HANMI FINANCIAL CORP
Form 10-K
March 16, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
*For the Fiscal Year Ended December 31, 2008*
**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<br>Los Angeles, California | 90010 |
| *(Address of Principal Executive Offices)* | (Zip Code) |

(213) 382-2200
*(Registrant s Telephone Number, Including Area Code)*

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

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

Securities Registered Pursuant to Section 12(g) of the Act:
None

*(Title of Class)*

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes o   No þ

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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 June 30, 2008, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $194,704,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of March 1, 2009 was 45,901,549 shares.

**Documents Incorporated By Reference Herein:** Registrant s Definitive Proxy Statement for its Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2008, is incorporated by reference into Part III of this report.

*HANMI FINANCIAL CORPORATION*

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under *Item 1. Business, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Form 10-K 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 because of:

failure to maintain adequate levels of capital and liquidity to support our operations;

a significant number of our 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 action against us or Hanmi Bank (the 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 the 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 the Bank s ability to pay dividends to us and on our ability to make payments on Hanmi Financial 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;

failure to maintain our status as a financial holding company;

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;

failure to manage our future growth or successfully integrate acquisitions;

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

deterioration in the financial markets that may result in other-than-temporary impairment charges relating to our securities portfolio;

competition in our primary market areas;

demographic changes in our primary market areas; and

significant government regulations, legislation and potential changes thereto.

For additional information concerning risks we face, see *Item 1A. Risk Factors,* *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* *Interest Rate Risk Management* and *Liquidity and Capital Resources.* We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

# PART I

## *Item 1. Business*

### *General*

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. The Bank s full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. At December 31, 2008, the Bank maintained a branch network of 26 full-service branch offices in California and 7 loan production offices ( LPO s ) in California, Colorado, Georgia, Illinois, Texas, Virginia and Washington.

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

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

| | *Year Ended December 31,* | | | | | |
|---|---|---|---|---|---|---|
| ***(Dollars in Thousands)*** | ***2008*** | | ***2007*** | | ***2006*** | |
| Interest and Fees on Loans | $ 223,942 | 82.8% | $ 261,992 | 81.6% | $ 239,075 | 80.5% |
| Interest and Dividends on Investments | 14,032 | 5.2% | 17,867 | 5.6% | 19,710 | 6.6% |
| Other Interest Income | 209 | 0.1% | 1,037 | 0.3% | 1,404 | 0.5% |
| Service Charges on Deposit Accounts | 18,463 | 6.8% | 18,061 | 5.6% | 17,134 | 5.8% |
| Other Non-Interest Income | 13,686 | 5.1% | 21,945 | 6.9% | 19,829 | 6.6% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total Revenues** | **$** | **270,332** | **100.0%** | **$** | **320,902** | **100.0%** | **$** | **297,152** | **100.0%** |

***Market Area***

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

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In 2008, the Bank opened two full-service branch offices in Beverly Hills and Northridge. In 2007, the Bank opened two full-service branch offices in Fullerton and Rancho Cucamonga.

***Lending Activities***

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

Real Estate Loans

Real estate lending involves risks associated with the potential decline in the value of the underlying real estate collateral and the cash flow from income-producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including adversity in general economic conditions, rising interest rates, changes in tax and other laws and regulations affecting the holding of real estate, environmental conditions, governmental and other use restrictions, development of competitive properties and increasing vacancy rates. When real estate values decline, the Bank s real estate dependence increases the risk of loss both in the Bank s loan portfolio and any holdings of other real estate owned because of foreclosures on loans.

*Commercial Property*

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

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

Payments on loans secured by investor-owned and owner-occupied properties are often dependent upon successful operation or management of the properties. Repayment of such loans may be subject to a greater extent to the risk of adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of such loans in relation to the market value of the property and strictly scrutinizing the property securing the loan. The Bank manages these risks in a variety of ways, including vacancy and interest rate hike sensitivity analysis at the time of loan origination and quarterly risk assessment of the total commercial real estate secured loan portfolio that includes most recent industry trends. When possible, the Bank also obtains corporate or individual guarantees from financially capable parties. Representatives of the Bank visit all of the properties securing the Bank s real estate loans before the loans are approved. The Bank requires title insurance insuring the status of its lien on all of the real estate secured loans when a trust deed on the real estate is taken as collateral. The

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

*Construction*

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

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loans. The Bank s construction loans typically have the following characteristics:

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

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

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

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

*Residential Property*

The Bank originates fixed-rate and variable-rate mortgage loans secured by one- to four-family properties with amortization schedules of 15 to 30 years and maturities of up to 30 years. The loan fees charged, interest rates and other provisions of the Bank s residential loans are determined by an analysis of the Bank s cost of funds, cost of origination, cost of servicing, risk factors and portfolio needs. The Bank may sell some of the mortgage loans that it originates to secondary market participants. The typical turn-around time from origination to sale is between 30 and

90 days. The interest rate and the price of the loan are typically agreed to prior to the loan origination.

Commercial and Industrial Loans

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the origination of commercial loans is in Los Angeles County and Orange County, and loan maturities are normally 12 to 60 months. The Bank requires a credit underwriting before considering any extension of credit. The Bank finances primarily small and middle market businesses in a wide spectrum of industries. Commercial and industrial loans consist of credit lines for operating needs, loans for equipment purchases and working capital, and various other business purposes.

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

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

*Commercial Term Loans*

The Bank finances small and middle-market businesses in a wide spectrum of industries throughout California. The Bank offers term loans for a variety of needs, including loans for working capital, purchases of equipment, machinery or inventory, business acquisitions, renovation of facilities, and refinancing of existing business-related debts. These loans have repayment terms of up to seven years.

*Commercial Lines of Credit*

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

*SBA Loans*

The Bank originates loans qualifying for guarantees issued by the U.S. SBA, an independent agency of the Federal Government. The SBA guarantees on such loans currently range from 75 percent to 85 percent of the principal. The Bank typically requires that SBA loans be secured by business assets and by a first or second deed of trust on any available real property. When the loan is secured by a first deed of trust on real property, the Bank generally obtains appraisals in accordance with applicable regulations. SBA loans have terms ranging from 5 to 20 years depending on the use of the proceeds. To qualify for a SBA loan, a borrower must demonstrate the capacity to service and repay the loan, without liquidating the collateral, based on historical earnings or reliable projections.

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. During the fourth quarter of 2007 and 2006, the Bank also sold the unguaranteed portion of some SBA loans. When the Bank sells a SBA loan, it has a right to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. The Bank retains the right to service the SBA loans, for which it receives servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2008, the Bank had $178.4 million of SBA loans in its portfolio, and was servicing $228.6 million of SBA loans sold to investors.

*International Trade Finance*

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

Consumer Loans

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

Any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance, because the collateral is more likely to suffer damage or depreciation. The remaining deficiency often does not warrant further collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, the collection of loans to individuals is dependent on the borrower s continuing financial stability, and thus is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, various federal and state laws, including bankruptcy and insolvency laws, often limit the amount that the lender can recover on loans to individuals. Loans to individuals may also give rise to claims and defenses by a consumer borrower against the lender on these loans, and a borrower may be able to assert against any assignee of the note these claims and defenses that the borrower has against the seller of the underlying collateral.

***Off-Balance Sheet Commitments***

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

***Lending Procedures and Loan Limits***

Loan applications may be approved by the Board of Directors Loan Committee, or by the Bank s management or lending officers to the extent of their lending authority. Individual lending authority is granted to the Chief Credit Officer and certain additional officers, including District Leaders. Loans for which direct and indirect borrower liability exceeds an individual s lending authority are referred to the Bank s Management Credit Committee and, for those in excess of the Management Credit Committee s approval limits, to the Board of Directors Loan Committee.

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of stockholders equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2008, the Bank s authorized legal lending limits for loans to one borrower were $56.9 million for unsecured loans plus an additional $37.9 million for specific secured loans. However, the Bank has established internal loan limits that are lower than the legal lending limits.

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

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

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

The Bank follows the *Interagency Policy Statement on the Allowance for Loan and Lease Losses* and analyzes the allowance for loan losses on a quarterly basis. In addition, as an integral part of the quarterly credit review process of the Bank, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The DFI and/or the Board of Governors of the Federal Reserve System (the FRB ) may require the Bank to recognize additions to the allowance for loan losses through a provision for credit losses based upon their assessment of the information available to them at the time of their examinations.

***Deposits***

The Bank raises funds primarily through its network of branches and broker deposits. The Bank attracts deposits by offering a wide variety of transaction and term accounts and personalized customer service. Accounts offered include business and personal checking accounts, savings accounts, negotiable order of withdrawal ( NOW ) accounts, money market accounts and certificates of deposit.

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### *Website*

We maintain an Internet website at *www.hanmi.com*. We make available free of charge on the website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission ( SEC ). None of the information on or hyperlinked from our website is incorporated into this Annual Report on Form 10-K ( Report ). These reports and other information on file can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is *www.sec.gov*.

### *Employees*

As of December 31, 2008, the Bank had 513 full-time employees and 15 part-time employees and Chun-Ha and All World had 33 full-time employees and 2 part-time employees. Our employees are not represented by a union or covered by a collective bargaining agreement. We believe that our employee relations are satisfactory.

### *Insurance*

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

### *Competition*

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

Among the advantages that the major banks have over the Bank is their ability to finance extensive advertising campaigns and to allocate their investment assets to the regions with the highest yield and demand. Many of the major commercial banks operating in the Bank s service areas offer specific services (for instance, trust services) that are not offered directly by the Bank. By virtue of their greater total capitalization, these banks also have substantially higher lending limits.

The recent trend has been for other institutions, including brokerage firms, credit card companies and retail establishments, to offer banking services to consumers, including money market funds with check access and cash advances on credit card accounts. In addition, other entities (both public and private) seeking to raise capital through the issuance and sale of debt or equity securities compete with banks for the acquisition of deposits.

The Bank s major competitors are relatively smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank s service areas. Amongst these banks, the Bank is the largest, with a loan portfolio that is 59.4 percent larger than its nearest competitor s loan portfolio, and a deposit portfolio that is 58.4 percent larger than its nearest competitor s deposit portfolio. These banks compete for loans primarily through the interest rates and fees they charge and the convenience and quality of service they provide to borrowers. The competition for deposits is primarily based on the interest rate paid and the convenience and quality of service.

In order to compete with other financial institutions in its service area, the Bank relies principally upon local promotional activity, including advertising in the local media, personal contacts, direct mail and specialized services. The Bank s promotional activities emphasize the advantages of dealing with a locally owned and headquartered institution attuned to the particular needs of the community.

***Economic Developments, Legislation and Regulatory Initiatives***

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

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

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

Negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans and other factors have resulted in uncertainty in the financial markets in general and a related general economic downturn, which continued through 2008 and are anticipated to continue throughout 2009. Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and residential construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many commercial as well as residential loans have declined and may continue to decline. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer delinquencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly. Bank and bank holding company stock prices have been significantly negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. The bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of formal and informal enforcement orders and other supervisory actions requiring that institutions take action to address credit quality, liquidity and risk management, and capital adequacy, as well as other safety and soundness concerns.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA ) was enacted to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Initially introduced as the Troubled Asset Relief Program ( TARP ), the EESA authorized the U.S. Department of the Treasury (the Treasury ) to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. Initially, $350 billion, or half of the $700 billion, was made immediately available to the

Treasury. On January 15, 2009, the remaining $350 billion was released to the Treasury.

On October 14, 2008, the Treasury announced its intention to inject capital into nine large U.S. financial institutions under the TARP Capital Purchase Program (the TARP

CPP ), and since has injected capital into many other financial institutions. The Treasury initially allocated $250 billion towards the TARP CPP. We have filed an application for TARP CPP funds, which remains pending with the Treasury. Under the terms of the TARP CPP, if Hanmi Financial enters into a Securities Purchase Agreement with the Treasury to sell to the Treasury preferred stock and warrants, we would be prohibited from increasing dividends on our common stock, and from making certain repurchases of equity securities, including our common stock, without the Treasury s consent. Furthermore, as long as the preferred stock issued to the Treasury under the TARP CPP is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

In order to participate in the TARP CPP, financial institutions were also required to adopt certain standards for executive compensation and corporate governance. These standards generally applied to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include: 1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; 2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; 3) prohibition on making golden parachute payments to senior executives; and 4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. If Hanmi Financial were to receive TARP CPP funds, we would be required to comply with these requirements and additionally other requirements adopted in the new legislation as discussed below.

The bank regulatory agencies, the Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participate in the TARP CPP to document their plans and use of TARP CPP funds and their plans for addressing the executive compensation requirements associated with the TARP CPP.

On February 10, 2009, the Treasury and the federal bank regulatory agencies announced in a Joint Statement a new Financial Stability Plan, which would include additional capital support for banks under a Capital Assistance Program, a public-private investment fund to address existing bank loan portfolios and expanded funding for the FRB s pending Term Asset-Backed Securities Loan Facility to restart lending and the securitization markets.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ( ARRA ) was signed into law by President Obama. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health and education needs. In addition, the ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including us, until the institution has repaid the Treasury, which is now permitted under the ARRA without penalty and without the need to raise new capital, subject to the Treasury s consultation with the recipient s appropriate regulatory agency.

The executive compensation standards are more stringent than those currently in effect under the TARP CPP or those previously proposed by the Treasury. The new standards include (but are not limited to): (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee s total annual compensation; (ii) prohibitions on golden parachute payments for departure from a company; (iii) an expanded clawback of bonuses, retention awards and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria; (iv) prohibitions on compensation plans that encourage manipulation of reported earnings; (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the Treasury to be inconsistent with the purposes of the TARP or otherwise contrary to public interest; (vi) required establishment of a company-wide policy regarding excessive or luxury expenditures; and (vii) inclusion in a participant s proxy statements for annual shareholder meetings of a non-binding Say on Pay shareholder vote on the compensation of executives.

On February 23, 2008, the Treasury and the federal bank regulatory agencies issued a Joint Statement providing further guidance with respect to the Capital Assistance Program ( CAP ) announced on February 10, 2009, including: (i) that the CAP will be initiated on February 25, 2009 and will include stress test assessments of major banks and that should the stress test indicate that an additional capital buffer is warranted, institutions will have an opportunity to turn first to private sources of capital; otherwise the temporary capital buffer will be made available from the government; (ii) such additional government capital will be in the form of mandatory convertible preferred shares, which would be converted into common equity shares only as needed over time to keep banks in a well-capitalized position and can be retired under improved financial conditions before the conversion becomes mandatory; and (iii) previous capital injections under the TARP CPP will also be eligible to be exchanged for the mandatory convertible preferred shares. The conversion of preferred shares to common equity shares would enable institutions to maintain or enhance the quality of their capital by increasing their tangible common equity capital ratios; however, such conversions would necessarily dilute the interests of existing shareholders.

On February 25, 2009, the first day the CAP program was initiated, the Treasury released the actual terms of the program, stating that the purpose of the CAP is to restore confidence throughout the financial system that the nation s largest banking institutions have a sufficient capital cushion against larger than expected future losses, should they occur due to more a more severe economic environment, and to support lending to creditworthy borrowers. Under the CAP terms, eligible U.S. banking institutions with assets in excess of $100 billion on a consolidated basis are required to participate in coordinated supervisory assessments, which are forward-looking stress test assessments to evaluate the capital needs of the institution under a more challenging economic environment. Should this assessment indicate the need for the bank to establish an additional capital buffer to withstand more stressful conditions, these larger institutions may access the CAP immediately as a means to establish any necessary additional buffer or they may delay the CAP funding for six months to raise the capital privately. Eligible U.S. banking institutions with assets below $100 billion may also obtain capital from the CAP. The CAP program does not replace the TARP CPP, but is an additional program to the TARP CPP, and is open to eligible institutions regardless of whether they participated in the TARP CPP. The deadline to apply to the CAP is May 25, 2009. Recipients of capital under the CAP will be subject to the same executive compensation requirements as if they had received the TARP CPP.

