HANMI FINANCIAL CORP
Form 10-Q
November 09, 2010

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

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

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From _________ To _________
Commission File Number: 000-30421
HANMI FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

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

(213) 382-2200
(Registrant s Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

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

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

Large Accelerated Filer o	Accelerated Filer þ	Non-Accelerated Filer o (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 October 29, 2010, there were 151,198,390 outstanding shares of the Registrant s Common Stock.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS *(UNAUDITED)*
(In Thousands, Except Share Data)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and Due From Banks	$ 63,455	$ 55,263
Interest-Bearing Deposits in Other Banks	218,843	98,847
Cash and Cash Equivalents	282,298	154,110
Securities Held to Maturity, at Amortized Cost (Fair Value of $853 as of September 30, 2010 and $871 as of December 31, 2009)	850	869
Investment Securities Available for Sale, at Fair Value (Amortized Cost of $321,246 as of September 30, 2010 and $130,995 as of December 31, 2009)	324,578	132,420
Loans Receivable, Net of Allowance for Loan Losses of $176,063 as of September 30, 2010 and $144,996 as of December 31, 2009	2,207,568	2,669,054
Loans Held for Sale, at the Lower of Cost or Fair Value	10,660	5,010
Premises and Equipment, Net	17,639	18,657
Accrued Interest Receivable	8,442	9,492
Due from Customers on Acceptances	1,375	994
Other Real Estate Owned, Net	20,577	26,306
Deferred Tax Assets		3,608
Servicing Assets	3,197	3,842
Other Intangible Assets, Net	2,480	3,382
Investment in Federal Home Loan Bank Stock, at Cost	28,418	30,697
Investment in Federal Reserve Bank Stock, at Cost	6,783	7,878
Income Taxes Receivable	9,188	56,554
Bank-Owned Life Insurance	27,111	26,408
Other Assets	17,341	13,425
TOTAL ASSETS	**$ 2,968,505**	**$ 3,162,706**
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-Bearing	$ 559,764	$ 556,306
Interest-Bearing	1,967,622	2,193,021
Total Deposits	2,527,386	2,749,327

Accrued Interest Payable	13,727	12,606
Bank Acceptances Outstanding	1,375	994
Deferred Tax Liabilities	807	
Federal Home Loan Bank Advances	153,734	153,978
Other Borrowings	2,558	1,747
Junior Subordinated Debentures	82,406	82,406
Accrued Expenses and Other Liabilities	13,880	11,904
Total Liabilities	**2,795,873**	**3,012,962**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $0.001 Par Value; Authorized 500,000,000 Shares; Issued 155,830,890 Shares (151,198,390 Shares Outstanding) as of September 30, 2010 and Authorized 200,000,000 Shares; Issued 55,814,890 shares (51,182,390 Shares Outstanding) as of December 31, 2009, Respectively	156	56
Additional Paid-In Capital	472,091	357,174
Unearned Compensation	(240)	(302)
Accumulated Other Comprehensive Income Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes of $1,410 and $602 as of September 30, 2010 and December 31, 2009, Respectively	1,989	859
Accumulated Deficit	(231,352)	(138,031)
Less Treasury Stock, at Cost: 4,632,500 Shares as of September 30, 2010 and December 31, 2009	(70,012)	(70,012)
Total Stockholders Equity	**172,632**	**149,744**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,968,505**	**$ 3,162,706**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS *(UNAUDITED)*
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
NTEREST AND DIVIDEND INCOME:				
terest and Fees on Loans	$ 33,681	$ 42,705	$ 104,862	$ 132,508
axable Interest on Investment Securities	1,592	1,541	4,035	4,261
ax-Exempt Interest on Investment Securities	62	607	216	1,877
ividends on Federal Reserve Bank Stock	102	150	323	45
ividends on Federal Home Loan Bank Stock	33	64	74	64
terest on Interest-Bearing Deposits in Other Banks	165	68	319	81
terest on Federal Funds Sold and Securities Purchased Under Resale greements	8	67	41	261
terest on Term Federal Funds Sold	32	293	29	1,688
otal Interest and Dividend Income	35,675	45,495	109,899	141,19
NTEREST EXPENSE:				
terest on Deposits	8,299	17,365	26,816	62,83
terest on Federal Home Loan Bank Advances	342	865	1,027	2,987
terest on Other Borrowings	22		53	2
terest on Junior Subordinated Debentures	739	747	2,100	2,58
otal Interest Expense	9,402	18,977	29,996	68,40
ET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	26,273	26,518	79,903	72,784
rovision for Credit Losses	22,000	49,500	117,496	119,387
ET INTEREST INCOME (LOSS) AFTER PROVISION FOR CREDIT OSSES	4,273	(22,982)	(37,593)	(46,60
ON-INTEREST INCOME:				
ervice Charges on Deposit Accounts	3,442	4,275	10,770	13,032
surance Commissions	1,089	1,063	3,573	3,43
emittance Fees	484	511	1,469	1,579
rade Finance Fees	381	512	1,144	1,517
ther Service Charges and Fees	409	489	1,193	1,439
ank-Owned Life Insurance Income	237	234	703	69
et Gain on Sales of Investment Securities	4		117	1,168
et Gain on Sales of Loans	229	864	443	86

