 2009:

	Holding Period								
	Less than 12 Months			12 Months or More			Total		
Investment Securities Available for Sale	**Gross Unrealized Losses**	**Estimated Fair Value**	*Number of Securities*	**Gross Unrealized Losses**	**Estimated Fair Value**	*Number of Securities*	**Gross Unrealized Losses**	**Estimated Fair Value**	*Number of Securities*
	(Dollars in Thousands)								
June 30, 2010:									
Mortgage-Backed Securities	$	$		$	$		$	$	
Municipal Bonds	8	307	*1*	27	846	*1*	35	1,153	*2*
U.S. Government Agency Securities									
Other Securities				24	976	*1*	24	976	*1*

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