The EESA also increased Federal Deposit Insurance Corporation ( FDIC ) deposit insurance on most accounts from $100,000 to $250,000 through the end of 2009. In addition, the FDIC has implemented two temporary liquidity programs to: (i) provide deposit insurance for the full amount of most noninterest-bearing transaction accounts (the Transaction Account Guarantee ) through the end of 2009; and (ii) guarantee certain unsecured debt of financial institutions and their holding companies through June 2012 under a temporary liquidity guarantee program (the Debt Guarantee Program and together the TLGP ).

Hanmi Financial and the Bank did not elect to opt out of the Debt Guarantee Program. The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP. The FDIC has recently proposed that Congress give the FDIC expanded authority to charge fees to those holding companies that benefit directly and indirectly from the FDIC guarantees.

### *Supervision and Regulation*

General

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

From time to time, federal and state legislation is enacted that may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Several proposals for legislation that could substantially intensify the regulation of the financial services industry (including a possible comprehensive overhaul of the financial institutions regulatory system) are expected to be introduced and possibly enacted in the new Congress in response to the current economic downturn and financial industry instability. Other legislative and regulatory initiatives that could affect us and the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject us and the Bank to increased regulation, disclosure and

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reporting requirements. In addition, the various bank regulatory agencies often adopt new rules, regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations or changes in policies may be enacted or the extent to which the business of the Bank would be affected thereby.

Hanmi Financial

As a bank and financial holding company, we are subject to regulation and examination by the FRB under the BHCA. Accordingly, we are subject to the FRB s authority to:

- require periodic reports and such additional information as the FRB may require.

- require us to maintain certain levels of capital. See *Capital Standards.*

- require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations, or both.

- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary.

- take formal or informal enforcement action or issue other supervisory directives and assess civil money penalties for non-compliance under certain circumstances.

- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem our securities in certain situations.

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

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

- approve acquisitions and mergers with other banks or savings institutions and consider certain competitive, management, financial and other factors in granting these approvals. Similar California and other state banking agency approvals may also be required.

A bank holding company is required to file with the FRB annual reports and other information regarding its business operations and those of its non-banking subsidiaries. It is also subject to supervision and examination by the FRB. Examinations are designed to inform the FRB of the financial condition and nature of the operations of the bank holding company and its subsidiaries and to monitor compliance with the BHCA and other laws affecting the operations of bank holding companies. To determine whether potential weaknesses in the condition or operations of bank holding companies might pose a risk to the safety and soundness of their subsidiary banks, examinations focus on whether a bank holding company has adequate systems and internal controls in place to manage the risks inherent in its business, including credit risk, interest rate risk, market risk (for example, from changes in value of portfolio instruments and foreign currency), liquidity risk, operational risk, legal risk and reputation risk.

Bank holding companies may be subject to potential enforcement actions by the FRB for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the FRB. Enforcement actions may include the issuance of cease and desist orders, the imposition of civil money penalties, the requirement to meet and maintain specific capital levels for any capital measure, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against officers or directors and other institution-affiliated parties.

Bank holding companies are also subject to capital maintenance requirements on a consolidated basis that are parallel to those required for banks. See *Capital Standards* below. Further, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB s view that, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting

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its subsidiary banks. A bank holding company s failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the FRB s regulations, or both.

The source-of-strength doctrine most directly affects bank holding companies where a bank holding company s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank s federal regulator to take prompt corrective action. The prompt corrective action regulatory framework is discussed in *Prompt Corrective Action Regulations* below. Under the prompt corrective action regulations, the subsidiary bank will be required to submit to its federal regulator a capital restoration plan and to comply with the plan. Each parent company that controls the subsidiary bank will be required to provide assurances of compliance by the bank with the capital restoration plan. However, the aggregate liability of such parent companies will not exceed the lesser of (i) five percent of the bank s total assets at the time it became undercapitalized and (ii) the amount necessary to bring the bank into compliance with the plan. Failure to restore capital under a capital restoration plan can result in the bank s being placed into receivership if it becomes critically undercapitalized. A bank subject to prompt corrective action also may affect its parent bank holding company in other ways. These include possible restrictions or prohibitions on dividends to the parent bank holding company by the bank; subordinated debt payments to the parent; and other transactions between the bank and the holding company. In addition, the regulators may impose restrictions on the ability of the holding company itself to pay dividends; require divestiture of holding company affiliates that pose a significant risk to the bank; or require divestiture of the undercapitalized subsidiary bank.

On October 8, 2008, the Bank entered into an informal supervisory agreement (a memorandum of understanding (the MOU )) with the FRB and the DFI (collectively, the Regulators ) to address certain issues raised in the Bank s most recent regulatory examination by the DFI on March 10, 2008. Certain of the issues to be addressed by management under the terms of the MOU relate to the following, among others: (i) Board and senior management maintenance and succession planning; (ii) Board oversight and education; (iii) Board assessment and enhancement; (iv) loan policies and procedures; (v) allowance for loan losses policies and procedures; (vi) liquidity and funds management policies; (vii) strategic planning; (viii) capital maintenance, including a requirement that the Bank maintain a minimum Tier 1 leverage ratio and tangible stockholder s equity to total tangible assets ratio of not less than 8.0 percent; and (ix) restrictions on the payment of dividends without the Regulators prior approval.

Separately, Hanmi Financial has committed to the FRB that it will adopt a consolidated capital plan to augment and maintain a sufficient consolidated capital position. In addition, Hanmi Financial has agreed that it will not (i) declare or pay any dividends or make any payments on its trust preferred securities or any other capital distributions without the prior written consent of the FRB, and (ii) incur, increase or renew any existing debt or purchase, redeem or otherwise acquire any of its capital stock without the prior written consent of the FRB.

A bank holding company is generally required to give the FRB prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10 percent or more of the company s consolidated net worth.

A bank holding company is also required to obtain FRB approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank if it would thereby directly or indirectly own or control more than five percent of the voting stock of that bank, unless it already owns a majority of the voting stock. Prior approval from the FRB is also required in connection with the acquisition of control of a bank or another bank holding company, or business combinations with another bank holding company.

Subject to certain prior notice or FRB approval requirements, bank holding companies may engage directly or indirectly through a subsidiary in any, or acquire shares of companies engaged in, those non-banking activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Hanmi Financial may engage in these non-banking activities and also broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally without prior FRB approval pursuant to its election to become a financial holding company.

Pursuant to the Gramm-Leach-Bliley Act of 1999 (the GLBA ), Chun-Ha and All World qualify as financial

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subsidiaries under the GLBA. Under the GLBA, in order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act ( CRA ). Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. We have agreed with the FRB to take certain corrective action pursuant to these GLBA requirements.

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

Securities Registration

Our securities are registered with the SEC under the Exchange Act. As such, we are subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act.

The Sarbanes-Oxley Act of 2002

We are subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading; and
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

The Bank

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision and regular examination by the DFI and by the FRB. As a member bank, the Bank is a stockholder of the Federal Reserve Bank of San Francisco. Specific federal and state laws and regulations that are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. Supervision, examination and enforcement actions by these agencies are generally intended to protect depositors, creditors, borrowers and the DIF and generally is not intended for the protection of stockholders.

If, as a result of an examination, the DFI or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFI and the FRB, and separately the FDIC as insurer of the Bank s deposits, have residual authority to:

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

- direct an increase in capital or establish specific minimum capital ratios;
- restrict the Bank s growth geographically, by products and services or by mergers and acquisitions;
- enter into informal non-public or formal public memoranda of understanding or written agreements; enjoin unsafe and unsound practices and issue cease and desist orders to take corrective action;
- remove officers and directors and assess civil monetary penalties; and
- take possession and close and liquidate the Bank.

As discussed above, on October 8, 2008, the Bank entered into a MOU with the Regulators to address certain issues raised in the Bank s most recent regulatory examination by the DFI on March 10, 2008.

Permissible Activities and Subsidiaries

Under the California Financial Code, California banks have all the powers of a California corporation, subject to the general limitation of state bank powers under the FDI Act to those permissible for national banks. California banks may engage in the commercial banking business, which generally encompasses lending, deposit-taking and

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all other kinds of banking business in which banks, including national banks, customarily engage in the United States. Further, California banks may form subsidiaries to engage in the many so-called closely related to banking or non-banking activities commonly conducted by national banks in operating subsidiaries. Federal law prohibits the Bank and its subsidiaries from engaging in any banking activities in which a national bank cannot engage, unless the activity is found by the FDIC not to pose a significant risk to the DIF. This prohibition does not extend to those activities in which the Bank (or a subsidiary of the Bank) is authorized under state law to engage as agent, advisor, custodian, administrator or trustee for its customer.

In addition, under the GLBA, the Bank may engage in expanded financial activities through specially qualified financial subsidiaries to the same extent as a national bank. In order to form a financial subsidiary, the Bank must be and remain well-capitalized and well-managed and in satisfactory compliance with the CRA, and would be subject to the same capital deduction, risk management and affiliate transaction rules that apply to financial subsidiaries of national banks. Generally, a financial subsidiary is permitted to engage in activities, as may a financial holding company, that are financial in nature or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. However, a bank financial subsidiary may not engage as principal in underwriting insurance (other than credit life insurance), issue annuities, or engage in real estate development or investment or merchant banking. Presently, the Bank has no financial subsidiaries.

In September 2007, the SEC and the FRB finalized joint rules required by the Financial Services Regulatory Relief Act of 2006 to implement exceptions provided in the GLBA for securities activities that banks may conduct without registering with the SEC as a securities broker or moving such activities to a broker-dealer affiliate. The FRB s final Regulation R provides exceptions for networking arrangements with third party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The final rules, which became effective in 2009, are not expected to have a material effect on the current securities activities that the Bank currently conducts for customers.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branch Efficiency Act of 1994, bank holding companies and banks generally have the ability to acquire or merge with banks in other states, and, subject to certain state restrictions, banks may also acquire or establish new branches outside their home states. Interstate branches are subject to certain laws of the states in which they are located. The Bank presently has no interstate branches.

Federal Home Loan Bank System

The Bank is a member and stockholder of the capital stock of the Federal Home Loan Bank of San Francisco. Among other benefits, each Federal Home Loan Bank ( FHLB ) serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement with an initial cap of $25 million (100 percent of membership asset value as defined), or (ii) an activity based stock requirement (based on percentage of outstanding advances). At December 31, 2008, the Bank was in compliance with the FHLB s stock ownership requirement and our investment in FHLB capital stock totaled $30.7 million. The FHLB recently announced that it would not pay any dividends on its capital stock in the first quarter of 2009, and there can be no assurance that the FHLB will pay dividends at the same rate it has paid in the past, or that it will pay any dividends in the future.

Federal Reserve System

The FRB requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking and non-personal time deposits). At December 31, 2008, the Bank was in compliance with these requirements.

Capital Standards

At December 31, 2008, Hanmi Financial and the Bank s capital ratios exceed the minimum percentage requirements to be deemed well capitalized institutions. See *Notes to*

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*Consolidated Financial Statements, Note 14  Regulatory Matters.*

Hanmi Financial and the Bank are subject to capital adequacy guidelines that incorporate both risk-based and leverage capital requirements. These capital adequacy guidelines define capital in terms of core capital elements, or Tier 1 capital, and supplemental capital elements, or Tier 2 capital. Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available-for-sale investment securities carried at fair value. The following items are included as core capital elements: (i) common shareholders equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus, including trust preferred securities (but not in excess of 25 percent of Tier 1 capital); and (iii) minority interests in the equity accounts of consolidated subsidiaries. If Hanmi Financial were to receive TARP CPP funds, they would also count as Tier 1 capital. Supplementary capital elements include: (i) allowance for loan and lease losses (but not more than 1.25 percent of an institution s risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and (iv) term subordinated debt and intermediate-term preferred stock and related surplus. The maximum amount of supplemental capital elements that qualifies as Tier 2 capital is limited to 100 percent of Tier 1 capital.

The minimum required ratio of qualifying total capital to total risk-weighted assets, or the total risk-based capital ratio, is 8.0 percent, at least one-half of which must be in the form of Tier 1 capital, and the minimum required ratio of Tier 1 capital to total risk-weighted assets, or the Tier 1 risk-based capital ratio, is 4.0 percent. Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for assets with low credit risk, such as certain U.S. Treasury securities, to 100 percent for assets with relatively high credit risk, such as business loans.

The risk-based capital requirements also take into account concentrations of credit (i.e., relatively large proportions of loans involving one borrower, industry, location, collateral or loan type) and the risks of non-traditional activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards and authorize the regulators to review an institution s management of such risks in assessing an institution s capital adequacy. The risk-based capital regulations also include exposure to interest rate risk as a factor that the regulators will consider in evaluating a bank s capital adequacy. Interest rate risk is the exposure of a bank s current and future earnings and equity capital arising from adverse movements in interest rates. While interest rate risk is inherent in a bank s role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the institution. Bank holding companies and banks engaged in significant trading activity (trading assets constituting 10 percent or more of total assets, or $1 billion or more) may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Neither Hanmi Financial nor the Bank is currently subject to the market risk capital rules.

Hanmi Financial and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3.0 percent. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3.0 percent minimum, for a minimum of 4.0 percent to 5.0 percent. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans.

Federal regulators may, however, set higher capital requirements when a bank s particular circumstances warrant. As of December 31, 2008, the Bank s leverage capital ratio was 8.85 percent, and Hanmi Financial s leverage capital ratio was 8.93 percent, both ratios exceeding regulatory minimums.

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As of December 31, 2008, the regulatory capital guidelines and the actual capital ratios for Hanmi Financial and the Bank were as follows:

| | *Regulatory Capital Guidelines* | | *Actual* | |
|---|---|---|---|---|
| | ***Adequately Capitalized*** | ***Well Capitalized*** | ***Hanmi Bank*** | ***Hanmi Financial*** |
| Total Risk-Based Capital Ratio | 8.00% | 10.00% | 10.70% | 10.79% |
| Tier 1 Risk-Based Capital Ratio | 4.00% | 6.00% | 9.44% | 9.52% |
| Tier 1 Leverage Ratio | 4.00% | 5.00% | 8.85% | 8.93% |

The terms of the MOU included a requirement that the Bank maintain a minimum Tier 1 leverage ratio and tangible stockholder s equity to total tangible assets ratio of not less than 8.0 percent. As of December 31, 2008, the Bank had a Tier 1 leverage ratio of 8.85 percent and a tangible stockholder s equity to total tangible assets ratio of 8.68 percent, both above the required 8.0 percent level.

The current risk-based capital guidelines that apply to Hanmi Financial and the Bank are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk, supervisory assessment and market discipline in determining minimum capital requirements, became mandatory for large or core international banks outside the United States in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more); is optional for others, and if adopted, must first be complied with in a parallel run for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory capital standards, supervisory and risk-management requirements and additional disclosures in the final new accord in response to recent worldwide developments.

In July 2008, the U.S. federal banking agencies issued a proposed rule that would give banking organizations that do not use the Basel II advanced approaches the option to implement a new risk-based capital framework. This framework would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where U.S. markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. A definitive final rule has not been issued. The U.S. banking agencies have indicated, however, that they will retain the minimum leverage requirement for all U.S. banks.

Prompt Corrective Action Regulations

Federal law requires each federal banking agency to take prompt corrective action when a bank falls below one or more prescribed minimum capital ratios. The federal banking agencies have, by regulation, defined the following five capital categories:

*Well Capitalized* Total risk-based capital ratio of 10.0 percent, Tier 1 risk-based capital ratio of 6.0 percent, and leverage capital ratio of 5.0 percent, and not subject to any order or written directive by any regulatory authority to meet and maintain a specific capital level for any capital measure;

*Adequately Capitalized* Total risk-based capital ratio of 8.0 percent, Tier 1 risk-based capital ratio of 4.0 percent, and leverage capital ratio of 4.0 percent (or 3.0 percent if the institution receives the highest rating from its primary regulator);

*Undercapitalized* Total risk-based capital ratio of less than 8.0 percent, Tier 1 risk-based capital ratio of less than 4.0 percent, or leverage capital ratio of less than 4.0 percent (or 3.0 percent if the institution receives the highest rating from its primary regulator);

*Significantly Undercapitalized* Total risk-based capital ratio of less than 6.0 percent, Tier 1 risk-based capital ratio of less than 3.0 percent, or leverage capital ratio of less than 3.0 percent; and

*Critically Undercapitalized* Tangible equity to total assets of less than 2.0 percent.