npairment Loss on Investment Securities:				
otal Other-than-temporary Impairment Loss on Investment Securities	(790)		(790)	
ess: Portion of Loss Recognized in Other Comprehensive Income				
et Impairment Loss Recognized in Earnings	(790)		(790)	
ther Operating Income	186	265	731	54
otal Non-Interest Income	5,671	8,213	19,353	24,27
ON-INTEREST EXPENSE:				
alaries and Employee Benefits	9,552	8,648	27,349	24,65
eposit Insurance Premiums and Regulatory Assessments	2,253	2,001	8,552	7,42
ccupancy and Equipment	2,702	2,834	8,101	8,50
ther Real Estate Owned Expense	2,580	3,372	9,998	5,01
ata Processing	1,446	1,608	4,432	4,69
rofessional Fees	753	1,239	2,841	2,74
irectors and Officers Liability Insurance	716	293	2,149	88
upplies and Communication	683	603	1,774	1,77
dvertising and Promotion	567	447	1,605	1,64
oan-Related Expense	322	192	939	1,59
mortization of Other Intangible Assets	273	379	902	1,21
ther Operating Expenses	2,232	2,073	6,428	7,50
otal Non-Interest Expense	24,079	23,689	75,070	67,64
OSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(14,135)	(38,458)	(93,310)	(89,97
rovision (Benefit) for Income Taxes	442	21,207	11	(3,58
ET LOSS	**$ (14,577)**	**$ (59,665)**	**$ (93,321)**	**$ (86,39**
OSS PER SHARE:				
asic	$ (0.12)	$ (1.26)	$ (1.24)	$ (1.8
iluted	$ (0.12)	$ (1.26)	$ (1.24)	$ (1.8
EIGHTED-AVERAGE SHARES OUTSTANDING:				
asic	122,789,120	47,413,141	75,204,528	46,415,22
iluted	122,789,120	47,413,141	75,204,528	46,415,22
IVIDENDS DECLARED PER SHARE	$	$	$	$

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS) ***(UNAUDITED)***
(In Thousands; Except Share Data)

	Common Stock Number of Shares			Stockholders Equity						
	Issued	Treasury Stock	Outstanding	Common Stock	Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock, at Cost	Total Stockholders Equity
BALANCE AS OF JANUARY 1, 2009	**50,538,049**	**(4,632,500)**	**45,905,549**	**$ 51**	**$ 349,304**	**$ (218)**	**$ 544**	**$ (15,754)**	**$ (70,012)**	**$ 263,915**
Shares Issued in Private Offering, Net of Offering and Underwriting Costs	5,070,423		5,070,423	5	6,834					6,839
Shares Issued for Business Acquisitions	39,418		39,418		46					46
Share-Based Compensation Expense					649	52				701
Restricted Stock Awards	205,000		205,000		284	(284)				
Forfeiture of Restricted Stock Awards	(19,000)		(19,000)		(89)	89				
Comprehensive Loss:										
Net Loss								(86,396)		(86,396)
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							2,015			2,015
Total Comprehensive Loss										(84,381)

