HANMI FINANCIAL CORP
Form 10-Q
August 11, 2008

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

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

For the Quarterly Period Ended June 30, 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 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 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 (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 August 1, 2008, there were 45,900,549 outstanding shares of the Registrant s Common Stock.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

Junior Subordinated Debentures	82,406	82,406
Other Liabilities	16,229	14,617
Total Liabilities	**3,583,602**	**3,613,101**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $.001 Par Value; Authorized 200,000,000 Shares; Issued 50,533,049 Shares (45,900,549 Shares Outstanding) and 50,493,441 Shares (45,860,941 Shares Outstanding) at June 30, 2008 and December 31, 2007, Respectively	51	50
Additional Paid-In Capital	348,777	348,073
Unearned Compensation	(220)	(245)
Accumulated Other Comprehensive (Loss) Income Unrealized (Loss) Gain on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of ($285) and $527 at June 30, 2008 and December 31, 2007, Respectively	(666)	275
Retained (Deficit) Earnings	(16,425)	92,415
	331,517	440,568
Less Treasury Stock, at Cost; 4,632,500 Shares at June 30, 2008 and December 31, 2007	(70,012)	(70,012)
Total Stockholders Equity	**261,505**	**370,556**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,845,107**	**$ 3,983,657**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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

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

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

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)***
(Dollars in Thousands)

	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	S
AS OF DECEMBER 31, 2006	**50,239,613**	**(1,163,000)**	**49,076,613**	**$ 50**	**$ 344,810**	**$**	**$ (3,200)**	**$ 164,751**	**$ (20,041)**	
d for Business Acquisitions	102,181		102,181		2,198					
Stock Options	93,135		93,135		687					
Compensation Expense					867					
from Exercise of Stock Options					150					
nds								(5,880)		
of Common Stock		(1,321,000)	(1,321,000)						(23,934)	
of Stock Warrants					(2,552)					
ive Income:										
								28,254		
nrealized Loss on Securities r Sale, Interest-Only Strips and Swaps, Net of Tax							(997)			
rehensive Income										
AS OF JUNE 30, 2007	**50,434,929**	**(2,484,000)**	**47,950,929**	**$ 50**	**$ 346,160**	**$**	**$ (4,197)**	**$ 187,125**	**$ (43,975)**	
AS OF DECEMBER 31, 2007	**50,493,441**	**(4,632,500)**	**45,860,941**	**$ 50**	**$ 348,073**	**$ (245)**	**$ 275**	**$ 92,415**	**$ (70,012)**	
Effect Adjustment from the EITF Issue No. 06-4								(2,223)		
d for Business Acquisitions	39,608		39,608	1	292					
of Stock Options					(70)					
Compensation Expense					482	25				
nds								(3,991)		
ive Loss:										
								(102,626)		
nrealized Loss on Securities r Sale, Interest-Only Strips and Swaps, Net of Tax							(941)			
rehensive Loss										

AS OF JUNE 30, 2008	**50,533,049**	**(4,632,500)**	**45,900,549**	**$ 51**	**$ 348,777**	**$ (220)**	**$ (666)**	**$ (16,425)**	**$ (70,012)**

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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

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

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

See Accompanying Notes to Consolidated Financial Statements (Unaudited).

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

NOTE 1 BASIS OF PRESENTATION

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

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

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

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

NOTE 2 FAIR VALUE MEASUREMENTS

Fair Value Option and Fair Value Measurements

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

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

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

NOTE 2 FAIR VALUE MEASUREMENTS *(Continued)*

Fair Value Measurement

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

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

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

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

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

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

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

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

NOTE 2 FAIR VALUE MEASUREMENTS *(Continued)*

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Beginning Balance as of April 1, 2008	**Purchases, Issuances and Settlements**	**Realized and Unrealized Gains or Losses in Earnings (Other Expense)**	**Realized and Unrealized Gains or Losses in Other Comprehensive Income**	**Ending Balance as of June 30, 2008**
			(In Thousands)		
ASSETS:					
Securities Available for Sale (Other Securities)	$ 925	$	$	$	$ 925
Servicing Assets	$ 4,220	$ 314	$ (206)	$	$ 4,328
LIABILITIES:					
Servicing Liabilities	$ 266	$ 7	$ (16)	$	$ 250

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

NOTE 2 FAIR VALUE MEASUREMENTS *(Continued)*

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Beginning Balance as of January 1, 2008	Purchases, Issuances and Settlements	Realized and Unrealized Gains or Losses in Earnings (Other Expense)	Realized and Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of June 30, 2008
			(In Thousands)		
ASSETS:					
Securities Available for Sale (Other Securities)	$ 925	$	$	$	$ 925
Servicing Assets	$4,336	$ 405	$ (413)	$	$ 4,328
LIABILITIES:					
Servicing Liabilities	$ 266	$	$ (16)	$	$ 250

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

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	*Level 2* Significant Observable Inputs With No Active Market With Identical Characteristics	*Level 3* Significant Unobservable Inputs	Balance as of June 30, 2008
			(In Thousands)	
ASSETS:				
Loans Held for Sale	$	$ 9,158	$	$ 9,158
Impaired Loans	$	$ 2,775	$	$ 2,775

NOTE 3 SHARE-BASED COMPENSATION

Share-Based Compensation Expense

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

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

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

NOTE 3 SHARE-BASED COMPENSATION *(Continued)*

Unrecognized Compensation Expense

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

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

Share-Based Payment Award Activity

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

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

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

options.