A bank may be treated as though it were in the next lower capital category if, after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as critically undercapitalized unless its actual capital ratio warrants such treatment.

Undercapitalized banks are required to submit capital restoration plans and, during any period of capital inadequacy, may not pay dividends or make other capital distributions, are subject to asset growth and expansion restrictions and may not be able to accept brokered deposits. At each successively lower capital category, banks are subject to increased restrictions on operations.

The federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet safety and soundness standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted or the deficiency is not corrected.

FDIC Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. Pursuant to the EESA, the maximum deposit insurance amount has been increased from $100,000 to $250,000 through the end of 2009. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15 percent and 1.50 percent of estimated insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. In an effort to restore capitalization levels and to ensure the DIF will adequately cover projected losses from future bank failures, the FDIC, in October 2008, proposed a rule to alter the way in which it differentiates for risk in the risk-based assessment system and to revise deposit insurance assessment rates, including base assessment rates. First quarter 2009 assessment rates were increased to between 12 and 50 cents for every $100 of domestic deposits, with most banks paying between 12 and 14 cents.

On February 27, 2009, the FDIC approved an interim rule to institute a one-time special assessment of 20 cents per $100 in domestic deposits to restore the DIF reserves depleted by recent bank failures. The interim rule additionally reserves the right of the FDIC to charge an additional up-to-10 basis point special premium at a later point if the DIF reserves continue to fall. The FDIC also approved an increase in regular premium rates for the second quarter of 2009. For most banks, this will be between 12 to 16 basis points per $100 of domestic deposits. Premiums for the rest of 2009 have not yet been set.

Additionally, by participating in the transaction account guarantee program under the TLGP, banks temporarily become subject to an additional assessment on deposits in excess of $250,000 in certain transaction accounts and additionally for assessments from 50 basis points to 100 basis points per annum depending on the initial maturity of the debt. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ( FICO ), an agency of the Federal Government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.0113 percent of insured deposits in fiscal 2008. These assessments will continue until the FICO bonds mature in 2017.

The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank s charter by the DFI.

Loans-to-One-Borrower

With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities of the borrower) may not exceed 25 percent (and unsecured loans may not exceed 15 percent) of the bank s stockholders equity, allowance for loan losses, and any capital notes and debentures of the bank.

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Extensions of Credit to Insiders and Transactions with Affiliates

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to:

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

Such loans and leases:

- must comply with loan-to-one-borrower limits;
- require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;
- must be made on substantially the same terms (including interest rates and collateral) and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders;
- must not involve more than the normal risk of repayment or present other unfavorable features; and
- in the aggregate limit not exceed the bank s unimpaired capital and unimpaired surplus.

California has laws and the DFI has regulations that adopt and apply Regulation O to the Bank.

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank s affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

- prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;
- limit such loans and investments to or in any affiliate individually to 10 percent of the Bank s capital and surplus;
- limit such loans and investments to all affiliates in the aggregate to 20 percent of the Bank s capital and surplus; and
- require such loans and investments to or in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with non-affiliated parties.

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

Dividends

Holders of Hanmi Financial common stock and preferred stock are entitled to receive dividends as and when declared by the Board of Directors out of funds legally available therefore under the laws of the State of Delaware. Delaware corporations such as Hanmi Financial may make distributions to their stockholders out of their surplus, or out of their net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. However, dividends may not be paid out of a corporation s net profits if, after the payment of the dividend, the corporation s capital would be less than the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

The FRB has advised bank holding companies that it believes that payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. As a result of this policy, banks and their holding companies may find it difficult to pay dividends out of retained earnings from historical periods prior to the most recent fiscal year or to take advantage of earnings generated by extraordinary items such as sales of buildings or other large assets in order to generate profits to enable payment of future dividends. In a February 2009 guidance letter, the FRB directed that a bank holding company should inform the FRB if it is planning to pay a dividend that exceeds earnings for a given quarter or that could affect the bank s capital position in an adverse way. Further, the FRB s position that holding companies are expected to provide a source of managerial and financial strength to their subsidiary banks potentially restricts a bank holding company s ability to pay dividends. Hanmi

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Financial has agreed with the FRB that it will not declare or pay any dividends or make any payments on its trust preferred securities or any other capital distributions without the prior written consent of the FRB.

The Bank is a legal entity that is separate and distinct from its holding company. Hanmi Financial receives income through dividends paid by the Bank. Subject to the regulatory restrictions described below, future cash dividends by the Bank will depend upon management s assessment of future capital requirements, contractual restrictions and other factors.

The powers of the Board of Directors of the Bank to declare a cash dividend to its holding company is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank s retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DFI, in an amount not exceeding the greatest of: 1) retained earnings of the bank; 2) the net income of the bank for its last fiscal year; or 3) the net income of the bank for its current fiscal year. There are no retained earnings available for cash dividends to Hanmi Financial immediately after December 31, 2008 due to the Bank s retained deficit of $53.5 million as of December 31, 2008 and a net loss for both its current and last fiscal years. See *Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Dividends* for a further discussion of restrictions on the Bank s ability to pay dividends to Hanmi Financial.

Bank regulators also have authority to prohibit a bank from engaging in business practices considered to be unsafe or unsound. It is possible, depending upon the financial condition of a bank and other factors, that regulators could assert that the payment of dividends or other payments might, under certain circumstances, be an unsafe or unsound practice, even if technically permissible.

Bank Secrecy Act and USA PATRIOT Act

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

The USA PATRIOT Act and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws in response to the terrorist attacks in September 2001. The Bank has adopted additional comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such enforcement actions could also have serious reputation consequences for us and the Bank.

Consumer Laws

The Bank and Hanmi Financial are subject to many federal and state consumer protection laws and regulations prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition, including:

The Home Ownership and Equity Protection Act of 1994 requires extra disclosures and consumer protections to borrowers from certain lending practices, such as practices deemed to be predatory lending.

Privacy policies are required by federal and state banking laws and regulations that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. The federal bank regulatory agencies have adopted customer information security guidelines for safeguarding confidential, personal customer information. The guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information, and protect against unauthorized access or use of such information that could result in substantial harm or inconvenience to any customer.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data.

The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act requires that credit terms be disclosed in a meaningful and consistent way so that consumers may compare credit terms more readily and knowledgeably.

The Fair Housing Act regulates many lending practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.

The CRA requires insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities; directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices and further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. In its most recently released public reports, from September 2008, the Bank received an outstanding rating.

The Home Mortgage Disclosure Act includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The Real Estate Settlement Procedures Act requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks.

The National Flood Insurance Act requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.

The Americans with Disabilities Act, in conjunction with similar California legislation, requires employers with 15 or more employees and all businesses operating commercial facilities or public accommodations to accommodate disabled employees and customers.

These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including, but not limited to, enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Regulation of Subsidiaries

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

***Item 1A. Risk Factors***

Together with the other information on the risks we face and our management of risk contained in this Report or in our other SEC filings, the following presents significant risks that may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also adversely impact our financial condition, business operations and results of operations.

***We may be subject to further regulatory action.*** On October 8, 2008, the members of the Board of Directors (the Board ) of the Bank entered into a MOU with the Regulators to address certain issues raised in the Bank s most recent regulatory examination by the DFI on March 10, 2008. Certain of the issues to be addressed by management under the terms of the memorandum of understanding relate to the following, among others: (i) Board and senior management maintenance and succession planning; (ii) Board oversight and education; (iii) Board assessment and enhancement; (iv) loan policies and procedures; (v) allowance for loan losses policies and procedures; (vi) liquidity and funds management policies; (vii) strategic planning; (viii) capital maintenance, including a requirement that the Bank maintain a minimum Tier 1 leverage ratio and tangible stockholder s equity to total tangible assets ratio of not less than 8.0 percent; and (ix) restrictions on the payment of dividends without the Regulators prior approval. In addition, Hanmi Financial has committed to the FRB that it will adopt a consolidated capital plan to augment and maintain a sufficient consolidated capital position. The Bank is required to regularly keep our Regulators informed of its progress in complying with the provisions of the MOU. If we fail to comply with the terms of the MOU or any other regulatory orders or agreements we have entered into, or the Regulators believe that further enforcement action against us is necessary, we may be subject to further requirements to take corrective action, face further regulation and intervention and additional constraints on our business operations, any of which could have a material adverse effect on our results of operations, financial condition and business.

***Our operations may require us to raise additional capital in the future, but that capital may not be available or may not be on terms acceptable to us when it is needed.*** We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. As part of the MOU we entered into, we agreed that the Bank would maintain a minimum Tier 1 leverage ratio and tangible stockholder s equity to total tangible assets ratio of not less than 8.0 percent. We have also committed to the FRB to adopt a consolidated capital plan to augment and maintain a sufficient capital position. Our existing capital resources may not satisfy our capital requirements for the foreseeable future and may not be sufficient to offset any problem assets. Further, should our asset quality erode and require significant additional provision for credit losses, resulting in consistent net operating losses at the Bank, our capital levels will decline and we will need to raise capital to maintain our well-capitalized status and satisfy our agreements with the Regulators.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to continue as a going concern could be materially impaired. Although both Hanmi Financial and the Bank met the requirements to be deemed well-capitalized at December 31, 2008, there can be no assurance that we will continue to be deemed well-capitalized. We have applied to participate in the TARP CPP for an investment of up to $105 million from the Treasury, but we are still waiting a final decision from the Treasury as to whether we will be able to participate in this program. If we cannot raise additional capital through the TARP CPP or other sources when needed, our results of operations and financial condition could be materially and adversely affected. In addition, if we were to raise additional capital through the issuance of additional shares, our stock price could be adversely affected, depending on the terms of any shares we were to issue.

***Difficult economic and market conditions have adversely affected our industry.*** Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

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

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

We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Our liquidity could be negatively impacted by an inability to access the capital markets, unforeseen or extraordinary demands on cash, or regulatory restrictions, which could, among other things, materially and adversely affect our business, results of operations and financial condition.

***If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.*** Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. On October 3, 2008, President Bush signed into law the EESA and on February 17, 2009, President Obama signed the ARRA in response to the current crisis in the financial sector. The Treasury and banking regulators are implementing a number of programs under this legislation to address capital and liquidity issues in the banking system. There can be no assurance, however, as to the actual impact that the EESA and the ARRA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA and the ARRA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to capital and credit or the value of our securities.

***U.S. and international financial markets and economic conditions could adversely affect our liquidity, results of operations and financial condition.*** As described in *Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments,* global capital markets and economic conditions continue to be adversely affected and the resulting disruption has been particularly acute in the financial sector. Although Hanmi Financial remains well capitalized, our capital ratios have been adversely affected and the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers realize the impact of an economic slowdown and recession. In addition, the severity and duration of these adverse conditions is unknown and may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Accordingly, continued turbulence in the U.S. and international markets and economy may adversely affect our liquidity, financial condition, results of operations and profitability.

***We have recently experienced significant changes in our key management.*** Our President and Chief Executive Officer joined us in June 2008, our Chief Financial Officer joined us in December 2007 and our Chief Credit Officer joined us in September 2008. Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. The unexpected loss of services of one or more of our key personnel or the inability to maintain consistent personnel in management could have a material adverse impact on our business and results of operations.

***We may be required to make additional provisions for credit losses and charge off additional loans in the future, which could adversely affect our results of operations and capital levels.*** During the year ended December 31, 2008, we recorded a $75.7 million provision for credit losses and charged off $48.2 million in loans, net of $2.2 million in recoveries. There has been a general slowdown in the economy and in particular, in the housing market in areas of Southern California where a majority of our loan customers are based. This slowdown reflects declining prices and excess inventories of homes to be sold, which has

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contributed to a financial strain on homebuilders and suppliers, as well as an overall decrease in the collateral value of real estate securing loans. As of December 31, 2008, we had $1.2 billion in commercial real estate, construction and residential property loans. Continuing deterioration in the real estate market generally and in the residential property and construction segment in particular could result in additional loan charge-offs and provisions for credit losses in the future, which could have an adverse effect on our net income and capital levels.

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

***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 impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

***Brokered deposits may be difficult for us to retain or replace at attractive rates as they mature.*** Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loan originations, and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature. In addition, a depository institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits significantly higher than the prevailing rate in its market. A depository institution that is adequately capitalized may accept brokered deposits if it obtains the prior approval of the FDIC.

***Changes in economic conditions could materially hurt our business.*** Our business is directly affected by changes in economic conditions, including finance, legislative and regulatory changes and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Deterioration in economic conditions could result in the following consequences:

- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- low cost or non-interest bearing deposits may decrease; and
- collateral for loans made by us, especially real estate, may decline in value.

***Our Southern California business focus and economic conditions in Southern California could adversely affect our operations.*** The Bank s operations are located primarily in Los Angeles and Orange counties. Because of this geographic concentration, our results depend largely upon economic conditions in these areas. Deterioration in economic conditions in the Bank s market areas, or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank s loan portfolio, the demand for its products and services and on its overall financial condition and results of operations.

***Our concentration in commercial real estate loans located primarily in Southern California could have adverse effects on credit quality.*** As of December 31, 2008, the Bank s loan portfolio included commercial real estate and construction loans, primarily in Southern California, totaling $1,087.8 million, or 32.3 percent of total gross loans. Because of this concentration, a deterioration of the Southern California commercial real estate market could have adverse consequences for the Bank. Among the factors that could contribute to such a decline are general economic

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conditions in Southern California, interest rates and local market construction and sales activity.

***Our concentration in commercial and industrial loans could have adverse effects on credit quality.*** As of December 31, 2008, the Bank s loan portfolio included commercial and industrial loans, primarily in Southern California, totaling $2,099.7 million, or 62.4 percent of total gross loans. Because of this concentration, a deterioration of the Southern California economy could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have adverse consequences for the Bank.

***Our concentrations of loans in certain industries could have adverse effects on credit quality.*** As of December 31, 2008, the Bank s loan portfolio included loans to: 1) lessors of non-residential buildings totaling $450.2 million, or 13.4 percent of total gross loans; 2) borrowers in the accommodation industry totaling $444.9 million, or 13.2 percent of total gross loans; and 3) gas stations totaling $381.0 million, or 11.3 percent of total gross loans. Most of these loans are in Southern California. Because of these concentrations of loans in specific industries, a deterioration of the Southern California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have adverse consequences for the Bank.

***If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans, we could sustain losses.*** A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believes are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on our financial condition and results of operations. As described herein, the Bank substantially increased its provision for credit losses in 2008 and 2007, as compared to previous years, as a result of increases in historical loss factors, increased charge-offs and migration of more loans into more adverse risk categories.

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

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

***Our earnings are affected by changing interest rates.*** Changes in interest rates affect the level of loans, deposits and investments, the credit profile of existing loans, the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of operations. The current historically low interest rate environment resulted by the response to the financial market crisis and the global economic recession in 2008 may affect our operating earnings negatively.

***We must manage our funding resources to enable us to meet our ongoing operations costs and our deposit and borrowing obligations as they come due.*** Liquidity is essential to our business and any inability to raise funds could have a substantial negative effect on our liquidity. Sources of funds to meet our operating needs and obligations include deposits; interest and fee income on loans and other products and services; earnings on our investment securities portfolio; revenue from the sale or securitization of loans; new capital infusions and borrowings, such as from the FHLB. Adverse regulatory developments or a decline in our financial condition or a decline in financial market conditions generally, such as the recent turmoil faced by depository financial institutions in the domestic and worldwide credit markets, or a decline in the financial condition of the FHLB, could have a significant impact on our ability to meet our liquidity needs, including our ability to attract deposits in an increasingly competitive environment. We cannot forecast if or when market liquidity conditions will improve from current stresses, although it is our expectation that the existing turmoil in the financial and credit markets may continue to affect its performance at least throughout 2009.