BALANCE AS OF SEPTEMBER 30, 2009	**55,833,890**	**(4,632,500)**	**51,201,390**	**$ 56**	**$ 357,028**	**$ (361)**	**$ 2,559**	**$ (102,150)**	**$ (70,012)**	**$ 187,120**
BALANCE AS OF JANUARY 1, 2010	**55,814,890**	**(4,632,500)**	**51,182,390**	**$ 56**	**$ 357,174**	**$ (302)**	**$ 859**	**$ (138,031)**	**$ (70,012)**	**$ 149,744**
Shares Issued, Net of Offering and Underwriting Costs	100,000,000		100,000,000	100	114,209					114,309
Exercises of Stock Options	16,000		16,000		22					22
Share-Based Compensation Expense					686	62				748
Comprehensive Loss:										
Net Loss								(93,321)		(93,321)
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes							1,130			1,130
Total Comprehensive Loss										(92,191)
BALANCE AS OF SEPTEMBER 30, 2010	**155,830,890**	**(4,632,500)**	**151,198,390**	**$ 156**	**$ 472,091**	**$ (240)**	**$ 1,989**	**$ (231,352)**	**$ (70,012)**	**$ 172,632**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Nine Months Ended September 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (93,321)	$ (86,396)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	1,729	1,977
Amortization of Premiums and Accretion of Discounts on Investment Securities, Net	476	(736)
Amortization of Other Intangible Assets	902	1,214
Amortization of Servicing Assets	705	597
Share-Based Compensation Expense	748	701
Provision for Credit Losses	117,496	119,387
Net Gain on Sales of Investment Securities	(117)	(1,168)
Net Gain on Sales of Loans	(443)	(866)
Loss on Sales of Other Real Estate Owned	81	440
Provision for Valuation Allowance on Other Real Estate Owned	8,444	2,501
Impairment Loss on Investment Securities	790	
Deferred Tax Expense (Benefit)	3,608	38,150
Origination of Loans Held for Sale	(21,050)	(1,221)
Net Proceeds from Sales of Loans Held for Sale	119,560	34,379
Decrease in Accrued Interest Receivable	1,050	958
Increase in Servicing Asset	(60)	(763)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(703)	(695)
Increase in Other Assets	(3,887)	(1,894)
Decrease (Increase) in Income Taxes Receivable	47,366	(29,976)
Increase in Accrued Interest Payable	1,121	1,191
Increase (Decrease) in Other Liabilities	223	(1,681)
Net Cash Provided By Operating Activities	**184,718**	**76,099**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Redemption of Federal Home Loan Bank and Federal Reserve Bank Stock	3,374	175
Proceeds from Matured or Called Investment Securities Available for Sale	100,006	47,290
Proceeds from Matured or Called Investment Securities Held to Maturity	19	
Proceeds from Sales of Investment Securities Available for Sale	3,264	38,448
Proceeds from Sales of Other Real Estate Owned	7,732	4,068
Net Decrease in Loans Receivable	229,531	253,704
Purchases of Investment Securities Available for Sale	(294,669)	(89,357)
Purchases of Premises and Equipment	(711)	(1,000)

Net Cash Provided By Investing Activities	**48,546**	**253,328**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in Deposits	(221,941)	(78,220)
Proceeds from Exercise of Stock Options	22	
Net Proceeds from Issuance of Common Stock in Private Offering	116,276	6,839
Repayment of Long-Term Federal Home Loan Bank Advances	(244)	(107,139)
Net Change in Short-Term Federal Home Loan Bank Advances and Other Borrowings	811	(153,520)
Net Cash Used In Financing Activities	**(105,076)**	**(332,040)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**128,188**	**(2,613)**
Cash and Cash Equivalents at Beginning of Period	154,110	215,947
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 282,298**	**$ 213,334**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest Paid	$ 8,281	$ 67,215
Income Taxes Refunds, Net of Income Taxes Paid	$ (49,971)	$
Non-Cash Activities:		
Stock Issued for Business Acquisition	$	$ 46
Transfer of Loans to Other Real Estate Owned	$ 11,745	$ 38,326
Transfer of Loans to Loan Held for Sale	$ 103,717	$
Loans Provided in the Sale of Other Real Estate Owned	$ 1,217	$ 5,000
Issuance of Stock Warrants in Connection with Common Stock Offering	$ 1,967	$

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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

NOTE 1 BASIS OF PRESENTATION

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

In the opinion of management, the accompanying unaudited consolidated financial statements of Hanmi Financial Corporation and Subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended September 30, 2010, but are not necessarily indicative of the results that will be reported for the entire year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted. In the opinion of management, the aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 Annual Report on Form 10-K).