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

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

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

NOTE 3 SHARE-BASED COMPENSATION *(Continued)*

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

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

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

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

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

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

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

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

NOTE 4 EARNINGS (LOSS) PER SHARE

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

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

NOTE 4 EARNINGS PER SHARE *(Continued)*

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

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

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

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

NOTE 5 OFF-BALANCE SHEET COMMITMENTS

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

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

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

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

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

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

NOTE 6 SEGMENT REPORTING

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

NOTE 7 CORRECTION OF IMMATERIAL ERRORS IN PRIOR PERIODS

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

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

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(Dollars in Thousands, Except Per Share Data)					
Interest on Deposits	$26,691	$ 106	$26,797	$52,772	$ 214	$52,986
Total Interest Expense	$31,270	$ 106	$31,376	$61,161	$ 214	$61,375
Net Interest Income Before Provision for Credit Losses	$38,590	$(106)	$38,484	$76,655	$(214)	$76,441
Net Interest Income After Provision for Credit Losses	$35,567	$(106)	$35,461	$67,500	$(214)	$67,286
Income Before Provision for Income Taxes	$24,769	$(106)	$24,663	$45,720	$(214)	$45,506
Provision for Income Taxes	$ 9,446	$ (45)	$ 9,401	$17,342	$ (90)	$17,252
Net Income	$15,323	$ (61)	$15,262	$28,378	$(124)	$28,254
Earnings Per Share:						
Basic	$ 0.32	$	$ 0.32	$ 0.58	$	$ 0.58
Diluted	$ 0.31	$	$ 0.31	$ 0.58	$	$ 0.58

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

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

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

NOTE 9 LIQUIDITY

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

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

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

NOTE 10 REGULATORY MATTERS

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007 as well as other factors we identify from time to time in our periodic reports filed pursuant to the Exchange Act. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

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

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CRITICAL ACCOUNTING POLICIES

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

Goodwill

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

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

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

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SELECTED FINANCIAL DATA

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

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

Allowance for Loan Losses to Non-Performing Loans	56.14%	142.30%

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

(2) *Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average stockholders equity. See Non-GAAP Financial Measures.*

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

(4) *Tangible equity divided by common shares outstanding. See Non-GAAP Financial Measures.*

(5) *Calculation based upon annualized net income.*

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

(7) *Net income (loss) divided by average*

stockholders equity.

(8) *Net income (loss) divided by average tangible equity. See Non-GAAP Financial Measures.*

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

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

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

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

(13) *The required ratios for a well-capitalized institution, as*

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

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

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

(16) *Calculation based upon annualized net loan*

charge-offs.

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

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

[(2)] *Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average stockholders equity. See Non-GAAP Financial*

Measures.

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

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

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

(6) *Net income (loss) divided by average tangible equity. See Non-GAAP Financial Measures.*

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

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

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

and total non-interest income.

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

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Non-GAAP Financial Measures

Return on Average Tangible Equity

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

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

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

Tangible Book Value Per Share

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

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

	June 30,	
	2008	**2007**

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

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EXECUTIVE OVERVIEW

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

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

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

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

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

Management believes the presentation of this financial measure, excluding the impact of the goodwill impairment charge, provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess our results from our core banking operations.

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Key Performance Indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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2008 Outlook

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

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

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

RESULTS OF OPERATIONS

Net Interest Income Before Provision for Credit Losses

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

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

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

The following table shows the average balances of assets, liabilities and stockholders equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated. All average balances are daily average balances.

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

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

(1) *Loans are net of deferred fees and related direct costs, but excluding the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $851,000 and $870,000 for the three months ended June 30, 2008 and 2007, respectively.*

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

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

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

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The table below shows changes in interest income and interest expense and the amounts attributable to variations in interest rates and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

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

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

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

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

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

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

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

The following table shows the average balances of assets, liabilities and stockholders equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated. All average balances are daily average balances.

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

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

(1) *Loans are net of deferred fees and related direct costs, but excluding the*

allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $1.4 million and $1.8 million for the six months ended June 30, 2008 and 2007, respectively.

(2) *If computed on a tax-equivalent basis using an effective marginal rate of 35 percent, tax-exempt income would be $2.2 million and $2.3 million, and the yields would be 6.47 percent and 6.49 percent, for the six months ended June 30, 2008 and 2007, respectively.*

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

(4) *Represents annualized net interest income*

as a percentage of average interest-earning assets.

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The table below shows changes in interest income and interest expense and the amounts attributable to variations in interest rates and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

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

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

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

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

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

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Provision for Credit Losses

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

Non-Interest Income

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

and loan servicing fee income.