***The short-term and long-term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks is uncertain.*** As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation of Basel II may be or what impact a pending alternative standardized approach to the Basel II option for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

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

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

***Hanmi Bank is currently restricted from paying dividends to Hanmi Financial and Hanmi Financial is restricted from paying dividends to stockholders and from making any payments on its trust preferred securities.*** The primary source of Hanmi Financial s income from which we pay Hanmi Financial obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank currently has deficit retained earnings and has suffered net losses in 2007 and 2008, largely caused by goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to Hanmi Financial, with or without Commissioner approval. In addition, the Bank is prohibited from paying dividends to Hanmi Financial unless it receives prior regulatory approval. See *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. Liquidity and Capital Resources.* Furthermore, Hanmi Financial has agreed that it will not pay any dividends or make any payments on our outstanding $82.4 million of trust preferred securities or any other capital distributions without the prior written consent of the FRB. We began to defer interest payment on our trust preferred securities commencing with the interest payment that was due on January 15, 2009. If we defer interest payments for more than 20 consecutive quarters under any of our outstanding trust preferred instruments, then we would be in default under such trust preferred arrangements and the amounts due under the agreements pursuant to which we issued our trust preferred securities would be immediately due and payable. See *Item 5. Market for Registrant s Common Equity, Related Stockholder*

*Matters and Issuer Purchases of Equity Securities* for a further discussion of restrictions on the Bank s ability to pay dividends to Hanmi Financial.

***We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.*** The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of

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technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

***We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.*** We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

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

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

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

proposed or adopted legislative or regulatory changes or developments;

anticipated or pending investigations, proceedings or litigation that involve or affect us; or

domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility recently. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity-related securities, and other factors identified above in *Cautionary Note Regarding Forward-Looking Statements.* Current levels of market volatility are unprecedented. The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on

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stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation and potential delisting from The NASDAQ Stock Market, Inc. ( Nasdaq ).

***Anti-takeover provisions and state and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.*** Various provisions of our certificate of incorporation and by-laws could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our stockholders. These provisions provide for, among other things, a classified board of directors, supermajority voting approval for certain actions, limitation on large stockholders taking certain actions and the authorization to issue blank check preferred stock by action of the Board of Directors acting alone, thus without obtaining stockholder approval. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either FRB approval must be obtained or notice must be furnished to the FRB and not disapproved prior to any person or entity acquiring control of a state member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to stockholders and could limit the price investors would be willing to pay in the future for our common stock.

***We may face other risks.*** From time to time, we detail other risks with respect to our business and/or financial results in our filings with the SEC.

### *Item 1B. Unresolved Staff Comments*

None.

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### *Item 2. Properties*

Hanmi Financial s principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. The office is leased pursuant to a five-year term, which expires on November 30, 2013.

The following table sets forth information about our offices as of December 31, 2008:

| *Office* | *Address* | *City/State* | *Owned/ Leased* |
|---|---|---|---|
| Corporate Headquarters (1) | 3660 Wilshire Boulevard, Penthouse Suite A | Los Angeles, CA | Leased |
| **Branches:** | | | |
| Beverly Hills Branch | 9300 Wilshire Boulevard, Suite 101 | Beverly Hills, CA | Leased |
| Cerritos Artesia Branch | 11754 East Artesia Boulevard | Artesia, CA | Leased |
| Cerritos South Branch | 11900 South Street, Suite 109 | Cerritos, CA | Leased |
| Downtown Los Angeles Branch | 950 South Los Angeles Street | Los Angeles, CA | Leased |
| Fashion District Branch | 726 East 12th Street, Suite 211 | Los Angeles, CA | Leased |
| Fullerton Beach Branch | 5245 Beach Boulevard | Buena Park, CA | Leased |
| Garden Grove Brookhurst Branch | 9820 Garden Grove Boulevard | Garden Grove, CA | Owned |
| Garden Grove Magnolia Branch | 9122 Garden Grove Boulevard | Garden Grove, CA | Owned |
| Gardena Branch | 2001 West Redondo Beach Boulevard | Gardena, CA | Leased |
| Irvine Branch | 14474 Culver Drive, Suite D | Irvine, CA | Leased |
| Koreatown Galleria Branch | 3250 West Olympic Boulevard, Suite 200 | Los Angeles, CA | Leased |
| Koreatown Plaza Branch | 928 South Western Avenue, Suite 260 | Los Angeles, CA | Leased |
| Northridge Branch | 10180 Reseda Boulevard | Northridge, CA | Leased |
| Olympic Branch (2) | 3737 West Olympic Boulevard | Los Angeles, CA | Owned |
| Olympic Kingsley Branch | 3099 West Olympic Boulevard | Los Angeles, CA | Owned |
| Rancho Cucamonga Branch | 9759 Baseline Road | Rancho Cucamonga, CA | Leased |
| Rowland Heights Branch | 18720 East Colima Road | Rowland Heights, CA | Leased |
| San Diego Branch | 4637 Convoy Street, Suite 101 | San Diego, CA | Leased |
| San Francisco Branch | 1469 Webster Street | San Francisco, CA | Leased |
| Silicon Valley Branch | 2765 El Camino Real | Santa Clara, CA | Leased |
| Torrance Crenshaw Branch | 2370 Crenshaw Boulevard, Suite H | Torrance, CA | Leased |
| Torrance Del Amo Mall Branch | 21838 Hawthorne Boulevard | Torrance, CA | Leased |
| Van Nuys Branch | 14427 Sherman Way | Van Nuys, CA | Leased |
| Vermont Branch (3) | 933 South Vermont Avenue | Los Angeles, CA | Owned |
| Western Branch | 120 South Western Avenue | Los Angeles, CA | Leased |
| Wilshire Hobart Branch | 3660 Wilshire Boulevard, Suite 103 | Los Angeles, CA | Leased |
| **Departments:** | | | |
| Commercial Loan Department (1) | 3660 Wilshire Boulevard, Suite 1050 | Los Angeles, CA | Leased |
| Consumer Loan Center (1) | 3099 West Olympic Boulevard, Second Floor | Los Angeles, CA | Owned |
| Insurance Department (1) | 3660 Wilshire Boulevard, Suite 424 | Los Angeles, CA | Leased |
| International Finance Department (1) | 933 South Vermont Avenue, 2nd Floor | Los Angeles, CA | Leased |

| | | | |
|---|---|---|---|
| SBA Loan Center [1] | 3660 Wilshire Boulevard, Suite 116 | Los Angeles, CA | Leased |
| **LPO s and Subsidiaries:** | | | |
| Atlanta LPO [1] | 3585 Peachtree Industrial Boulevard, Suite 144 | Duluth, GA | Leased |
| Chicago LPO [1] | 6200 North Hiawatha, Suite 235 | Chicago, IL | Leased |
| Dallas LPO [1] | 2711 LBJ Freeway, Suite 114 | Farmers Branch, TX | Leased |
| Denver LPO [1] | 3033 South Parker Road, Suite 340 | Aurora, CO | Leased |
| Northwest Region LPO [1] | 3500 108th Avenue Northeast, Suite 280 | Bellevue, WA | Leased |
| Virginia LPO [1] | 7535 Little River Turnpike, Suite 200B | Annandale, VA | Leased |
| Chun-Ha/All World [1] | 12912 Brookhurst Street, Suite 480 | Garden Grove, CA | Leased |
| Chun-Ha [1] | 3225 Wilshire Boulevard, Suite 1806 | Los Angeles, CA | Leased |

*(1) Deposits are not accepted at this facility.*

*(2) Training Facility is also located at this facility.*

*(3) Administrative offices are also located at this facility.*

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As of December 31, 2008, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $20.3 million. Our total occupancy expense, exclusive of furniture and equipment expense, was $5.2 million for the year ended December 31, 2008. Hanmi Financial and its subsidiaries consider their present facilities to be sufficient for their current operations.

### *Item 3. Legal Proceedings*

From time to time, Hanmi Financial and its subsidiaries are parties to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of Hanmi Financial and its subsidiaries. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial condition, results of operations, or liquidity of Hanmi Financial or its subsidiaries.

### *Item 4. Submission of Matters to a Vote of Security Holders*

During the fourth quarter of 2008, no matters were submitted to stockholders for a vote.

## PART II

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

#### *Market Information*

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

| | *High* | *Low* | *Cash Dividend* |
|---|---|---|---|
| **2008:** | | | |
| Fourth Quarter | $ 5.19 | $ 1.65 | |
| Third Quarter | $ 6.77 | $ 4.65 | |
| Second Quarter | $ 7.79 | $ 5.20 | $ 0.03 Per Share |
| First Quarter | $ 9.82 | $ 6.80 | $ 0.06 Per Share |
| **2007:** | | | |
| Fourth Quarter | $ 16.70 | $ 8.39 | $ 0.06 Per Share |
| Third Quarter | $ 17.39 | $ 14.04 | $ 0.06 Per Share |
| Second Quarter | $ 19.50 | $ 15.74 | $ 0.06 Per Share |
| First Quarter | $ 23.18 | $ 18.58 | $ 0.06 Per Share |

#### *Holders*

Hanmi Financial had 339 registered stockholders of record as of March 1, 2009.

***Dividends***

Hanmi Financial has agreed with the FRB that it will not pay any cash dividends to its stockholders without prior consent of the FRB. Hanmi Bank is also required to seek prior approval from the Regulators to pay cash dividends to Hanmi Financial. The ability of Hanmi Financial to pay dividends to its stockholders is also directly dependent on the ability of the Bank to pay dividends to us. Section 642 of the California Financial Code provides that neither a California state-chartered bank nor a majority-owned subsidiary of a bank can pay dividends to its stockholders in an amount which exceeds the lesser of (a) the retained earnings of the bank or (b) the net income of the bank for its last three fiscal years, in each case less the amount of any previous distributions made during such period.

As a result of the net loss incurred by the Bank in 2007, the Bank is currently not able to pay dividends to Hanmi Financial under Section 642. However, Financial Code Section 643 provides, alternatively, that, notwithstanding the foregoing restriction, dividends in an amount not exceeding the greatest of (a) the retained earnings of the bank; (b) the net income of the bank for its last fiscal year or (c) the net income of the bank for its current fiscal year may be declared with the prior approval of the California Commissioner of Financial Institutions. The Bank had a retained deficit of $53.5 million as of December 31, 2008.

Due to the net losses for 2008 and 2007, FRB approval is required for payment of bank dividends to Hanmi Financial in 2008. FRB Regulation H Section 208.5 provides that the Bank must obtain FRB approval to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank s net income during the current calendar year and the retained net income of the prior two calendar years. On August 29, 2008, we announced the suspension of our quarterly cash dividend. As a result of entering into the MOU and further agreements we have entered into with the FRB, we are required to obtain regulatory approval prior to the Bank or Hanmi Financial declaring any dividends to its respective shareholders.

There can be no assurance when or if these approvals would be granted, or that, even if granted, the Board of Directors will continue to authorize cash dividends to our stockholders.

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***Performance Graph***

The following graph shows a comparison of stockholder return on Hanmi Financial s common stock with the cumulative total returns for: 1) the Nasdaq Composite® (U.S.) Index; 2) the Standard and Poors ( S&P ) 500 Financials Index; and 3) the SNL Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance. The performance graph shall not be deemed incorporated by reference to any general statement incorporating by reference this Report into any filing under the Securities Act of 1933 or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

TOTAL RETURN PERFORMANCE

| | | December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| ***Index*** | ***Symbol*** | ***2003*** | ***2004*** | ***2005*** | ***2006*** | ***2007*** | ***2008*** |
| Hanmi Financial | HAFC | $ 100.00 | $ 183.81 | $ 184.73 | $ 235.52 | $ 92.62 | $ 23.10 |
| Nasdaq Composite | IXIC | $ 100.00 | $ 108.59 | $ 110.08 | $ 120.56 | $ 132.39 | $ 78.72 |
| S&P 500 Financials | S5FINL | $ 100.00 | $ 110.70 | $ 117.38 | $ 139.94 | $ 114.55 | $ 52.43 |
| SNL Bank $1B-$5B | | $ 100.00 | $ 123.42 | $ 121.31 | $ 140.38 | $ 102.26 | $ 84.81 |

***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

During the fourth quarter of 2008, there were no purchases of equity securities. As of December 31, 2008, there was no current plan authorizing purchases of equity securities.

### *Item 6. Selected Financial Data*

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Report and the information contained in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.* The selected historical financial data as of and for each of the years in the five years ended December 31, 2008 is derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

| | *As of and for the Year Ended December 31,* | | | | |
|---|---|---|---|---|---|
| *ollars in thousands, except for per share data)* | *2008* | *2007* | *2006* | *2005* | *2004* |
| **UMMARY STATEMENTS OF PERATIONS:** | | | | | |
| terest and Dividend Income | $ 238,183 | $ 280,896 | $ 260,189 | $ 200,941 | $ 135,554 |
| terest Expense | 103,782 | 129,110 | 106,946 | 62,850 | 32,652 |
| et Interest Income Before Provision for Credit osses | 134,401 | 151,786 | 153,243 | 138,091 | 102,902 |
| rovision for Credit Losses | 75,676 | 38,323 | 7,173 | 5,395 | 2,907 |
| on-Interest Income | 32,149 | 40,006 | 36,963 | 31,450 | 26,211 |
| on-Interest Expense | 194,322 | 189,929 | 77,313 | 70,201 | 66,566 |
| come (Loss) Before Provision (Benefit) for come Taxes | (103,448) | (36,460) | 105,720 | 93,945 | 59,640 |
| rovision (Benefit) for Income Taxes | (1,355) | 24,302 | 40,370 | 36,144 | 22,960 |
| ET INCOME (LOSS) | $ (102,093) | $ (60,762) | $ 65,350 | $ 57,801 | $ 36,680 |
| **UMMARY BALANCE SHEETS:** | | | | | |
| ash and Cash Equivalents | $ 215,188 | $ 122,398 | $ 138,501 | $ 163,477 | $ 127,164 |
| otal Investment Securities | 197,876 | 350,457 | 391,579 | 443,912 | 418,973 |
| et Loans *(1)* | 3,291,125 | 3,241,097 | 2,837,390 | 2,469,080 | 2,234,842 |
| otal Assets | 3,875,816 | 3,983,657 | 3,725,243 | 3,414,252 | 3,104,188 |
| otal Deposits | 3,070,080 | 3,001,699 | 2,944,715 | 2,826,114 | 2,528,807 |
| otal Liabilities | 3,611,901 | 3,613,101 | 3,238,873 | 2,987,923 | 2,704,298 |
| otal Stockholders Equity | 263,915 | 370,556 | 486,370 | 426,329 | 399,890 |
| angible Equity | 258,965 | 256,548 | 272,412 | 208,580 | 178,771 |
| verage Net Loans *(1)* | 3,276,142 | 3,049,775 | 2,721,229 | 2,359,439 | 1,912,534 |
| verage Investment Securities | 271,802 | 368,144 | 414,672 | 418,750 | 425,537 |

| | | | | | |
|---|---|---|---|---|---|
| verage Interest-Earning Assets | 3,653,720 | 3,494,758 | 3,214,761 | 2,871,564 | 2,387,412 |
| verage Total Assets | 3,866,856 | 3,882,891 | 3,602,181 | 3,249,190 | 2,670,701 |
| verage Deposits | 2,913,171 | 2,989,806 | 2,881,448 | 2,632,254 | 2,129,724 |
| verage Borrowings | 591,930 | 355,819 | 221,347 | 165,482 | 223,780 |
| verage Interest-Bearing Liabilities | 2,874,470 | 2,643,296 | 2,367,389 | 2,046,227 | 1,687,688 |
| verage Stockholders Equity | 323,462 | 492,637 | 458,227 | 417,813 | 293,313 |
| verage Tangible Equity | 264,490 | 275,036 | 242,362 | 198,527 | 143,262 |
| **ER SHARE DATA:** | | | | | |
| arnings (Loss) Per Share Basic | $ (2.23) | $ (1.27) | $ 1.34 | $ 1.18 | $ 0.87 |
| arnings (Loss) Per Share Diluted | $ (2.23) | $ (1.27) | $ 1.32 | $ 1.16 | $ 0.84 |
| ook Value Per Share (2) | $ 5.75 | $ 8.08 | $ 9.91 | $ 8.76 | $ 8.11 |
| angible Book Value Per Share (3) | $ 5.64 | $ 5.59 | $ 5.55 | $ 4.29 | $ 3.62 |
| ash Dividends Per Share | $ 0.09 | $ 0.24 | $ 0.24 | $ 0.20 | $ 0.20 |
| ommon Shares Outstanding | 45,905,549 | 45,860,941 | 49,076,613 | 48,658,798 | 49,330,704 |