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

Descriptions of our significant accounting policies are included in *Note 2 Summary of Significant Accounting Policies* in our 2009 Annual Report on Form 10-K.

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

NOTE 2 REGULATORY MATTERS AND GOING CONCERN CONSIDERATION

On November 2, 2009, the members of the Board of Directors of the Bank consented to the issuance of the Final Order (Final Order) with the California Department of Financial Institutions (the DFI). On the same date, Hanmi Financial and the Bank entered into a Written Agreement (the Agreement) with the Federal Reserve Bank of San Francisco (the FRB). The Final Order and the Agreement contain a list of strict requirements ranging from a capital directive to developing a contingency funding plan.

While Hanmi Financial and the Bank have been aggressive and proactive in taking actions necessary to comply with the requirements of the Final Order and Agreement, there can be no assurance that Hanmi Financial or the Bank will be able to comply fully with all provisions of the Final Order and the Agreement, or that compliance with the Final Order and the Agreement will not have material and adverse effects on the operations and financial condition of Hanmi Financial and the Bank. Any material failure to comply with the provisions of the Final Order and the Agreement could result in further enforcement actions by both DFI and FRB, or the placing of the Bank into conservatorship or receivership.

Final Order and Written Agreement

The Final Order and the Agreement contain substantially similar provisions. The Final Order and the Agreement require the Board of Directors of the Bank to prepare and submit written plans to the DFI and the FRB that address the following items: (i) strengthening Board oversight of the management and operation of the Bank; (ii) strengthening credit risk management practices; (iii) improving credit administration policies and procedures; (iv) improving the Bank s position with respect to problem assets; (v) maintaining adequate reserves for loan and lease losses; (vi) improving the capital position of the Bank and, with respect to the Agreement, of Hanmi Financial; (vii) improving the Bank s earnings through a strategic plan and a budget for 2010; (viii) improving the Bank s liquidity position and funds management practices; and (ix) contingency funding. In addition, the Final Order and the Agreement place restrictions on the Bank s lending to borrowers who have adversely

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

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

classified loans with the Bank and requires the Bank to charge off or collect certain problem loans. The Final Order and the Agreement also require the Bank to review and revise its methodology for calculating allowance for loan and lease losses consistent with relevant supervisory guidance. The Bank is also prohibited from paying dividends, incurring, increasing or guaranteeing any debt, or making certain changes to its business without prior approval from the DFI, and Hanmi Financial and the Bank must obtain prior approval from the FRB prior to declaring and paying dividends.

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

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

If the Bank is not able to maintain the capital ratios identified in the Final Order, it must notify the DFI, and Hanmi Financial and the Bank are required to notify the FRB if their respective capital ratios fall below those set forth in the capital plan to be approved by the FRB. On July 27, 2010, we completed a registered rights and best efforts offering by which we raised $116.8 million in net proceeds. As a result, we satisfied the $100 million capital contribution requirement set forth in the Final Order. As of September 30, 2010, the Bank had tangible stockholders equity to total tangible assets ratio of 8.37 percent. Accordingly, we notified the DFI and FRB of such event.

In addition to complying with the provisions of the Order and the Agreement, we entered into a definitive securities purchase agreement with Woori Finance Holdings Co. Ltd. (Woori) on May 25, 2010 which provides that upon satisfaction of all conditions to closing, we will issue 175 million shares of common stock to Woori at a purchase price per share of $1.20, for aggregate gross consideration of $210 million.

The following additional actions which have been taken to comply with the provisions of the Final Order and the Agreement include the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Policies and procedures have been developed, plans have been formulated, documented, approved and submitted and administrative requirements such as submission of quarterly progress reports are also being met.