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

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

Non-Interest Expenses

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

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

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

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

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

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

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

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

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

	Six Months Ended June 30,		Increase (Decrease)	
	2008	**2007**	**Amount**	**Percentage**
	(Dollars in Thousands)			
Salaries and Employee Benefits	$ 22,581	$ 22,543	$ 38	0.2%
Occupancy and Equipment	5,574	5,083	491	9.7%
Data Processing	3,232	3,228	4	0.1%
Professional Fees	1,980	1,121	859	76.6%
Advertising and Promotion	1,700	1,550	150	9.7%
Supplies and Communications	1,327	1,292	35	2.7%
Amortization of Other Intangible Assets	1,026	1,206	(180)	(14.9%)
Decrease in Fair Value of Embedded Options		196	(196)	(100.0%)
Other Operating Expenses	6,218	6,240	(22)	(0.4%)
Impairment Loss on Goodwill	107,393		107,393	
Total Non-Interest Expenses	**$ 151,031**	**$ 42,459**	**$ 108,572**	**255.7%**

For the six months ended June 30, 2008 and 2007, non-interest expenses were $151.0 million and $42.5 million, respectively. Excluding the impact of the goodwill impairment charge, non-interest expenses were $43.6 million for the six months ended June 30, 2008. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income) for the six months ended June 30, 2008 was 172.25 percent (49.77 percent excluding the goodwill impairment charge), compared to 43.72 percent for the same period in 2007. The overall increase in non-interest expenses was due to the impairment loss on goodwill, three new branches (Fullerton, Rancho Cucamonga and Beverly Hills) opened since the first quarter of 2007, and increases in occupancy and equipment and professional fees.

Occupancy and equipment expense increased $491,000, or 9.7 percent, from $5.1 million for the six months ended June 30, 2007 to $5.6 million for the same period in 2008. The increase was due primarily to additional office space leased for the new branches.

Professional fees increased $859,000, or 76.6 percent, from $1.1 million for the six months ended June 30, 2007 to $2.0 million for the same period in 2008. The increase was due primarily to additional professional fees incurred in 2008 for credit, legal and valuation services.

Provision for Income Taxes

For the three months ended June 30, 2008, income taxes of $595,000 were recognized on pre-tax losses of $105.0 million, representing an effective tax rate of 0.6 percent, compared to income taxes of $9.4 million recognized on pre-tax income of $24.7 million, representing an effective tax rate of 38.1 percent, for the same period in 2007. For the six months ended June 30, 2008, income taxes of $2.2 million were recognized on pre-tax losses of $100.4 million, representing an effective tax rate of 2.2 percent, compared to income taxes of $17.3 million recognized on pre-tax income of $45.5 million, representing an effective tax rate of 37.9 percent, for the same period in 2007. The effective tax rate for 2008 includes a $107.4 million impairment loss on goodwill, which is not deductible for tax purposes.

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FINANCIAL CONDITION

Investment Portfolio

Investment securities are classified as held to maturity or available for sale in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Those securities that we have the ability and intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading securities at June 30, 2008 or December 31, 2007. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The securities currently held consist primarily of mortgage-backed securities, municipal bonds, U.S. Government agency securities (Agency) and collateralized mortgage obligations.

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

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

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

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

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

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

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

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

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

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

Loan Portfolio

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

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

	June 30, 2008	December 31, 2007	Increase (Decrease) Amount	Increase (Decrease) Percentage
		(Dollars in Thousands)		
Real Estate Loans:				
Commercial Property	$ 863,047	$ 795,675	$ 67,372	8.5%
Construction	204,411	215,857	(11,446)	(5.3%)
Residential Property [1]	91,022	90,375	647	0.7%
Total Real Estate Loans	1,158,480	1,101,907	56,573	5.1%
Commercial and Industrial Loans:				
Commercial Term Loans	1,625,116	1,599,853	25,263	1.6%
Commercial Lines of Credit	241,681	256,978	(15,297)	(6.0%)
SBA Loans [2]	143,589	118,528	25,061	21.1%
International Loans	98,120	119,360	(21,240)	(17.8%)
Total Commercial and Industrial Loans	2,108,506	2,094,719	13,787	0.7%
Consumer Loans	88,062	90,449	(2,387)	(2.6%)
Total Loans Gross	**3,355,048**	**3,287,075**	**67,973**	**2.1%**
Deferred Loan Fees	(2,169)	(2,367)	198	(8.4%)
Allowance for Loan Losses	(62,977)	(43,611)	(19,366)	44.4%
Net Loans Receivable	**$ 3,289,902**	**$ 3,241,097**	**$ 48,805**	**1.5%**

[1] *Includes loans held for sale, at the lower of cost or market, of $0 and $310,000 at June 30, 2008 and December 31, 2007,*

respectively.

(2) *Includes loans held for sale, at the lower of cost or market, of $9.2 million and $6.0 million at June 30, 2008 and December 31, 2007, respectively.*

At June 30, 2008 and December 31, 2007, loans receivable (including loans held for sale), net of deferred loan fees and allowance for loan losses, totaled $3.29 billion and $3.24 billion, respectively, an increase of $48.8 million, or 1.5 percent. Real estate loans, composed of commercial property, residential property and construction loans, increased $56.6 million, or 5.1 percent, to $1.16 billion at June 30, 2008 from $1.10 billion at December 31, 2007, representing 34.5 percent and 33.5 percent, respectively, of total gross loans. Total commercial and industrial loans, composed of owner-occupied commercial property, trade finance, SBA and lines of credit, increased $13.8 million, or 0.7 percent, to $2.11 billion at June 30, 2008 from $2.09 billion at December 31, 2007, representing 62.8 percent and 63.7 percent, respectively, of total gross loans. Consumer loans decreased $2.4 million, or 2.6 percent, to $88.1 million at June 30, 2008 from $90.4 million at December 31, 2007.