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

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

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

| | *As of and for the Year Ended December 31,* | | | | |
|---|---|---|---|---|---|
| | ***2008*** | ***2007*** | ***2006*** | ***2005*** | ***2004*** |
| **SELECTED PERFORMANCE RATIOS:** | | | | | |
| Return on Average Assets (4) | (2.64)% | (1.56)% | 1.81% | 1.78% | 1.37% |
| Return on Average Stockholders Equity (5) | (31.56)% | (12.33)% | 14.26% | 13.83% | 12.51% |
| Return on Average Tangible Equity (6) | (38.60)% | (22.09)% | 26.96% | 29.11% | 25.60% |
| Net Interest Spread (7) | 2.91% | 3.16% | 3.57% | 3.93% | 3.75% |
| Net Interest Margin (8) | 3.68% | 4.34% | 4.77% | 4.81% | 4.31% |
| Efficiency Ratio (9) | 116.67% | 99.03% | 40.65% | 41.41% | 51.56% |
| Dividend Payout Ratio (10) | (4.05)% | (18.11)% | 18.02% | 16.84% | 26.90% |
| Average Stockholders Equity to Average Total Assets | 8.36% | 12.69% | 12.72% | 12.86% | 10.98% |
| **SELECTED CAPITAL RATIOS:** | | | | | |
| Total Capital to Total Risk-Weighted Assets: | | | | | |
| Hanmi Financial | 10.79% | 10.65% | 12.55% | 12.04% | 11.98% |
| Hanmi Bank | 10.70% | 10.59% | 12.28% | 11.98% | 11.80% |
| Tier 1 Capital to Total Risk-Weighted Assets: | | | | | |
| Hanmi Financial | 9.52% | 9.40% | 11.58% | 11.03% | 10.93% |
| Hanmi Bank | 9.44% | 9.34% | 11.31% | 10.96% | 10.75% |
| Tier 1 Capital to Average Total Assets: | | | | | |
| Hanmi Financial | 8.93% | 8.52% | 10.08% | 9.11% | 8.93% |
| Hanmi Bank | 8.85% | 8.47% | 9.85% | 9.06% | 8.78% |
| **SELECTED ASSET QUALITY RATIOS:** | | | | | |
| Non-Performing Loans to Total Gross Loans (11) | 3.62% | 1.66% | 0.50% | 0.41% | 0.27% |
| Non-Performing Assets to Total Assets (12) | 3.17% | 1.37% | 0.38% | 0.30% | 0.19% |
| Net Loan Charge-Offs to Average Total Gross Loans | 1.38% | 0.73% | 0.17% | 0.12% | 0.19% |
| Allowance for Loan Losses to Total Gross Loans | 2.11% | 1.33% | 0.96% | 1.00% | 1.00% |
| Allowance for Loan Losses to Non-Performing Loans | 58.23% | 80.05% | 193.86% | 246.40% | 377.49% |

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

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

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

*(7) Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities.*

*(8) Net interest income before provision for credit losses divided by average interest-earning assets.*

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

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

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

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

***Non-GAAP Financial Measures***

Return on Average Tangible Equity

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

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | *2008* | *2007* | *2006* | *2005* | *2004* |
| Average Stockholders Equity | $ 323,462 | $ 492,637 | $ 458,227 | $ 417,813 | $ 293,313 |
| Less Average Goodwill and Average Other Intangible Assets | (58,972) | (217,601) | (215,865) | (219,286) | (150,051) |
| **Average Tangible Equity** | **$ 264,490** | **$ 275,036** | **$ 242,362** | **$ 198,527** | **$ 143,262** |
| Return on Average Stockholders Equity | (31.56)% | (12.33)% | 14.26% | 13.83% | 12.51% |
| Effect of Average Goodwill and Average Other Intangible Assets | (7.04)% | (9.76)% | 12.70% | 15.28% | 13.09% |
| **Return on Average Tangible Equity** | **(38.60%)** | **(22.09%)** | **26.96%** | **29.11%** | **25.60%** |

Tangible Book Value Per Share

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

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

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands, except per share amounts)* | *2008* | *2007* | *2006* | *2005* | *2004* |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Stockholders Equity | $ | 263,915 | $ | 370,556 | $ | 486,370 | $ | 426,329 | $ | 399,890 |
| Less Goodwill and Other Intangible Assets | | (4,950) | | (114,008) | | (213,958) | | (217,749) | | (221,119) |
| **Tangible Equity** | **$** | **258,965** | **$** | **256,548** | **$** | **272,412** | **$** | **208,580** | **$** | **178,771** |
| Book Value Per Share | $ | 5.75 | $ | 8.08 | $ | 9.91 | $ | 8.76 | $ | 8.11 |
| Effect of Goodwill and Other Intangible Assets | | (0.11) | | (2.49) | | (4.36) | | (4.47) | | (4.49) |
| **Tangible Book Value Per Share** | **$** | **5.64** | **$** | **5.59** | **$** | **5.55** | **$** | **4.29** | **$** | **3.62** |

***Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations***

This discussion presents management s analysis of the financial condition and results of operations as of and for the years ended December 31, 2008, 2007 and 2006. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements because of certain factors discussed elsewhere in this Report. See *Item 1A. Risk Factors.*

***Critical Accounting Policies***

We have established various accounting policies that govern the application of GAAP in the preparation of our consolidated financial statements. Our significant accounting policies are described in the *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies.* Certain accounting policies require us to make

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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. 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.

Allowance for Loan Losses

We believe the allowance for loan losses and allowance for off-balance sheet items are critical accounting policies that require significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements. Our allowance for loan loss methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on 10 segmented loan pools by risk rating, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in non-performing loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rate are other qualitative factors that are considered in our methodologies. See *Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items, Results of Operations Provision for Credit Losses* and *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* for additional information on methodologies used to determine the allowance for loan losses and allowance for off-balance sheet items.

Loan Sales

We normally sell SBA and residential mortgage loans to secondary market investors. When SBA guaranteed loans are sold, we generally retain the right to service these loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan servicing assets. Loan servicing assets are discussed in more detail in *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* and *Note 4 Loans* presented elsewhere herein.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired. As of December 31, 2008, there was no remaining goodwill. As of December 31, 2007, goodwill was $107.1 million, which resulted primarily from the acquisition of Pacific Union Bank ( PUB ) in 2004. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets,* goodwill must be recorded at the reporting unit level. Reporting units are defined as an operating segment. We have identified one reporting unit our banking operations. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be tested for impairment at least annually (at any time during the year, but at the same time each year), or more frequently if events or circumstances change, such as adverse changes in the business climate, that would more likely than not reduce the reporting unit s fair value below its carrying amount.

During our assessments of goodwill during the second quarter of 2008 and the fourth quarter of 2007, we recognized impairment losses on goodwill of $107.4 million and $102.9 million, respectively, occasioned by the decline in the market value of our common stock that reflects, in part, recent turmoil in the financial markets that has adversely affected the market value of the common stock of many banks. Goodwill is discussed in more detail in *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* and *Note 6 Goodwill* presented elsewhere herein.

Investment Securities

The classification and accounting for investment securities are discussed in more detail in *Notes to Consolidated Financial*

*Statements, Note 1 Summary of Significant Accounting Policies* presented elsewhere herein. Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* investment securities generally must be classified as held-to-maturity, available-for-sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management s intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held-to-maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

The fair values of investment securities are generally determined by 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. We ensure whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if it is determined that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations that utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

We are obligated to assess, at each reporting date, whether there is an other-than-temporary impairment ( OTTI ) to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. We reexamine our financial resources, intent and overall ability to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, that are deemed other-than-temporarily impaired as of December 31, 2008 and 2007. Investment securities are discussed in more detail in *Notes to Consolidated Financial Statements, Note 3 Securities* presented elsewhere herein.

Income Taxes

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2008 and 2007, no valuation allowance was required. Income taxes are discussed in more detail in *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* and *Note 11 Income Taxes* presented elsewhere herein.

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*Executive Overview*

The focus of our business has been on commercial and real estate lending. Since the second half of 2007, the economic conditions in the markets in which our borrowers operate continued to deteriorate and the levels of loan delinquency and defaults that we experienced were substantially higher than historical levels. As a result, we have had to make substantial provisions for credit losses in 2007 and 2008, which adversely affected our earnings. We believe that our results of operations will continue to be adversely affected if economic conditions, particularly in California, continue to deteriorate. Following our most recent safety and soundness exam, we entered into a MOU with the Regulators whereby we have agreed to take certain corrective actions and maintain certain levels of capital.

Starting in the fourth quarter of 2007, we expanded our portfolio monitoring activities in an attempt to identify problematic loans. For non-performing loans, we enhanced our collection efforts, increased workout and collection personnel and created individual action plans to maximize, to the extent possible, collections on such loans. We have also made significant changes in two critical areas. First, we have enhanced our policies and procedures regarding the monitoring of loans to be more stringent and make it more difficult to allow exceptions from our loan policy. Second, we strengthened and centralized the loan underwriting and approval processes, including centralizing the credit underwriting function at two locations, created a central monitoring mechanism to monitor all loans, and increased resources in the Bank s departments responsible for addressing problem assets.

Complementing these initiatives is a program to improve our organizational structure and streamline our operations. Our goal is to reduce costs and gain greater operating efficiencies. During the third quarter of 2008, we reduced our headcount by approximately 10 percent. The headcount reduction was across all of our operations, but the majority was in marketing. As of December 31, 2008, we had 559 full-time equivalent employees as compared to 655 full-time equivalent employees as of December 31, 2007.

In 2008, total assets decreased 2.7 percent, reflecting the weakening economy and our new strategy of focusing on asset quality over growth, compared to increases of 6.9 percent and 9.1 percent in 2007 and 2006. Total assets were $3,875.8 million at December 31, 2008 as compared to $3,983.7 million and $3,725.2 million at December 31, 2007 and 2006, respectively. Net loans were $3,291.1 million at December 31, 2008 as compared to $3,241.1 million and $2,837.4 million at December 31, 2007 and 2006, respectively. Total deposits were $3,070.1 million at December 31, 2008 as compared to $3,001.7 million and $2,944.7 million at December 31, 2007 and 2006, respectively.

Effective January 2, 2007, we completed the acquisitions of Chun-Ha and All World, which had combined total assets of $3.9 million on the date of acquisition. The acquisitions were accounted for as purchases, so the operating results of Chun-Ha and All World are included from the acquisition date.

For the years ended December 31, 2008 and 2007, we recognized net losses of $102.1 million and $60.8 million, respectively, as compared with net income of $65.4 million for the year ended December 31, 2006. Such losses in 2008 and 2007 were mainly caused by goodwill impairment charges of $107.4 million and $102.9 million, respectively, occasioned by the decline in the market value of our common stock that reflects, in part, recent turmoil in the financial markets, and provisions for credit losses of $75.7 million and $38.3 million, respectively. For the years ended December 31, 2008 and 2007, our diluted loss per share was ($2.23) and ($1.27), respectively, as compared to diluted earnings per share of $1.32 for the year ended December 31, 2006. If we measure our operating results from our continuing operations excluding the impact of the goodwill impairment charges, we realized non-GAAP net income of $5.3 million and $42.1 million for the years ended December 31, 2008 and 2007, respectively, as compared with $65.4 million for the year ended December 31, 2006.

Non-GAAP net income is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in the analysis of Hanmi Financial s performance.

Non-GAAP net income is calculated by adding the impairment loss on goodwill and GAAP net income (loss) together. Management believes the presentation of this financial measure excluding the impact of the goodwill impairment charges provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess the results from our core banking operations. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

| | Year Ended December 31, 2008 | 2007 |
|---|---|---|
| | *(In thousands)* | |
| **GAAP Net Loss** | **$ (102,093)** | **$ (60,762)** |
| Impairment Loss on Goodwill | 107,393 | 102,891 |
| **Non-GAAP Net Income, Excluding Impairment Loss on Goodwill** | **$ 5,300** | **$ 42,129** |

***Results of Operations***

Net Interest Income, Net Interest Spread and Net Interest Margin

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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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.

| | *Year Ended December 31,* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *2008* | | | *2007* | | | *2006* | |
| *thousands)* | *Average Balance* | *Interest Income/ Expense* | *Average Yield/ Rate* | *Average Balance* | *Interest Income/ Expense* | *Average Yield/ Rate* | *Average Balance* | *Interest Income/ Expense* |
| rning Assets: | | | | | | | | |
| s, Net [(1)] | $ 3,332,133 | $ 223,942 | 6.72% | $ 3,080,544 | $ 261,992 | 8.50% | $ 2,747,922 | $ 239,075 |
| Securities [(2)] | 63,918 | 2,717 | 4.25% | 71,937 | 3,055 | 4.25% | 72,694 | 3,087 |
| s of Other U.S. | | | | | | | | |
| t Agencies | 65,440 | 2,813 | 4.30% | 116,701 | 4,963 | 4.25% | 122,503 | 5,148 |
| Securities | 142,444 | 6,574 | 4.62% | 179,506 | 8,436 | 4.70% | 219,475 | 10,120 |
| urities | 38,516 | 1,918 | 4.98% | 26,228 | 1,413 | 5.39% | 24,684 | 1,354 |
| nds Sold | 8,934 | 166 | 1.86% | 19,746 | 1,032 | 5.23% | 27,410 | 1,402 |
| ral Funds Sold | 1,913 | 43 | 2.25% | 96 | 5 | 5.21% | 41 | 2 |
| rning Deposits | 422 | 10 | 2.37% | | | | 32 | 1 |
| est-Earning Assets | 3,653,720 | 238,183 | 6.52% | 3,494,758 | 280,896 | 8.04% | 3,214,761 | 260,189 |
| t-Earning Assets: | | | | | | | | |
| ash Equivalents | 88,679 | | | 92,148 | | | 93,535 | |
| for Loan Losses | (55,991) | | | (30,769) | | | (26,693) | |
| ts | 180,448 | | | 326,754 | | | 320,578 | |
| nterest-Earning | 213,136 | | | 388,133 | | | 387,420 | |
| **ts** | **$ 3,866,856** | | | **$ 3,882,891** | | | **$ 3,602,181** | |
| **IES AND OLDERS EQUITY** | | | | | | | | |
| aring Liabilities: | | | | | | | | |
| | $ 89,866 | 2,093 | 2.33% | $ 97,173 | 2,004 | 2.06% | $ 107,811 | 1,853 |
| | 618,779 | 19,909 | 3.22% | 452,825 | 15,446 | 3.41% | 471,780 | 14,539 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| rket Checking and ounts | | | | | | | | |
| sits of $100,000 or | 1,045,968 | 43,598 | 4.17% | 1,430,603 | 75,516 | 5.28% | 1,286,202 | 64,184 |
| e Deposits | 527,927 | 18,753 | 3.55% | 306,876 | 15,551 | 5.07% | 280,249 | 12,977 |
| me Loan Bank and Other Borrowings | 509,524 | 14,373 | 2.82% | 273,413 | 13,949 | 5.10% | 138,941 | 6,977 |
| ordinated Debentures | 82,406 | 5,056 | 6.14% | 82,406 | 6,644 | 8.06% | 82,406 | 6,416 |
| est-Bearing Liabilities | 2,874,470 | 103,782 | 3.61% | 2,643,296 | 129,110 | 4.88% | 2,367,389 | 106,946 |
| t-Bearing Liabilities: | | | | | | | | |
| eposits | 630,631 | | | 702,329 | | | 735,406 | |
| lities | 38,293 | | | 44,629 | | | 41,159 | |
| nterest-Bearing | 668,924 | | | 746,958 | | | 776,565 | |
| lities | 3,543,394 | | | 3,390,254 | | | 3,143,954 | |
| rs Equity | 323,462 | | | 492,637 | | | 458,227 | |
| **ilities and ers Equity** | **$ 3,866,856** | | | **$ 3,882,891** | | | **$ 3,602,181** | |
| **st Income** | | **$ 134,401** | | | **$ 151,786** | | | **$ 153,243** |
| **st Spread[(3)]** | | | **2.91%** | | | **3.16%** | | |
| **st Margin[(4)]** | | | **3.68%** | | | **4.34%** | | |