Risk-Based Capital

The regulatory agencies require a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, regulators require banking organizations to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent. For a bank rated in the highest of the five categories used by regulators to rate banks, the minimum leverage ratio is 3.0 percent. In addition to these uniform risk-based capital guidelines that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

As of September 30, 2010, Hanmi Financial s Tier 1 capital (stockholders equity plus qualified junior subordinated debentures less intangible assets) was $224.7 million. This represented an increase of $30.0 million, or 15.4 percent, over Tier 1 capital of $194.7 million as of December 31, 2009. The capital ratios of Hanmi Financial and the Bank were as follows as of September 30, 2010:

	Actual		**Minimum Regulatory Requirement**		**To be Categorized as Well Capitalized under Prompt Corrective Action Provision**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in Thousands)			
September 30, 2010						
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	$279,713	11.69%	$191,345	8.00%	$239,182	10.00%
Hanmi Bank	$276,963	11.61%	$190,916	8.00%	$238,645	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	$224,724	9.40%	$ 95,673	4.00%	$143,509	6.00%
Hanmi Bank	$245,277	10.28%	$ 95,458	4.00%	$143,187	6.00%

Tier 1 Capital (to Average Assets):						
Hanmi Financial	$224,724	7.55%	$119,073	4.00%	$148,842	5.00%
Hanmi Bank	$245,277	8.26%	$118,835	4.00%	$148,544	5.00%

Going Concern

As previously mentioned, we are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. As part of the DFI Final Order issued on November 2, 2009, the Bank is also required to increase its capital and maintain certain regulatory capital ratios prior to certain dates specified in the Final Order. By July 31, 2010, the Bank was

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

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

required to increase its contributed equity capital by not less than an additional $100 million and maintain a ratio of tangible stockholders equity to total tangible assets of at least 9.0 percent. As a result of the successful completion of the registered rights and best efforts offering in July 2010, the capital contribution requirement set forth in the Final Order has been satisfied. However, the tangible capital ratio requirement set for the in the Final Order has not been satisfied at September 30, 2010. Further, should our asset quality continue to erode and require significant additional provision for credit losses, resulting in added future net operating losses at the Bank, our capital levels will additionally decline requiring the raising of more capital than the amount currently required to satisfy our agreements with our regulators. An inability to raise additional capital when needed or comply with the terms of the Final Order or Agreement, raises substantial doubt about our ability to continue as a going concern.

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

As set forth above, on May 25, 2010, we entered into a definitive securities purchase agreement with Woori and are currently awaiting final regulatory approval for the applications filed by Woori in connection with the transactions contemplated by the securities purchase agreement. We will inject a substantial portion of the net proceeds from the Woori transaction as new capital into Hanmi Bank. However, we cannot provide assurance that we will be successful in consummating the transaction with Woori.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value Option and Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

FASB ASC 825, *Financial Instruments,* provides additional guidance for estimating fair value in accordance with FASB ASC 820 when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. FASB ASC 825 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. FASB ASC 825 also requires additional disclosures relating to fair value measurement inputs and valuation techniques, as well as providing disclosures for all debt and equity investment securities by major security types rather than by major security categories that should be based on the nature and risks of the security during both interim and annual periods. FASB ASC 825 is effective for interim and annual reporting periods ending after June 15, 2009 and does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FASB ASC 825 requires comparative disclosures only for periods ending after initial adoption. We adopted FASB ASC 825 in the second quarter of 2009. The adoption of FASB ASC 825 resulted in additional disclosures that are presented in *Note 3 Fair Value Measurements.*

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

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

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The adoption of FASB ASU 2010-06 resulted in additional disclosures that are presented in *Note 3 Fair Value Measurements.*

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

Investment Securities Available for Sale The fair values of investment securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities. The fair values of investment securities are determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, we have evaluated the methodologies used to develop the resulting fair values. We perform a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes.

Level 1 investment securities include U.S. government and agency debentures and equity securities that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 investment securities primarily include mortgage-backed securities, municipal bonds, collateralized mortgage obligations, and asset-backed securities. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security we hold as of each reporting date. The broker-dealers use observable market information to value our fixed income securities, with the primary sources being nationally recognized pricing services. The fair value of the municipal securities is based on a proprietary model maintained by the broker-dealer. We review the market prices provided by the broker-dealer for our securities for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

Securities classified as Level 3 investment securities are preferred stocks that are not traded in the market. As such, no observable market data for the instrument is available. This necessitates the use of significant unobservable inputs into the Company s proprietary valuation model. The fair value of the securities is determined by discounting contractual cash flows at a discount rate derived from a synthetic bond-rating method. This method relies on significant unobservable assumptions such as default spread and expected cash flows, and therefore, the Company has determined that classification of the instrument as Level 3 is appropriate.