As of June 30, 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 June 30, 2008** *(In Thousands)*	**Percentage of Total Gross Loans Outstanding**
Accommodation/Hospitality	$424,603	12.7%
Lessors of Non-Residential Buildings	$413,241	12.3%
Gasoline Stations	$366,079	10.9%

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

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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 placed on non-accrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on non-accrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When an asset is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectibility of principal is probable, in which case interest payments are credited to income. Non-accrual assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for non-accrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

The table below shows the composition of non-performing assets as of the dates indicated.

	June 30, 2008	**December 31, 2007**	**Increase (Decrease) Amount**	**Increase (Decrease) Percentage**
		(Dollars in Thousands)		
Non-Accrual Loans	$ 112,024	$ 54,252	$ 57,772	106.5%
Loans 90 Days or More Past Due and Still Accruing	158	227	(69)	(30.4%)
Total Non-Performing Loans	112,182	54,479	57,703	105.9%
Other Real Estate Owned		287	(287)	(100.0%)
Total Non-Performing Assets	**$ 112,182**	**$ 54,766**	**$ 57,416**	**104.8%**

Non-performing loans were $112.2 million at June 30, 2008, compared to $54.5 million at December 31, 2007, representing a 105.9 percent increase. The increase was primarily due to two large construction loans (a $28.0 million condominium project in Northern California and a $16.8 million low-income housing construction project in the Los Angeles area) and a $24.2 million commercial term loan. Total gross loans increased by 2.1 percent during the first half of 2008. As a result, the ratio of non-performing loans to total gross loans increased to 3.34 percent at June 30, 2008 from 1.66 percent at December 31, 2007. As of December 31, 2007, OREO totaled $287,000. There was no OREO as of June 30, 2008. 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 $138.4 million at June 30, 2008, compared to $45.1 million at December 31, 2007, representing a 206.9 percent increase. We believe that the increases in non-performing loans and delinquent loans are attributable primarily to a persistently soft economy 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.

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.

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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 loans (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.

As described above, we continue to anticipate that the weakened national and state economy will remain through at least the end of 2008, due in large part to a decline in home prices and sales and home construction activity, as well as other credit quality problems. Responding to this difficult environment, we have made and are in the process of making significant changes in two critical areas. First, we are enhancing existing policies and procedures regarding the monitoring of loans to be more stringent and make it more difficult to allow exceptions from our loan policy. Second, we are strengthening and centralizing the loan underwriting and approval processes, including centralizing the credit underwriting function at three locations, creating a central monitoring mechanism to monitor all loans, and increasing resources in departments of the Bank engaged in addressing problem assets.

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 Three Months Ended			As of and for the Six Months Ended	
	June 30, 2008	**March 31, 2008**	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
	(Dollars in Thousands)				
Allowance for Loan Losses:					
Balance at Beginning of Period	$ 52,986	$ 43,611	$ 31,527	$ 43,611	$ 27,557
Actual Charge-Offs	(8,656)	(7,852)	(2,662)	(16,508)	(5,281)
Recoveries on Loans Previously Charged Off	436	555	144	991	359
Net Loan Charge-Offs	(8,220)	(7,297)	(2,518)	(15,517)	(4,922)
Provision Charged to Operating Expenses	18,211	16,672	3,181	34,883	9,555
Balance at End of Period	**$ 62,977**	**$ 52,986**	**$ 32,190**	**$ 62,977**	**$ 32,190**

Allowance for Off-Balance Sheet Items:					
Balance at Beginning of Period	$ 2,914	$ 1,765	$ 1,888	$ 1,765	$ 2,130
Provision Charged to Operating Expenses	1,018	1,149	(158)	2,167	(400)
Balance at End of Period	**$ 3,932**	**$ 2,914**	**$ 1,730**	**$ 3,932**	**$ 1,730**
Ratios:					
Net Loan Charge-Offs to Average Total Gross Loans [(1)]	1.00%	0.89%	0.33%	0.94%	0.34%
Net Loan Charge-Offs to Total Gross Loans [(1)]	0.99%	0.89%	0.33%	0.93%	0.32%
Allowance for Loan Losses to Average Total Gross Loans	1.90%	1.60%	1.07%	1.90%	1.09%
Allowance for Loan Losses to Total Gross Loans	1.88%	1.60%	1.05%	1.88%	1.05%
Net Loan Charge-Offs to Allowance for Loan Losses [(1)]	52.50%	55.39%	31.38%	49.55%	30.83%
Net Loan Charge-Offs to Provision Charged to Operating Expenses	45.14%	43.77%	79.16%	44.48%	51.51%
Allowance for Loan Losses to Non-Performing Loans	56.14%	59.72%	142.30%	56.14%	142.30%
Balances:					
Average Total Gross Loans	$ 3,319,141	$ 3,305,252	$ 3,017,012	$ 3,312,196	$ 2,951,485
Total Gross Loans	$ 3,355,048	$ 3,305,949	$ 3,058,053	$ 3,355,048	$ 3,058,053
Non-Performing Loans	$ 112,182	$ 88,720	$ 22,621	$ 112,182	$ 22,621

(1) *Net loan charge-offs are annualized to calculate the ratios.*

The allowance for loan losses increased by $19.4 million, or 44.4 percent, to $63.0 million at June 30, 2008, compared to $43.6 million at December 31, 2007. The increase in the allowance for loan losses in 2008 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 better collateral coverage on impaired loans and the presence of guarantees. The ratio of the allowance for loan losses to total gross loans increased to 1.88 percent as of June 30, 2008, compared to 1.33 percent at December 31, 2007, primarily due to the overall increase of historical loss factors and classified loans.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, increased by $2.2 million, or 122.8 percent, to $3.9 million at June 30, 2008, compared to $1.8 million at December 31, 2007. The allowance for off-balance sheet items is recorded in other liabilities. Based on management s evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe the allowance for loan losses and allowance for off-balance sheet items are adequate for losses inherent in the loan portfolio and off-balance sheet exposure at June 30, 2008 and December 31, 2007.