*(1) Average balances for loans include non-accrual loans and net of deferred fees and related direct costs. Loan fees have been included in the calculation of interest income. Loan fees were $2.4 million, $2.7 million and $4.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.*

*(2) Tax-exempt income, computed on a tax-equivalent basis using an effective marginal rate of 35 percent, was $4.2 million, $4.7 million and $4.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. Yields on tax-exempt income were 6.54 percent, 6.53 percent and 6.53 percent for the years ended December 31, 2008, 2007 and 2006, respectively.*

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

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

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The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities and the amount of change attributable to changes in average daily balances (volume) or changes in average daily interest rates (rate). The variances attributable to both the volume and rate changes have been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amount of the changes in each.

| | *Year Ended December 31,* | | | | | |
|---|---|---|---|---|---|---|
| | *2008 vs. 2007 Increase (Decrease) Due to Change in* | | | *2007 vs. 2006 Increase (Decrease) Due to Change in* | | |
| *(In thousands)* | *Volume* | *Rate* | *Total* | *Volume* | *Rate* | *Total* |
| Interest and Dividend Income: | | | | | | |
| Gross Loans, Net | $ 20,139 | $ (58,189) | $ (38,050) | $ 28,385 | $ (5,468) | $ 22,917 |
| Municipal Securities | (341) | 3 | (338) | (30) | (2) | (32) |
| Obligations of Other U.S. Government Agencies | (2,202) | 52 | (2,150) | (249) | 64 | (185) |
| Other Debt Securities | (1,713) | (149) | (1,862) | (1,877) | 193 | (1,684) |
| Equity Securities | 619 | (114) | 505 | 84 | (25) | 59 |
| Federal Funds Sold | (398) | (468) | (866) | (401) | 31 | (370) |
| Term Federal Funds Sold | 43 | (5) | 38 | 3 | | 3 |
| Interest-Earning Deposits | 10 | | 10 | | (1) | (1) |
| Total Interest and Dividend Income | 16,157 | (58,870) | (42,713) | 25,915 | (5,208) | 20,707 |
| Interest Expense: | | | | | | |
| Savings | (158) | 247 | 89 | (195) | 346 | 151 |
| Money Market Checking and NOW Accounts | 5,382 | (919) | 4,463 | (601) | 1,508 | 907 |
| Time Deposits of $100,000 or More | (17,907) | (14,011) | (31,918) | 7,481 | 3,851 | 11,332 |
| Other Time Deposits | 8,835 | (5,633) | 3,202 | 1,291 | 1,283 | 2,574 |
| Federal Home Loan Bank Advances and Other Borrowings | 8,497 | (8,073) | 424 | 6,858 | 114 | 6,972 |
| Junior Subordinated Debentures | | (1,588) | (1,588) | | 228 | 228 |
| Total Interest Expense | 4,649 | (29,977) | (25,328) | 14,834 | 7,330 | 22,164 |
| **Change in Net Interest Income** | **$ 11,508** | **$ (28,893)** | **$ (17,385)** | **$ 11,081** | **$ (12,538)** | **$ (1,457)** |

For the years ended December 31, 2008 and 2007, net interest income was $134.4 million and $151.8 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2008 were 2.91 percent and 3.68 percent, respectively, compared to 3.16 percent and 4.34 percent, respectively, for the year ended December 31, 2007 and 3.57 percent and 4.77 percent, respectively, for the year ended December 31, 2006.

Average loans were $3.33 billion in 2008, as compared with $3.08 billion in 2007 and $2.75 billion in 2006, representing increases of 8.2 percent and 12.1 percent in 2008 and 2007, respectively. Average interest-earning assets were $3.65 billion in 2008, as compared with $3.49 billion in 2007 and $3.21 billion in 2006, representing increases of 4.5 percent and 8.7 percent in 2008 and 2007, respectively. In 2008, the majority of interest-earning assets growth was funded by a $236.1 million increase in FHLB advances and other borrowings. In 2007, the growth was funded primarily by $108.4 million increase in average total deposits and a $134.5 million increase in FHLB advances and other borrowings. Total average interest-bearing liabilities grew by $231.2 million and $275.9 million, respectively, in 2008 and 2007.

The average yield on interest-earning assets decreased by 152 basis points to 6.52 percent in 2008, after a five basis point decrease in 2007 to 8.04 percent from 8.09 percent in 2006. The average cost on interest-bearing liabilities decreased to 3.61 percent in 2008, compared to 4.88 percent in 2007 and 4.52 percent in 2006. As a result, interest income decreased 15.2 percent to $238.2 million for 2008 from $280.9 million in 2007 and interest expense decreased 19.6 percent to $103.8 million from $129.1 million in 2007. In 2007, interest income increased by 8.0 percent to $280.9 million from $260.2 million in 2006, but was outpaced by a 20.7 percent increase in interest expense to $129.1 million in 2007 from $106.9 million in 2006.

In 2008, net interest income decreased by 11.5 percent to $134.4 million, compared to $151.8 million in 2007, as the growth in average interest-earning assets was offset by the FRB s lowering of rates. In 2007, net interest income decreased by 1.0 percent to $151.8 million from $153.2 million in 2006, due primarily to the FRB s lowering of rates.

Provision for Credit Losses

For the year ended December 31, 2008, the provision for credit losses was $75.7 million, compared to $38.3 million for the year ended December 31, 2007. The increase in the provision for credit losses is attributable to increases in net charge-offs, non-performing loans and criticized and classified loans. Net charge-offs increased $23.3 million, or 103.1 percent, from $22.6 million for the year ended December 31, 2007 to $46.0 million for the year ended December 31, 2008. Non-performing loans increased from $54.5 million, or 1.66 percent of total gross loans, as of December 31, 2007 to $121.9 million, or 3.62 percent of total gross loans, as of December 31, 2008.

For the year ended December 31, 2007, the provision for credit losses was $38.3 million, compared to $7.2 million for the year ended December 31, 2006. The increase in the provision for credit losses is attributable to increases in the loan portfolio, net charge-offs, non-performing loans and criticized and classified loans. The gross loan portfolio increased $419.1 million, or 14.6 percent, from $2,868.0 million at December 31, 2006 to $3,287.1 million at December 31, 2007. Net charge-offs increased $18.1 million, or 394.3 percent, from $4.6 million for the year ended December 31, 2006 to $22.6 million for the year ended December 31, 2007. Non-performing loans increased from $14.2 million, or 0.50 percent of total gross loans, as of December 31, 2006 to $54.5 million, or 1.66 percent of total gross loans, as of December 31, 2007.

Non-Interest Income

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

| | ***Year Ended December 31,*** | | |
|---|---|---|---|
| ***(In thousands)*** | ***2008*** | ***2007*** | ***2006*** |
| Service Charges on Deposit Accounts | $ 18,463 | $ 18,061 | $ 17,134 |
| Insurance Commissions | 5,067 | 4,954 | 770 |
| Trade Finance Fees | 3,088 | 4,493 | 4,567 |
| Other Service Charges and Fees | 2,365 | 2,527 | 2,359 |
| Remittance Fees | 2,194 | 2,049 | 2,056 |
| Bank-Owned Life Insurance Income | 952 | 933 | 879 |
| Gain on Sales of Loans | 765 | 5,452 | 6,917 |
| Gain on Sales of Securities Available for Sale | 77 | | 2 |
| Other-Than-Temporary Impairment Loss on Securities | (3,115) | (1,074) | |
| Other Income | 2,293 | 2,611 | 2,279 |

| | | | |
|---|---|---|---|
| **Total Non-Interest Income** | **$ 32,149** | **$ 40,006** | **$ 36,963** |

We earn non-interest income from four major sources: service charges on deposit accounts, insurance commissions, fees generated from international trade finance and gain on sales of loans. For the year ended December 31, 2008, non-interest income was $32.1 million, a decrease of 19.6 percent from $40.0 million for the year ended December 31, 2007. The decrease in non-interest income for 2008 is primarily due to lower gain on sales of loans, an increase in OTTI loss on securities, and lower trade finance fee income. For the year ended December 31, 2007, non-interest income was $40.0 million, an increase of 8.2 percent from $37.0 million for the year ended December 31, 2006. The overall increase in non-interest income for 2007 is primarily due to expansion in the Bank s loan and deposit portfolios and higher insurance commissions due to the acquisition of two insurance agencies in January 2007, partially offset by lower gain on sales of loans and an OTTI loss on securities

Service charges on deposit accounts increased $402,000, or 2.2 percent, in 2008 compared to 2007 and increased $927,000, or 5.4 percent, in 2007 compared to 2006. Service charge income on deposit accounts increased in 2008 and 2007 due to increase in demand deposit transaction volume. Average demand deposits decreased by 10.2 percent to $630.6 million in 2008 from $702.3 million in 2007 and decreased by 4.5 percent to $702.3 million in 2007 from $735.4 million in 2006.

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Insurance commissions increased $113,000, or 2.3 percent, in 2008 compared to 2007 and increased $4.2 million, or 543.4 percent, in 2007 compared to 2006. Insurance commissions increased in 2007 due to the acquisition of two insurance agencies in January 2007.

Fees generated from international trade finance decreased by 31.3 percent from $4.5 million in 2007 to $3.1 million in 2008 and decreased by 1.6 percent from $4.6 million in 2006 to $4.5 million in 2007. The decrease in 2008 is due primarily to depressed international trading activities in this recessionary economy. The decrease in 2007 is attributable primarily to decreased export letter of credit volume. Trade finance fees relate primarily to import and export letters of credit.

Gain on sales of loans was $765,000 in 2008, compared to $5.5 million in 2007 and $6.9 million in 2006, representing a decrease of 86.0 percent for the year ended December 31, 2008 and a decrease of 21.2 percent for the year ended December 31, 2007. In 2008, the decrease in gain on sales of loans was due to a depressed secondary market for SBA loans. In 2007, the decrease in gain on sales of loans resulted from lower premiums, which decreased to 4.3 percent in 2007 compared to 5.3 percent in 2006. During 2008, there were $23.3 million of SBA loans sold, compared to $116.6 million in 2007 and $110.7 million in 2006.

We periodically evaluate our investments for OTTI. During 2008, we recorded an OTTI charge of $3.1 million, which consisted of an impairment loss of $2.4 million on a Lehman Brothers corporate bond, and an impairment loss of $705,000 on a CRA equity fund investment. During 2007, we recorded an OTTI charge of $1.1 million to write down the value of an investment in CRA preferred securities to their estimated fair value.

Non-Interest Expense

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

| | *Year Ended December 31,* | | |
|---|---|---|---|
| ***(In thousands)*** | ***2008*** | ***2007*** | ***2006*** |
| Salaries and Employee Benefits | $ 42,209 | $ 47,036 | $ 40,512 |
| Occupancy and Equipment | 11,158 | 10,494 | 9,643 |
| Data Processing | 5,799 | 6,390 | 5,857 |
| Professional Fees | 3,539 | 2,468 | 1,910 |
| Advertising and Promotion | 3,518 | 3,630 | 2,997 |
| Supplies and Communications | 2,518 | 2,592 | 2,391 |
| Amortization of Other Intangible Assets | 1,958 | 2,324 | 2,379 |
| Impairment Loss on Goodwill | 107,393 | 102,891 | |
| Other Operating Expenses | 16,230 | 12,104 | 11,624 |
| **Total Non-Interest Expense** | **$ 194,322** | **$ 189,929** | **$ 77,313** |

For the year ended December 31, 2008, non-interest expense was $194.3 million, an increase of $4.4 million, or 2.3 percent, from $189.9 million for the year ended December 31, 2007. The increase in 2008 was primarily the result of an increase of $4.5 million in impairment loss on goodwill, an increase of $4.1 million in other operating expenses and $1.4 million attributable to the two new branches opened during the year, partially offset by a decrease of $4.8 million in salaries and employee benefits. For the year ended December 31, 2007, non-interest expense was $189.9 million, an increase of $112.6 million, or 145.7 percent, from $77.3 million for the year ended December 31, 2006. The increase in 2007 was primarily the result of an impairment loss on goodwill of $102.9 million. The remaining increase in 2007 was due to increases in compensation, occupancy and equipment expenses, and other operating expenses, as well as non-interest expense of $3.6 million attributable to Chun-Ha and All World and $1.3 million attributable to the two new branches that opened during 2007.

Salaries and employee benefits expense for 2008 decreased $4.8 million, or 10.3 percent, to $42.2 million from $47.0 million for 2007. The decrease was primarily due to a previously announced staff reduction during the third quarter of 2008 and a lower bonus accrual, offset by $544,000 attributable to the two new branches that opened during 2008. Average headcount was 606 and 623 in 2008 and 2007, respectively, representing a decrease of 2.7 percent over the prior year. Salaries and employee benefits expense for 2007 increased $6.5 million, or 16.1 percent, to

$47.0 million from $40.5 million for 2006. The increase in 2007 was due to $2.4 million attributable to Chun-Ha and All World, $1.7 million of separation expenses for our former Chief Executive Officer s retirement, $521,000 attributable to the two new branches that opened during 2007, $370,000 of additional share-based compensation reflecting stock options granted, annual salary increases and an increase in the average number of employees. Average headcount was 623 and 589 in 2007 and 2006, respectively, representing an increase of 5.8 percent over the prior year.

Occupancy and equipment expenses for 2008 increased $664,000, or 6.3 percent, to $11.2 million from $10.5 million for 2007. The increase was due to $456,000 attributable to the two new branches that opened during 2008. Occupancy and equipment expenses for 2007 increased $851,000, or 8.8 percent, to $10.5 million from $9.6 million for 2006. The increase was due to $476,000 attributable to the two new branches that opened during 2007, $194,000 attributable to Chun-Ha and All World, and additional office space leased.

Professional fees for 2008 increased $1.1 million, or 43.4 percent, to $3.5 million from $2.5 million for 2007. Professional fees for 2007 increased $558,000, or 29.2 percent, to $2.5 million from $1.9 million for 2006. The increases for both years were due primarily to additional professional fees incurred for credit, legal and valuation services.

Other operating expenses were $16.2 million for 2008, compared to $12.1 million for 2007, representing an increase of $4.1 million, or 34.1 percent. The increase was due primarily to a $3.1 million increase in FDIC assessments due to the utilization of a one-time assessment credit received from the FDIC during 2007, which offset the assessments, $1.1 million in losses related to a derivative transaction to which Lehman Brothers Finance, S.A. was a party, and $965,000 of severance expense for four directors who retired during 2008. Other operating expenses were $12.1 million for 2007, compared to $11.6 million for 2006, representing an increase of $480,000, or 4.1 percent. The increase is primarily attributable to an increase in the amortization of loan servicing assets.

During our assessments of goodwill during the second quarter of 2008 and the fourth quarter of 2007, we concluded that we had an impairment of goodwill based on the decline in the market value of our common stock, which we believe reflects, in part, recent turmoil in the financial markets that has adversely affected the market value of the common stock of many banks and the increase in our provision for credit losses. The fair value was determined based on a weighted distribution of values derived from three different approaches: market approach, market capitalization approach, and income approach. Based on these assessments, we concluded that the related goodwill was impaired and $107.4 million and $102.9 million was required to be expensed as non-cash charges to continuing operations during the second quarter of 2008 and the fourth quarter of 2007, respectively. As of December 31, 2008 and 2007, goodwill was $0 and $107.1 million, respectively.

Income Taxes

For the year ended December 31, 2008, a tax benefit of $1.4 million was recognized on pre-tax losses of $103.4 million, representing an effective tax rate of 1.3 percent, compared to income taxes of $24.3 million recognized on pre-tax losses of $36.5 million, representing an effective tax rate of 66.7 percent, for 2007, and income taxes of $40.6 million recognized on pre-tax income of $106.2 million, representing an effective tax rate of 38.2 percent, for 2006. The effective tax rates for 2008 and 2007 include impairment losses on goodwill of $107.4 million and $102.9 million, respectively, which are not deductible for tax purposes.