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

Impaired Loans FASB ASC 820 applies to loans measured for impairment using the practical expedients permitted by FASB ASC 310, *Receivables,* including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These loans are classified as Level 2 and subject to non-recurring fair value adjustments.

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

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

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

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

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

Stock Warrants The fair value of stock warrants was determined by the Black-Scholes option pricing model

FASB ASC 320, *Investments Debt and Equity Securities,* amended current other-than-temporary impairment (OTTI) guidance in GAAP for debt securities by requiring a write-down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. FASB ASC 320 did not amend existing recognition and measurement guidance related to OTTI write-downs of equity securities. FASB ASC 320 also extended disclosure requirements about debt and equity securities to interim reporting periods. FASB ASC 320 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FASB ASC 320 requires comparative disclosures only for periods ending after initial adoption. We adopted FASB ASC 320 in the second quarter of 2009 and it had no impact on our financial condition or results of operations.

Fair Value Measurement

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a three-level fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

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

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

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the three and nine months periods ended September 30, 2010. There was a transfer of assets into Level 1 out of Level 3 of the fair value hierarchy for the three and nine months ended September 30, 2010. The transfer was due to a conversion of preferred shares of the issuer to common shares that were traded on the OTC Bulletin Board. The preferred shares were converted into common shares upon the approval of the company s shareholders which occurred on October 6, 2010.

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	*Level 2* Significant Observable Inputs With No Active Market With Identical Characteristics	*Level 3* Significant Unobservable Inputs	Balance as of September 30, 2010
		(In Thousands)		
ASSETS:				
Debt Securities Available for Sale:				
Residential Mortgage-Backed Securities	$	$ 106,045	$	$ 106,045
U.S. Government Agency Securities	91,734			91,734
Collateralized Mortgage Obligations		97,745		97,745
Municipal Bonds		12,654		12,654
Asset-Backed Securities		7,678		7,678
Corporate Bonds		4,496		4,496
Other Securities		3,316		3,316
Total Debt Securities Available for Sale	$ 91,734	$ 231,934	$	$ 323,668
Equity Securities Available for Sale:				
Financial Service Industry	$ 910			$ 910
Total Equity Securities Available for Sale	$ 910	$	$	$ 910
Total Securities Available for Sale	$ 92,644	$ 231,934	$	$ 324,578
Servicing Assets	$	$	$ 3,197	$ 3,197

LIABILITIES:				
Servicing Liabilities	$	$	$ 183	$ 183
Stock Warrants	$	$	$ 1,967	$ 1,967

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance as of July 1, 2010	**Purchases, Issuances and Settlements**	**Realized and Unrealized Gains or Losses in Earnings**	**Realized and Unrealized Gains or Losses in Other Comprehensive Income**	**Transfers In and/or Out of Level 3**	**Ending Balance as of September 30, 2010**
	(In Thousands)					
ASSETS:						
Servicing Assets	$3,356	$ 51	$ (210)	$	$	$ 3,197
LIABILITIES:						
Servicing Liabilities	$ (193)	$	$ 10	$	$	$ (183)
Stock Warrants	$	$	$ (6)	$	$	$ (1,967)

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

NOTE 3 FAIR VALUE MEASUREMENTS *(Continued)*

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance as of January 1, 2010	Purchases, Issuances and Settlements	Realized and Unrealized Gains or Losses in Earnings	Realized and Unrealized Gains or Losses in Other Comprehensive Income	Transfers In and/or Out of Level 3	Ending Balance as of September 30, 2010
	(In Thousands)					
ASSETS:						
Servicing Assets	$3,842	$ 60	$ (705)	$	$	$ 3,197
LIABILITIES:						
Servicing Liabilities	$ (216)	$	$ 33	$	$	$ (183)
Stock Warrants	$	$	$ (6)	$	$	$ (1,967)

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

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

	Level 1	*Level 2* Significant Observable Inputs With	*Level 3*