Deposits

The following table shows the composition of deposits by type as of the dates indicated.

	June 30, 2008	December 31, 2007	Increase (Decrease) Amount	Increase (Decrease) Percentage
		(Dollars in Thousands)		
Demand Noninterest-Bearing	$ 683,846	$ 680,282	$ 3,564	0.5%
Interest-Bearing:				
Savings	93,747	93,099	648	0.7%
Money Market Checking and NOW Accounts	728,601	445,806	282,795	63.4%
Time Deposits of $100,000 or More	1,050,942	1,441,683	(390,741)	(27.1%)
Other Time Deposits	404,424	340,829	63,595	18.7%
Total Deposits	**$ 2,961,560**	**$ 3,001,699**	**$ (40,139)**	**(1.3%)**

Money market checking and NOW accounts increased $282.8 million, or 63.4 percent, to $728.6 million at June 30, 2008 from $445.8 million at December 31, 2007. The increase was due to our deposit campaign targeted for core deposits by offering attractive money market checking accounts. Time deposits of $100,000 or more decreased $390.7 million, or 27.1 percent, to $1.05 billion at June 30, 2008 from $1.44 billion at December 31, 2007, reflecting the transfer of customer funds into money market checking accounts and a decrease in state government time deposits. Other time deposits increased $63.6 million, or 18.7 percent, to $404.4 million at June 30, 2008 from $340.8 million at December 31, 2007, reflecting an increase in brokered deposits.

We accept brokered deposits on a selective basis at prudent interest rates to augment deposit growth. There were $100.0 million and $31.8 million of brokered deposits as of June 30, 2008 and December 31, 2007, respectively. We also had $95.0 million and $200.0 million of state government time deposits over $100,000 as of June 30, 2008 and December 31, 2007, respectively. The majority of our brokered and state government time deposits mature in less than one year.

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 June 30, 2008, advances from the FHLB were $496.4 million, an increase of $63.8 million, or 14.7 percent, from the December 31, 2007 balance of $432.7 million. Overnight Federal funds were $50.0 million at December 31, 2007. There were no overnight Federal funds at June 30, 2008. Among the FHLB advances and other borrowings at June 30, 2008, short-term borrowings with a remaining maturity of less than one

year were $335.0 million, and the weighted-average interest rate thereon was 3.29 percent. The majority of short-term borrowings that matured have already been renewed.

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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 totaled $82.4 million at June 30, 2008 and December 31, 2007.

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.

The following table shows the status of our gap position as of June 30, 2008:

	Within Three Months	After Three Months But Within One Year	After One Year But Within Five Years	After Five Years	Non-Interest-Sensitive	Total
			(Dollars in Thousands)			
ASSETS						
Cash and Due From Banks	$	$	$	$	$ 110,222	$ 110,222
Federal Funds Sold	10,000					10,000
Securities:						
Fixed Rate	35,959	29,918	89,524	85,881		241,282
Floating Rate	3,951		13,582	3,786		21,319
Loans:						
Fixed Rate	125,718	193,592	598,064	292,320		1,209,694
Floating Rate	1,782,733	102,144	142,494	5,959		2,033,330
Non-Accrual					112,024	112,024
Deferred Loan Fees and Allowance for Loan Losses					(65,146)	(65,146)
Federal Reserve Bank and Federal Home Loan Bank Stock				41,130		41,130
Other Assets		24,998		7,287	98,967	131,252
Total Assets	**$ 1,958,361**	**$ 350,652**	**$ 843,664**	**$ 436,363**	**$ 256,067**	**$ 3,845,107**
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Demand Deposits	$ 46,146	$ 137,140	$ 329,135	$ 171,425	$	$ 683,846
Savings	13,489	34,958	36,739	8,561		93,747

Money Market Checking and NOW Accounts	109,712	209,659	235,898	173,332		728,601
Time Deposits:						
Fixed Rate	928,303	515,183	11,688	138		1,455,312
Floating Rate	54					54
FHLB Advances and Other Borrowings	332,674	6,000	156,997	4,436		500,107
Junior Subordinated Debentures	82,406					82,406
Other Liabilities					39,529	39,529
Stockholders Equity					261,505	261,505
Total Liabilities and Stockholders Equity	**$ 1,512,784**	**$ 902,940**	**$ 770,457**	**$ 357,892**	**$ 301,034**	**$ 3,845,107**
Repricing Gap	$ 445,577	$ (552,288)	$ 73,207	$ 78,471	$ (44,967)	
Cumulative Repricing Gap	$ 445,577	$ (106,711)	$ (33,504)	$ 44,967	$	
Cumulative Repricing Gap as a Percentage of Total Assets	11.59%	(2.78%)	(0.87%)	1.17%		
Cumulative Repricing Gap as a Percentage of Interest-Earning Assets	12.53%	(3.00%)	(0.94%)	1.26%		

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities (i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same period). Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates, and liabilities are assigned based on their repricing or maturity dates. Core deposits that have no maturity dates (demand deposits, savings, money market checking and NOW accounts) are assigned to categories based on expected decay rates.