During 2008, we made investments in various tax credit funds totaling $6.1 million and recognized $908,000 of income tax credits earned from qualified low-income housing investments. We recognized an income tax credit of $775,000 for the tax year 2007 from $5.8 million in such investments and recognized an income tax credit of $659,000 for the tax year 2006 from $4.8 million in such investments. We intend to continue to make such investments as part of an effort to lower the effective tax rate and to meet our community reinvestment obligations under the CRA.

As indicated in *Notes to Consolidated Financial Statements, Note 11 Income Taxes,* income taxes are the sum of two components: current tax expense and deferred tax expense (benefit). Current tax expense is the result of applying the current tax rate to taxable income. The deferred portion is intended to account for the fact that income on which taxes are paid differs from financial statement pretax income because certain items of income and expense are recognized in different years for income tax purposes than in the financial statements. These differences in the years that

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income and expenses are recognized cause temporary differences.

Most of our temporary differences involve recognizing more expenses in our financial statements than we have been allowed to deduct for taxes, and therefore we normally have a net deferred tax asset. At December 31, 2008 and 2007, we had net deferred tax assets of $29.5 million and $18.5 million, respectively.

***Financial Condition***

Investment Portfolio

As of December 31, 2008, the investment portfolio was composed primarily of mortgage-backed securities, U.S. Government agency securities, municipal bonds, collateralized mortgage obligations and corporate bonds.

Investment securities available for sale were 99.5 percent, 99.7 percent and 99.8 percent of the total investment portfolio as of December 31, 2008, 2007 and 2006, 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 December 31, 2008, 2007 or 2006.

We maintain an investment portfolio primarily for liquidity purposes. As of December 31, 2008, securities available for sale were $197.0 million, or 5.1 percent of total assets, compared to $349.5 million, or 8.8 percent of total assets, as of December 31, 2007. In 2008 and 2007, we purchased $25.4 million and $45.0 million, respectively, of U.S. Government agency securities, corporate bonds and mortgage-backed securities to replenish the portfolio for principal repayments in the form of calls, prepayments and scheduled amortization and to maintain an asset mix consistent with our strategic direction.

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

| | *Investment Portfolio as of December 31,* | | | | | |
|---|---|---|---|---|---|---|
| | *2008* | | *2007* | | *2006* | |
| *(In thousands)* | *Amortized Cost* | *Fair Value* | *Amortized Cost* | *Fair Value* | *Amortized Cost* | *Fair Value* |
| **Securities Held to Maturity:** | | | | | | |
| Municipal Bonds | $ 695 | $ 695 | $ 694 | $ 694 | $ 693 | $ 693 |
| Mortgage-Backed Securities | 215 | 215 | 246 | 247 | 274 | 276 |
| **Total Securities Held to Maturity** | **$ 910** | **$ 910** | **$ 940** | **$ 941** | **$ 967** | **$ 969** |
| **Securities Available for Sale:** | | | | | | |
| Mortgage-Backed Securities | $ 77,515 | $ 78,860 | $ 99,332 | $ 99,198 | $ 123,614 | $ 121,608 |
| Municipal Bonds | 58,987 | 58,313 | 69,907 | 71,751 | 69,966 | 71,710 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Collateralized Mortgage Obligations | 36,204 | 36,162 | 51,881 | 51,418 | 67,605 | 66,113 |
| U.S. Government Agency Securities | 17,580 | 17,700 | 104,893 | 105,089 | 119,768 | 118,244 |
| Other Securities | 4,684 | 4,958 | 3,925 | 3,835 | 4,999 | 5,050 |
| Equity Securities | 511 | 804 | | | | |
| Corporate Bonds | 355 | 169 | 18,295 | 18,226 | 8,090 | 7,887 |
| **Total Securities Available for Sale** | **$ 195,836** | **$ 196,966** | **$ 348,233** | **$ 349,517** | **$ 394,042** | **$ 390,612** |

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The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of December 31, 2008:

| | *Within One Year* | | *After One Year But Within Five Years* | | *After Five Years But Within Ten Years* | | *After Ten Years* | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | *Amount* | *Yield* | *Amount* | *Yield* | *Amount* | *Yield* | *Amount* | *Yield* |
| Mortgage-Backed Securities | $ 536 | 4.21% | $ 15,457 | 4.00% | $ 24,990 | 4.72% | $ 36,747 | 5.04% |
| Municipal Bonds (1) | | | 3,116 | 5.05% | 7,778 | 6.45% | 48,788 | 6.52% |
| Collateralized Mortgage Obligations | 11,143 | 4.05% | 21,734 | 4.17% | 2,961 | 3.99% | 366 | 4.32% |
| U.S. Government Agency Securities | 2,999 | 4.19% | 14,581 | 3.37% | | | | |
| Other Securities | 4,684 | 2.85% | | | | | | |
| Equity Securities | | | | | | | 511 | |
| Corporate Bonds | 355 | 7.88% | | | | | | |
| | **$ 19,717** | **3.86%** | **$ 54,888** | **3.96%** | **$ 35,729** | **5.04%** | **$ 86,412** | **5.84%** |

(1) *The yield on municipal bonds has been computed on a tax-equivalent basis, using an effective marginal rate of 35 percent.*

Loan Portfolio

Total gross loans increased by $76.3 million, or 2.3 percent, in 2008 and increased by $419.1 million, or 14.6 percent, in 2007. Total gross loans represented 86.8 percent of total assets at December 31, 2008, compared with 82.5 percent and 77.0 percent at December 31, 2007 and 2006, respectively.

Commercial and industrial loans were $2,099.7 million and $2,094.7 million at December 31, 2008 and 2007, respectively, representing 62.4 percent and 63.7 percent, respectively, of total gross loans. Commercial loans include term loans and revolving lines of credit. Term loans typically have a maturity of three to five years and are extended to finance the purchase of business entities, owner-occupied commercial property, business equipment, leasehold improvements or for permanent working capital. SBA guaranteed loans usually have a longer maturity (5 to 20 years). Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. These borrowers are well diversified as to industry, location and their current and target markets.

Real estate loans were $1,180.1 million and $1,101.9 million at December 31, 2008 and 2007, respectively, representing 35.1 percent and 33.5 percent, respectively, of total gross loans. Real estate loans are extended to finance the purchase and/or improvement of commercial real estate and residential property. The properties generally are investor-owned, but may be for user-owned purposes. Underwriting guidelines include, among other things, an appraisal in conformity with the USPAP, limitations on loan-to-value ratios, and minimum cash flow requirements to service debt. The majority of the properties taken as collateral are located in Southern California.

The following table sets forth the amount of total loans outstanding in each category as of the dates indicated:

| | *Amount of Loans Outstanding as of December 31,* | | | | |
|---|---|---|---|---|---|
| ***(In thousands)*** | ***2008*** | ***2007*** | ***2006*** | ***2005*** | ***2004*** |
| Real Estate Loans: | | | | | |
| Commercial Property | $ 908,970 | $ 795,675 | $ 757,428 | $ 733,650 | $ 783,539 |
| Construction | 178,783 | 215,857 | 202,207 | 152,080 | 92,521 |
| Residential Property(1) | 92,361 | 90,375 | 81,758 | 88,442 | 80,786 |
| Total Real Estate Loans | 1,180,114 | 1,101,907 | 1,041,393 | 974,172 | 956,846 |
| Commercial and Industrial Loans: | | | | | |
| Commercial Term Loans | 1,611,449 | 1,599,853 | 1,202,612 | 945,210 | 754,108 |
| Commercial Lines of Credit | 214,699 | 256,978 | 225,630 | 224,271 | 201,940 |
| SBA Loans(2) | 178,399 | 118,528 | 171,631 | 155,491 | 166,285 |
| International Loans | 95,185 | 119,360 | 126,561 | 106,520 | 95,936 |
| Total Commercial and Industrial Loans | 2,099,732 | 2,094,719 | 1,726,434 | 1,431,492 | 1,218,269 |
| Consumer Loans(3) | 83,525 | 90,449 | 100,121 | 92,154 | 87,526 |
| **Total Gross Loans** | **$ 3,363,371** | **$ 3,287,075** | **$ 2,867,948** | **$ 2,497,818** | **$ 2,262,641** |

(1) *As of December 31, 2008, 2007, 2006, 2005 and 2004, residential mortgage loans held for sale totaling $0, $310,000, $630,000, $1.1 million and $0, respectively, were included at the lower of cost or fair value.*

(2) *As of December 31, 2008, 2007, 2006, 2005 and 2004, SBA loans held for sale totaling $37.4 million, $6.0 million, $23.2 million, $0 and $3.9 million, respectively, were included at the lower of cost or fair value.*

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

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

***Percentage Distribution of Loans as of December 31,***

| | *2008* | *2007* | *2006* | *2005* | *2004* |
|---|---|---|---|---|---|
| Real Estate Loans: | | | | | |
| Commercial Property | 27.0% | 24.2% | 26.4% | 29.4% | 34.6% |
| Construction | 5.3% | 6.6% | 7.1% | 6.1% | 4.1% |
| Residential Property | 2.8% | 2.7% | 2.8% | 3.5% | 3.6% |
| Total Real Estate Loans | 35.1% | 33.5% | 36.3% | 39.0% | 42.3% |
| Commercial and Industrial Loans: | | | | | |
| Commercial Term Loans | 47.9% | 48.7% | 41.9% | 37.8% | 33.3% |
| Commercial Lines of Credit | 6.4% | 7.8% | 7.9% | 9.0% | 8.9% |
| SBA Loans | 5.3% | 3.6% | 6.0% | 6.2% | 7.3% |
| International Loans | 2.8% | 3.6% | 4.4% | 4.3% | 4.3% |
| Total Commercial and Industrial Loans | 62.4% | 63.7% | 60.2% | 57.3% | 53.8% |
| Consumer Loans | 2.5% | 2.8% | 3.5% | 3.7% | 3.9% |
| **Total Gross Loans** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

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The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

| *(In thousands)* | *December 31,* 2008 | 2007 |
|---|---|---|
| Commitments to Extend Credit | $ 386,785 | $ 524,349 |
| Standby Letters of Credit | 47,289 | 48,071 |
| Commercial Letters of Credit | 29,177 | 52,544 |
| Unused Credit Card Lines | 16,912 | 18,622 |
| **Total Undisbursed Loan Commitments** | **$ 480,163** | **$ 643,586** |

The table below shows the maturity distribution and repricing intervals of outstanding loans as of December 31, 2008. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes non-accrual loans of $120.8 million.

| *(In thousands)* | *Within One Year* | *After One Year But Within Five Years* | *After Five Years* | *Total* |
|---|---|---|---|---|
| Real Estate Loans: | | | | |
| Commercial Property | $ 799,795 | $ 109,175 | $ | $ 908,970 |
| Construction | 178,783 | | | 178,783 |
| Residential Property | 37,422 | 39,443 | 15,496 | 92,361 |
| Total Real Estate Loans | 1,016,000 | 148,618 | 15,496 | 1,180,114 |
| Commercial and Industrial Loans: | | | | |
| Commercial Term Loans | 915,473 | 346,576 | 349,400 | 1,611,449 |
| Commercial Lines of Credit | 214,699 | | | 214,699 |
| SBA Loans | 169,305 | 1,288 | 7,806 | 178,399 |
| International Loans | 95,185 | | | 95,185 |
| Total Commercial and Industrial Loans | 1,394,662 | 347,864 | 357,206 | 2,099,732 |
| Consumer Loans | 65,212 | 18,269 | 44 | 83,525 |

| | | | | |
|---|---|---|---|---|
| **Total Gross Loans** | **$ 2,475,874** | **$ 514,751** | **$ 372,746** | **$ 3,363,371** |
| Loans With Predetermined Interest Rates | $ 367,434 | $ 498,685 | $ 371,973 | $ 1,238,092 |
| Loans With Variable Interest Rates | $ 2,108,440 | $ 16,066 | $ 773 | $ 2,125,279 |

As of December 31, 2008, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

| ***Industry*** | ***Balance as of December 31, 2008*** | ***Percentage of Total Gross Loans Outstanding*** |
|---|---|---|
| | *(In thousands)* | |
| Lessors of Non-Residential Buildings | $ 450,226 | 13.4% |
| Accommodation/Hospitality | $ 444,870 | 13.2% |
| Gasoline Stations | $ 381,036 | 11.3% |

There was no other concentration of loans to any one type of industry exceeding 10 percent of total gross loans outstanding.

Non-Performing Assets

Non-performing assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned ( OREO ). Loans are generally placed on non-accrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Loans may be restructured by management when a borrower has experienced some change in financial status, causing an inability to meet the original repayment terms, and where we believe the borrower eventually will overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Management s classification of a loan as non-accrual is an indication that there is reasonable doubt as to the full collectibility of principal or interest on the loan; at this point, we stop recognizing income from the interest on the loan and reverse any uncollected interest that had been accrued but unpaid. These loans may or may not be collateralized, but collection efforts are continuously pursued.

Non-performing loans were $121.9 million at December 31, 2008, compared to $54.5 million and $14.2 million at December 31, 2007 and 2006, respectively, representing a 123.8 percent increase in 2008 and a 283.3 percent increase in 2007. Total gross loans increased by 2.3 percent in 2008 over 2007 and 14.6 percent in 2007 over 2006. As a result, the ratio of non-performing loans to total gross loans increased to 3.62 percent at December 31, 2008 from 1.66 percent at December 31, 2007, and increased to 1.66 percent at December 31, 2007 from 0.50 percent at December 31, 2006. As of December 31, 2008 and 2007, we had OREO of $823,000 and $287,000, respectively.

Except for non-performing loans set forth below, our management is not aware of any loans as of December 31, 2008 and 2007 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. Our management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower s ability to pay.

The following table provides information with respect to the components of non-performing assets as of December 31 for the years indicated:

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | *2008* | *2007* | *2006* | *2005* | *2004* |
| Non-Performing Loans: | | | | | |
| Non-Accrual Loans: | | | | | |
| Real Estate Loans: | | | | | |
| Commercial Property | $ 8,160 | $ 2,684 | $ 246 | $ | $ |
| Construction | 38,163 | 24,118 | | | |
| Residential Property | 1,350 | 1,490 | | 474 | 112 |
| Commercial and Industrial Loans | 73,007 | 25,729 | 13,862 | 9,574 | 5,510 |
| Consumer Loans | 143 | 231 | 105 | 74 | 184 |
| Total Non-Accrual Loans | 120,823 | 54,252 | 14,213 | 10,122 | 5,806 |
| Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest): | | | | | |
| Commercial and Industrial Loans | 989 | 150 | | | 169 |
| Consumer Loans | 86 | 77 | 2 | 9 | 39 |
| Total Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest) | 1,075 | 227 | 2 | 9 | 208 |
| Total Non-Performing Loans | 121,898 | 54,479 | 14,215 | 10,131 | 6,014 |
| Other Real Estate Owned | 823 | 287 | | | |
| **Total Non-Performing Assets** | **$ 122,721** | **$ 54,766** | **$ 14,215** | **$ 10,131** | **$ 6,014** |
| Non-Performing Loans as a Percentage of Total Gross Loans | 3.62% | 1.66% | 0.50% | 0.41% | 0.27% |
| Non-Performing Assets as a Percentage of Total Assets | 3.17% | 1.37% | 0.38% | 0.30% | 0.19% |

Non-performing loans were $121.9 million at December 31, 2008, compared to $54.5 million at December 31, 2007, representing a 123.8 percent increase. The increase was primarily due to two large construction loans (a $25.2 million condominium project in Northern California and an $11.9 million low-income housing construction project in the Los Angeles area) and a $24.2 million commercial term loan. Delinquent loans, which are comprised of loans past due 30 or more days and still accruing and non-accrual loans past due 30 or more days, were $128.5 million at December 31, 2008, compared to $45.1 million at December 31, 2007, representing a 184.9 percent increase. We believe that the increases in non-performing loans and delinquent loans are attributable primarily to a current economic recession that is affecting some of our borrowers ability to honor their commitments.