On June 30, 2008, the cumulative repricing gap for the three-month period was asset-sensitive position and 12.53 percent of interest-earning assets, which increased from the previous quarter s figure of 10.20 percent. This increase was caused by an increase of $154.0 million in fixed and floating rate loans with maturities or expected to reprice within three months, partially offset by increases of $76.5 million and $24.7 million in fixed rate certificates of deposit and FHLB advances and other borrowings, respectively, with maturities of less than three months. The cumulative repricing gap for the twelve-month period was liability-sensitive position and (3.00) percent of interest-earning assets, which decreased from the previous quarter s figure of (16.62) percent. The decrease was caused primarily by an increase of $332.4 million in fixed and floating rate loans with maturities of less than twelve months, and decreases of $110.0 million and $65.3 million in fixed rate certificates of deposit and FHLB advances and other borrowings, respectively, with maturities of less than twelve months.

The following table summarizes the status of the cumulative gap position as of the dates indicated.

	Less Than Three Months		**Less Than Twelve Months**	
	June 30, 2008	**March 31, 2008**	**June 30, 2008**	**March 31, 2008**
	(Dollars in Thousands)			
Cumulative Repricing Gap	$445,577	$364,935	$(106,711)	$(594,590)
Percentage of Total Assets	11.59%	9.26%	(2.78%)	(15.09%)
Percentage of Interest-Earning Assets	12.53%	10.20%	(3.00%)	(16.62%)

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect our financial performance. We emphasize capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, we prudently manage our assets and liabilities and closely monitor the percentage changes in net interest income and equity value in relation to limits established within our guidelines.

To supplement traditional gap analysis, we perform simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the market value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated). This sensitivity analysis is compared to policy limits, which specify the maximum tolerance level for net interest income exposure over a one-year horizon, given the basis point adjustment in interest rates reflected below.

Rate Shock Table

	Percentage Changes		**Change in Amount**	
Change in Interest Rate	**Net Interest Income**	**Economic Value of Equity**	**Net Interest Income**	**Economic Value of Equity**
		(Dollars in Thousands)		
200%	8.22%	(20.11%)	$ 12,304	$(64,591)
100%	4.33%	(9.86%)	$ 6,478	$(31,652)
(100%)	(4.83%)	9.84%	$ (7,239)	$ 31,596
(200%)	(9.95%)	26.16%	$(14,901)	$ 84,019

The estimated sensitivity does not necessarily represent our forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and

timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions, including how customer preferences or competitor influences might change.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity of the Bank is defined as the ability to supply cash as quickly as needed without causing a severe deterioration in profitability. The Bank s liquidity consists primarily of available cash positions, Federal funds sold and short-term investments categorized as available for sale securities, which can be disposed of without significant capital losses in the ordinary course of business, plus borrowing capacities, which include Federal funds lines, repurchase agreements and FHLB advances. Therefore, maintenance of high quality loans and securities that can be used for collateral in repurchase agreements or other secured borrowings is important feature of our liquidity management.

The maintenance of a proper level of liquid assets is critical for both the liquidity and the profitability of the Bank. Since the primary purpose of the investment portfolio is to ensure the Bank has adequate liquidity, management maintains appropriate levels of liquid assets to avoid exposure to higher than necessary liquidity risk. Liquidity risk may increase when the Bank has few short-duration securities available for sale and/or is not capable of raising funds as quickly as necessary at acceptable rates in the capital or money markets. A heavy and sudden increase in cash demands for loans and/or deposits can tighten the liquidity position. Several ratios are reviewed on a daily, monthly and quarterly basis to manage the liquidity position and to preempt any liquidity crisis.

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, cash generated from operations, and access to capital from financial markets or the issuance of additional securities, including common stock or notes, to meet our capital needs. Total stockholders equity was $261.5 million at June 30, 2008, which represented a decrease of $109.1 million, or 29.4 percent, compared to $370.6 million at December 31, 2007. The decrease was primarily due to a non-cash goodwill impairment charge of $107.4 million during the three months ended June 30, 2008.

We can also meet our liquidity needs through borrowings from the FHLB, unsecured credit lines and repurchase agreements. We are eligible to borrow up to 20 percent of our total assets from the FHLB. We have pledged investment securities available for sale and loans receivable as collateral with the FHLB for this borrowing facility. As of June 30, 2008, the total borrowing capacity available from the collateral that has been pledged and the remaining available borrowing capacity were $774.0 million and $277.5 million, respectively. As of December 31, 2007, the total borrowing capacity available from the collateral that has been pledged and the remaining available borrowing capacity were $714.6 million and $281.8 million, respectively.

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

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

interest obligations on the debentures have been satisfied, Hanmi Financial cannot declare any dividends on its common stock.

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

Capital Ratios

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 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.

At June 30, 2008, Hanmi Financial s Tier 1 capital (stockholders equity plus junior subordinated debentures less intangible assets) was $335.7 million. This represented an increase of $264,000, or 0.1 percent, over Tier 1 capital of $335.5 million at December 31, 2007. The capital ratios of Hanmi Financial and Hanmi Bank were as follows as of June 30, 2008:

	Actual		**Minimum Regulatory Requirement**		**Minimum to Be Categorized as Well-Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in Thousands)			
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	$380,618	10.66%	$285,621	8.00%	N/A	N/A
Hanmi Bank	$379,603	10.64%	$285,301	8.00%	$356,627	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	$335,715	9.40%	$142,811	4.00%	N/A	N/A
Hanmi Bank	$334,749	9.39%	$142,651	4.00%	$213,976	6.00%
Tier 1 Capital (to Average Total Assets):						
Hanmi Financial	$335,715	8.61%	$155,956	4.00%	N/A	N/A
Hanmi Bank	$334,749	8.60%	$155,695	4.00%	$194,618	5.00%

We continue to closely evaluate our capital levels to determine the need to raise additional capital, and intend to maintain our well capitalized position for regulatory purposes.