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

Provisions to the allowance for loan losses are made quarterly to recognize probable loan losses. The quarterly provision is based on the allowance need, which is calculated using a formula designed to provide adequate allowances for losses inherent in the portfolio. The formula is made up of various components. The allowance is first determined by assigning reserve ratios for all loans. All loans that are classified are then assigned certain allocations according to type with larger percentages applied to loans deemed to be of a higher risk. These percentages are determined based on the prior loss history by type of loan, adjusted for current economic factors.

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| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *December 31,* | | | | | | | | |
| *sands)* | *2008* | | *2007* | | *2006* | | *2005* | | *2* |
| *oan le To* | *Allowance Amount* | *Loans Receivable* | *Allowance Amount* | *Loans Receivable* | *Allowance Amount* | *Loans Receivable* | *Allowance Amount* | *Loans Receivable* | *Allowance Amount* |
| ns: | | | | | | | | | |
| perty | $ 5,587 | $ 908,970 | $ 2,269 | $ 795,675 | $ 2,101 | $ 757,428 | $ 2,043 | $ 733,650 | $ 1,854 |
| | 4,102 | 178,783 | 3,478 | 215,857 | 586 | 202,207 | 475 | 152,080 | 349 |
| erty(1) | 449 | 92,361 | 32 | 90,065 | 19 | 81,128 | 19 | 87,377 | 155 |
| e Loans | 10,138 | 1,180,114 | 5,779 | 1,101,597 | 2,706 | 1,040,763 | 2,537 | 973,107 | 2,358 |
| l (1) | 58,866 | 2,062,322 | 36,011 | 2,088,694 | 23,099 | 1,703,194 | 21,035 | 1,431,492 | 19,051 |
| s | 1,586 | 83,525 | 1,821 | 90,449 | 1,752 | 100,121 | 1,391 | 92,154 | 1,293 |
| | 396 | | | | | | | | |
| | **$ 70,986** | **$ 3,325,961** | **$ 43,611** | **$ 3,280,740** | **$ 27,557** | **$ 2,844,078** | **$ 24,963** | **$ 2,496,753** | **$ 22,702** |

*(1) Loans held for sale excluded.*

The allowance is based on estimates, and ultimate future losses may vary from current estimates. Underlying trends in the economic cycle, particularly in Southern California, which management cannot completely predict, will influence credit quality. It is possible that future economic or other factors will adversely affect the Bank s borrowers. As a result, we may sustain loan losses in any particular period that are sizable in relation to the allowance, or exceed the allowance. In addition, our asset quality may deteriorate through a number of possible factors, including rapid growth, failure to maintain or enforce appropriate underwriting standards, failure to maintain an adequate number of qualified loan personnel, and failure to identify and monitor potential problem loans.

The allowance for loan losses and allowance for off-balance sheet items are maintained at levels that are believed to be adequate by management to absorb estimated probable loan losses inherent in the loan portfolio. The adequacy of the allowances is determined through periodic evaluations of the loan portfolio and other pertinent factors, which are inherently subjective as the process calls for various significant estimates and assumptions. Among other factors, the estimates involve the amounts and timing of expected future cash flows and fair value of collateral on impaired loans, estimated losses on loans based on historical loss experience, various qualitative factors, and uncertainties in estimating losses and inherent risks in the various credit portfolios, which may be subject to substantial change.

On a quarterly basis, we utilize a classification migration model and individual loan review analysis tools as starting points for determining the adequacy of the allowance for loan losses and allowance for off-balance sheet items. Our loss migration analysis tracks a certain number of quarters of loan loss history to determine historical losses by classification category (i.e., pass, special mention, substandard and doubtful ) for each loan type, except certain loar (automobile, mortgage and credit cards), which are analyzed as homogeneous loan pools. These calculated loss factors are then applied to outstanding loan balances, unused commitments and off-balance sheet exposures, such as letters of credit. The individual loan review analysis is the other part of the allowance allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios. Further allowance assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

We continue to anticipate that the current national and state economic recession will persist well throughout 2009, due in large part to a decline in home prices and sales and home construction activity, as well as other credit quality problems and the high unemployment rate. Responding to this difficult environment, we made significant changes in two critical areas. First, we enhanced existing policies and procedures regarding the monitoring of loans to be more stringent and make it more difficult to allow exceptions from our loan policy. Second, we strengthened and centralized the loan underwriting and approval processes,

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including centralizing the credit underwriting function at three locations, creating a central monitoring mechanism to monitor all loans, and increasing resources in departments of the Bank engaged in addressing problem assets.

The allowance for loan losses increased by $27.4 million, or 62.8 percent, to $71.0 million at December 31, 2008 as compared with $43.6 million at December 31, 2007 and increased by $16.1 million, or 58.3 percent, to $43.6 million at December 31, 2007 as compared with $27.6 million at December 31, 2006. The increase in the allowance for loan losses in 2008 and 2007 was due primarily to the increased migration of loans into more adverse risk rating categories, increases in non-performing and delinquent loans, and the increase in the overall loan portfolio. See *Provision for Credit Losses.* In addition, the allowance reflects higher estimated loss severity arising from a softening economy, partially offset by our better collateral coverage on certain impaired loans and the presence of guarantees. The ratio of the allowance for loan losses to total gross loans substantially increased to 2.11 percent at the end of 2008 as compared with 1.33 percent and 0.96 percent at December 31, 2007 and 2006, respectively, primarily due to the overall increase of historical loss factors and classified loans.

The Bank also recorded in other liabilities an allowance for off-balance sheet exposure, primarily unfunded loan commitments, of $4.1 million and $1.8 million at December 31, 2008 and 2007, respectively. Based on management s evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure at December 31, 2008 and 2007.

We determine the appropriate overall allowance for loan losses and allowance for off-balance sheet items based on the analysis described above, taking into account management s judgment. The allowance methodology is reviewed on a periodic basis and modified as appropriate. Based on this analysis, including the aforementioned factors, we believe that the allowance for loan losses and allowance for off-balance sheet items are adequate as of December 31, 2008 and 2007.

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The following table sets forth certain information regarding our allowance for loan losses and allowance for off-balance sheet items for the periods presented.

| | *As of and For The Year Ended December 31,* | | | | |
|---|---|---|---|---|---|
| ***(Dollars in thousands)*** | ***2008*** | ***2007*** | ***2006*** | ***2005*** | ***2004*** |
| Allowance for Loan Losses: | | | | | |
| Balance at Beginning of Year | $ 43,611 | $ 27,557 | $ 24,963 | $ 22,702 | $ 13,349 |
| Allowance for Loan Losses from PUB Acquisition | | | | | 10,566 |
| Charge-Offs: | | | | | |
| Real Estate Loans | 15,005 | 199 | | | |
| Commercial and Industrial Loans | 31,916 | 22,255 | 5,333 | 4,371 | 5,004 |
| Consumer Loans | 1,231 | 876 | 796 | 827 | 481 |
| Total Charge-Offs | 48,152 | 23,330 | 6,129 | 5,198 | 5,485 |
| Recoveries on Loans Previously Charged Off: | | | | | |
| Real Estate Loans | | | 406 | | |
| Commercial and Industrial Loans | 1,979 | 494 | 957 | 2,193 | 1,702 |
| Consumer Loans | 203 | 202 | 187 | 201 | 78 |
| Total Recoveries on Loans Previously Charged Off | 2,182 | 696 | 1,550 | 2,394 | 1,780 |
| Net Loan Charge-Offs | 45,970 | 22,634 | 4,579 | 2,804 | 3,705 |
| Provision Charged to Operating Expense | 73,345 | 38,688 | 7,173 | 5,065 | 2,492 |
| **Balance at End of Year** | **$ 70,986** | **$ 43,611** | **$ 27,557** | **$ 24,963** | **$ 22,702** |

| | | | | | |
|---|---|---|---|---|---|
| Allowance for Off-Balance Sheet Items: | | | | | |
| Balance at Beginning of Year | $ 1,765 | $ 2,130 | $ 2,130 | $ 1,800 | $ 1,385 |
| Provision Charged to Operating Expense | 2,331 | (365) | | 330 | 415 |
| **Balance at End of Year** | **$ 4,096** | **$ 1,765** | **$ 2,130** | **$ 2,130** | **$ 1,800** |
| **Ratios:** | | | | | |
| Net Loan Charge-Offs to Average Total Gross Loans | 1.38% | 0.73% | 0.17% | 0.12% | 0.19% |
| Net Loan Charge-Offs to Total Gross Loans at End of Period | 1.37% | 0.69% | 0.16% | 0.11% | 0.16% |
| Allowance for Loan Losses to Average Total Gross Loans | 2.13% | 1.41% | 1.00% | 1.05% | 1.17% |
| Allowance for Loan Losses to Total Gross Loans at End of Period | 2.11% | 1.33% | 0.96% | 1.00% | 1.00% |
| Net Loan Charge-Offs to Allowance for Loan Losses | 64.76% | 51.90% | 16.62% | 11.23% | 16.32% |
| Net Loan Charge-Offs to Provision Charged to Operating Expense | 62.68% | 58.50% | 63.84% | 55.36% | 148.68% |
| Allowance for Loan Losses to Non-Performing Loans | 58.23% | 80.05% | 193.86% | 246.40% | 377.55% |
| **Balances:** | | | | | |
| Average Total Gross Loans Outstanding During Period | $ 3,334,008 | $ 3,082,671 | $ 2,751,565 | $ 2,386,575 | $ 1,938,422 |
| Total Gross Loans Outstanding at End of Period | $ 3,363,371 | $ 3,287,075 | $ 2,867,948 | $ 2,497,818 | $ 2,262,641 |
| Non-Performing Loans at End of Period | $ 121,898 | $ 54,479 | $ 14,215 | $ 10,131 | $ 6,014 |

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Deposits

Total deposits at December 31, 2008, 2007 and 2006 were $3,070.1 million, $3,001.7 million and $2,944.7 million, respectively, representing an increase of $68.4 million, or 2.3 percent, in 2008 and $57.0 million, or 1.9 percent, in 2007. At December 31, 2008, 2007 and 2006, total time deposits outstanding were $2,080.9 million, $1,782.5 million and $1,678.8 million, respectively, representing 67.8 percent, 59.4 percent and 57.0 percent, respectively, of total deposits. This growth reflects an increase in broker deposits necessitated by liquidity issues after an outflow of core deposits.

Demand deposits and money market accounts decreased by $218.7 million, or 19.4 percent, in 2008 and $40.5 million, or 3.5 percent, in 2007. Core deposits (defined as demand, money market and savings deposits) decreased by $230.0 million, or 18.9 percent, to $989.2 million as of December 31, 2008 from $1,219.7 million as of December 31, 2007, due to an outflow of funds in the latter part of 2008 triggered by depositors currency speculation over potential future appreciation of the South Korean currency. At December 31, 2008, noninterest-bearing demand deposits represented 17.5 percent of total deposits compared to 22.7 percent at December 31, 2007.

Average deposits for the years ended December 31, 2008, 2007 and 2006 were $2,913.2 million, $2,989.8 million and $2,881.4 million, respectively. Average deposits decreased by 2.6 percent in 2008 and increased by 3.8 percent in 2007.

We accept brokered deposits on a selective basis at prudent interest rates to augment deposit growth or as a wholesale funding source. There were $874.2 million and $31.8 million of brokered deposits as of December 31, 2008 and 2007, respectively, with a weighted-average interest rate of 3.20 percent and 5.00 percent, respectively, which are consistent with the rates paid on our retail deposits. The increase in brokered deposits in 2008 was to offset a runoff of customer deposits due to the loss of confidence in the financial system because of the financial market crisis and the aforementioned currency speculation. We also had $200.0 million of state time deposits over $100,000 with a weighted-average interest rate of 3.62 percent as of December 31, 2007, which were not renewed in 2008.

On October 3, 2008, FDIC deposit insurance on most accounts was increased from $100,000 to $250,000. This increase is in place until the end of 2009. As of December 31, 2008, time deposits of $250,000 or more were $324.0 million.

The table below summarizes the distribution of average deposits and the average rates paid for the periods indicated:

| | ***Year Ended December 31,*** | | | | | |
|---|---|---|---|---|---|---|
| | ***2008*** | | ***2007*** | | ***2006*** | |
| ***(Dollars in thousands)*** | ***Average Balance*** | ***Average Rate*** | ***Average Balance*** | ***Average Rate*** | ***Average Balance*** | ***Average Rate*** |
| Demand, Noninterest-Bearing | $ 630,631 | | $ 702,329 | | $ 735,406 | |
| Savings | 89,866 | 2.33% | 97,173 | 2.06% | 107,811 | 1.72% |
| Money Market Checking and NOW Accounts | 618,779 | 3.22% | 452,825 | 3.41% | 471,780 | 3.08% |
| | 1,045,968 | 4.17% | 1,430,603 | 5.28% | 1,286,202 | 4.99% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Time Deposits of $100,000 or More | | | | | | |
| Other Time Deposits | 527,927 | 3.55% | 306,876 | 5.07% | 280,249 | 4.63% |
| **Total Deposits** | **$ 2,913,171** | **2.90%** | **$ 2,989,806** | **3.63%** | **$ 2,881,448** | **3.25%** |

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The table below summarizes the maturity of time deposits of $100,000 or more at December 31 for the years indicated:

| | December 31, | | |
|---|---|---|---|
| *(In thousands)* | *2008* | *2007* | *2006* |
| Three Months or Less | $ 238,695 | $ 958,917 | $ 689,309 |
| Over Three Months Through Six Months | 246,087 | 289,293 | 414,687 |
| Over Six Months Through Twelve Months | 338,233 | 188,890 | 274,402 |
| Over Twelve Months | 26,785 | 4,583 | 4,960 |
| **Total Time Deposits of $100,000 or More** | **$ 849,800** | **$ 1,441,683** | **$ 1,383,358** |

FHLB Advances and Other Borrowings

FHLB advances and other borrowings mostly take the form of advances from the FHLB of San Francisco and overnight federal funds. At December 31, 2008, advances from the FHLB were $422.2 million, a decrease of $10.5 million, or 2.4 percent, from the December 31, 2007 balance of $432.7 million. During 2008 and 2007, advances from the FHLB were utilized to fund loans or maintain liquidity due to favorable rates. FHLB advances at December 31, 2008 with a remaining maturity of less than one year were $161.0 million, and the weighted-average interest rate thereon was 1.71 percent.

Junior Subordinated Debentures

During the first half of 2004, we issued two junior subordinated notes bearing interest at the three-month London InterBank Offered Rate ( LIBOR ) plus 2.90 percent totaling $61.8 million and one junior subordinated note bearing interest at the three-month LIBOR plus 2.63 percent totaling $20.6 million. The outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of PUB, totaled $82.4 million at December 31, 2008 and 2007. In October 2008, we committed to the FRB that no interest payments on the trust preferred securities would be made without the prior written consent of the FRB. Therefore, in order to preserve its capital position, Hanmi Financial s Board of Directors has elected to defer quarterly interest payments on its outstanding trust preferred securities until further notice, beginning with the interest payment that was due on January 15, 2009. See *Item 1. Business Supervision and Regulation. Hanmi Financial* for further discussion.

***Interest Rate Risk Management***

Interest rate risk indicates our exposure to market interest rate fluctuations. The movement of interest rates directly and inversely affects the economic value of fixed-income assets, which is the present value of future cash flow discounted by the current interest rate; under the same conditions, the higher the current interest rate, the higher the denominator of discounting. Interest rate risk management is intended to decrease or increase the level of our exposure to market interest rates. The level of interest rate risk can be managed through such means as the changing of gap positions and the volume of fixed-income assets. For successful management of interest rate risk, we use various methods to measure existing and future interest rate risk exposures, giving effect to historical attrition rates of core deposits. In addition to regular reports used in business operations, repricing gap analysis, stress testing and simulation modeling are the main measurement techniques used to quantify interest rate risk exposure.

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The following table shows the status of our gap position as of December 31, 2008:

| | | |
|---|---|---|
| | ***After*** | ***After One*** |