Regulatory Matters

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

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Dividends

The ability of Hanmi Financial to pay dividends to our stockholders is directly dependent on the ability of the Bank to pay dividends to Hanmi Financial. 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. Because 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. 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 Commissioner). The Bank had a retained deficit of $52.4 million as of June 30, 2008 and retained earnings of $52.8 million as of December 31, 2007. As a result of the net loss for the first six months of 2008, neither Section 642 or 643 is currently available to the Bank to declare a dividend to Hanmi Financial. Although dividends from the Bank constitute the primary source of income to Hanmi Financial, Hanmi Financial has other limited sources of income including cash, earnings on assets held at the holding company and funds otherwise obtained from capital raising efforts at Hanmi Financial. Use of such funds for payments of interest or dividends is subject to receipt of prior regulatory approval.

Similarly, the net loss for 2007 requires prior FRB approval of bank dividends in 2008 to Hanmi Financial. 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. If permitted by regulation and subject to the discretion of the Board of Directors, the Bank will seek prior approval from the California Department of Financial Institutions and the FRB to pay cash dividends to Hanmi Financial. 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.

On June 26, 2008, following approval from the FRB and the Commissioner for a dividend from Hanmi Bank to Hanmi Financial, we declared a quarterly cash dividend of $0.03 per common share for the second quarter of 2008. The dividend was paid on July 21, 2008. Future dividend payments are subject to the future earnings, legal and regulatory requirements, including the pre-approval from the FRB, and the discretion of the Board of Directors. The Board of Directors reviews the prudence of a dividend each quarter.

OFF-BALANCE SHEET ARRANGEMENTS

For a discussion of off-balance sheet arrangements, see *Note 5 Off-Balance Sheet Commitments* of Notes to Consolidated Financial Statements (Unaudited) in this Report and *Item 1. Business Off-Balance Sheet Commitments* in our Annual Report on Form 10-K for the year ended December 31, 2007.

CONTRACTUAL OBLIGATIONS

There were no material changes to the contractual obligations described in our Annual Report on Form 10-K for the year ended December 31, 2007.

RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 In March 2008, the FASB issued SFAS No. 161, which requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and is not expected to have a significant impact on our financial condition or results of operations.

SFAS No. 160, Non-Controlling Interest in Consolidated Financial Statements an Amendment of ARB No. 51 In December 2007, the FASB issued SFAS No. 160, which requires that a non-controlling interest in a subsidiary (i.e., minority interest) be reported in the equity section of the consolidated balance sheet instead of being reported as a liability or in the mezzanine section between debt and equity. It also requires that the consolidated statement of operations include net income attributable to both the parent and non-controlling interest of a consolidated subsidiary. A disclosure must be made on the face of the consolidated statement of operations of the net income attributable to the parent and to the non-controlling interest. In addition, regardless of whether the parent purchases additional ownership interest, sells a portion of its ownership interest in a subsidiary or the subsidiary participates in a transaction that changes the parent s ownership interest, as long as the parent retains controlling interest, the transaction is considered an equity transaction. SFAS No. 160 is effective for annual periods beginning after December 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 160 will have on our financial position and results of operations.

SFAS No. 141(R), Business Combinations In December 2007, the FASB issued SFAS No. 141(R), which revises SFAS No. 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in SFAS No. 141(R), the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be remeasured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense and additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 141(R) will have on our financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures regarding market risks in Hanmi Bank s portfolio, see *Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Risk Management* and *Liquidity and Capital Resources.*

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon that evaluation, we concluded that our disclosure controls and procedures were effective as of June 30, 2008.

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are controls and other procedures designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Exchange Act reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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No change in our internal controls over financial reporting occurred during the quarter ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

Hanmi Bank cannot currently pay dividends to Hanmi Financial. 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 a net loss in 2007 and for the first six months of 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. See *Management s Discussion and Analysis of Financial Condition and Results of Operations. Liquidity and Capital Resources. Dividends.*

We have recently experienced significant changes in our key management and are trying to fill the key position of Chief Credit Officer. Our President and Chief Executive Officer joined us in June 2008 and our Chief Financial Officer joined us in December 2007. The position of Chief Credit Officer of the Bank has been vacant since the retirement of our Chief Credit Officer in June 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. Competition for the best people can be intense and there can be no assurance we will be able to promptly fill the position of Chief Credit Officer. The unexpected loss of services of one or more of our key personnel, the inability to maintain consistent personnel in management or our inability to fill the position of Chief Credit Officer within a short period of time 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 result of operations and capital levels. During the first six months of 2008, we recorded a $37.1 million provision for credit losses and charged off $16.5 million in loans, net of $991,000 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 contributed to financial strain on homebuilders and suppliers, as well as an overall decrease in the collateral value of real estate securing loans. As of June 30, 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.

There were no other material changes in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007 that was filed on February 29, 2008.

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

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Annual Meeting of Stockholders (the Annual Meeting) was held on Wednesday, May 28, 2008. At the Annual Meeting, stockholders considered the following proposals:

1. *Election of Directors* To elect three nominees to serve as directors of Hanmi Financial, each for a term of three years until their respective successors shall be elected and qualified; and

2. *Stockholder s Proposal Regarding the Annual Election of All Directors and the Elimination of Our Classified Board of Directors* If properly presented at the Annual Meeting, to vote on a stockholder s proposal regarding the annual election of all directors and the elimination of our classified Board of Directors.

Proposal 1 Election of Directors

The number of votes cast at the meeting as to each director was as follows:

Class III Director Nominees	Votes For	Votes Withheld
Richard B. C. Lee	37,359,486	2,917,597
Chang Kyu Park, Pharm.D.	37,190,794	3,086,289
Mark K. Mason	36,493,904	3,783,179

The other directors, whose terms of office as a director continued after the meeting, were:

Class I Directors - Terms Expire in 2009:	Class II Directors - Terms Expire in 2010:
I Joon Ahn	Robert Abeles
Joon Hyung Lee	Ki Tae Hong
Joseph K. Rho	Won R. Yoon
	Jay S. Yoo

Proposal 2 Stockholder s Proposal Regarding the Annual Election of All Directors and the Elimination of Our Classified Board of Directors

Votes For	Votes Against	Abstain	Broker Non-Votes
16,217,159	9,525,003	116,698	14,418,223

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Document
10.1	Amended and Restated Trust Agreement of Hanmi Capital Trust I dated as of January 8, 2004 among Hanmi Financial Corporation, Deutsche Bank Trust Company Americas, as Property Trustee, Deutsche Bank Trust Company Delaware, as Delaware Trustee, and the Administrative Trustees Named Therein [(1)]
10.2	Hanmi Capital Trust I Junior Subordinated Indenture dated as of January 8, 2004 entered into between Hanmi Financial Corporation and Deutsche Bank Trust Company Americas, as Trustee (included as exhibit D to Exhibit 10.1) [(1)]
10.3	Hanmi Capital Trust I Guarantee Agreement dated as of January 8, 2004 entered into between Hanmi Financial Corporation, as Guarantor, and Deutsche Bank Trust Company Americas, as Guarantee Trustee [(1)]
10.4	Hanmi Capital Trust I Form of Common Securities Certificate (included as exhibit B to Exhibit 10.1) [(1)]
10.5	Hanmi Capital Trust I Form of Preferred Securities Certificate (included as exhibit C to Exhibit 10.1) [(1)]
10.6	Amended and Restated Trust Agreement of Hanmi Capital Trust II dated as of March 15, 2004 among Hanmi Financial Corporation, Deutsche Bank Trust Company Americas, as Property Trustee, Deutsche Bank Trust Company Delaware, as Delaware Trustee, and the Administrative Trustees Named Therein [(1)]
10.7	Hanmi Capital Trust II Junior Subordinated Indenture dated as of March 15, 2004 entered into between Hanmi Financial Corporation and Deutsche Bank Trust Company Americas, as Trustee (included as exhibit D to Exhibit 10.6) [(1)]
10.8	Hanmi Capital Trust II Guarantee Agreement dated as of March 15, 2004 entered into between Hanmi Financial Corporation, as Guarantor, and Deutsche Bank Trust Company Americas, as Guarantee Trustee [(1)]
10.9	Hanmi Capital Trust II Form of Common Securities Certificate (included as exhibit B to Exhibit 10.6) [(1)]
10.10	Hanmi Capital Trust II Form of Preferred Securities Certificate (included as exhibit C to Exhibit 10.6) [(1)]
10.11	Amended and Restated Trust Agreement of Hanmi Capital Trust III dated as of April 28, 2004 among Hanmi Financial Corporation, Deutsche Bank Trust Company Americas, as Property Trustee, Deutsche Bank Trust Company Delaware, as Delaware Trustee, and the Administrative Trustees Named Therein [(1)]
10.12	Hanmi Capital Trust III Junior Subordinated Indenture dated as of April 28, 2004 entered into between Hanmi Financial Corporation and Deutsche Bank Trust Company Americas, as Trustee (included as exhibit D to Exhibit 10.11) [(1)]
10.13	Hanmi Capital Trust III Guarantee Agreement dated as of April 28, 2004 entered into between Hanmi Financial Corporation, as Guarantor, and Deutsche Bank Trust Company Americas, as Guarantee Trustee [(1)]

10.14	Hanmi Capital Trust III Form of Common Securities Certificate (included as exhibit B to Exhibit 10.11) *(1)*
10.15	Hanmi Capital Trust III Form of Preferred Securities Certificate (included as exhibit C to Exhibit 10.11) *(1)*
10.16	Employment Agreement Between Hanmi Financial Corporation and Hanmi Bank, on the One Hand, and Jay S. Yoo, on the Other Hand, dated as of June 19, 2008
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) *Previously filed and incorporated by reference herein from Hanmi Financial s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 filed with the SEC on August 9, 2004.*

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HANMI FINANCIAL CORPORATION

Date:	August 11, 2008	By:	/s/ Jay S. Yoo
			Jay S. Yoo *President and Chief Executive Officer*
		By:	/s/ Brian E. Cho Brian E. Cho *Executive Vice President and Chief Financial Officer*

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