

HANMI FINANCIAL CORP  
Form 10-K  
March 14, 2012  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the Fiscal Year Ended December 31, 2011**

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the Transition Period From \_\_\_\_\_ To \_\_\_\_\_**

**Commission File Number: 000-30421**

**HANMI FINANCIAL CORPORATION**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**  
*(State or Other Jurisdiction of Incorporation or Organization)*

**3660 Wilshire Boulevard, Penthouse Suite A**

**Los Angeles, California**  
*(Address of Principal Executive Offices)*

**(213) 382-2200**

**95-4788120**  
*(I.R.S. Employer Identification No.)*

**90010**

*(Zip Code)*

*(Registrant's Telephone Number, Including Area Code)*

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

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Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock, \$0.008 Par Value</b>	<b>NASDAQ Global Select Market</b>

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

None

*(Title of Class)*

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

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company <input type="checkbox"/>

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

As of June 30, 2011, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$154,053,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of March 1, 2012 was 32,067,095 shares.

**Documents Incorporated By Reference Herein:** Registrant's Definitive Proxy Statement for its 2012 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2011, is incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K).

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**HANMI FINANCIAL CORPORATION**

**ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under *Item 1. Business*, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements in this Form 10-K other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, our allowance for credit losses and conditions of our loan portfolio, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs and availability, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. You can generally identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or the negative of these terms, or 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 risks, uncertainties and other factors include, but are not limited to, the following:

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

a significant number of customers failing to perform under their loans and other extensions of credit;

fluctuations in interest rates and a decline in the level of our interest rate spread;

failure to attract or retain deposits and restrictions on taking brokered deposits;

sources of liquidity available to us and to Hanmi Bank becoming limited or our potential inability to access sufficient sources of liquidity when needed or the requirement that we obtain government waivers to do so;

adverse changes in domestic or global financial markets, economic conditions or business conditions;

regulatory restrictions on Hanmi Bank's ability to pay dividends to us and on our ability to make payments on our obligations;

significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;

our use of appraisals in deciding whether to make loans secured by real property, which does not ensure that the value of the real property collateral will be sufficient to pay our loans;

failure to attract or retain our key employees;

credit quality and the effect of credit quality on our provision for credit losses and allowance for loan losses;

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

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

competition and demographic changes in our primary market areas;

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

the effects of litigation against us;

significant government regulations, legislation and potential changes thereto; and

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

For additional information concerning risks we face, see *Item 1A. Risk Factors*, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Interest Rate Risk Management* and *Capital Resources and Liquidity*. 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.

**Table of Contents****PART I****ITEM 1. BUSINESS****General**

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. The Bank s full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. At December 31, 2011, the Bank maintained a branch network of 27 full-service branch offices in California and one loan production office ( LPO ) in Washington.

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

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

	Year Ended December 31,					
	2011	2010		2009		
		<i>(In Thousands)</i>				
Interest and Fees on Loans	\$ 117,671	77.1%	\$ 137,328	80.8%	\$ 173,318	80.1%
Interest and Dividends on Investments	10,518	6.9%	6,631	3.9%	8,634	4.0%
Other Interest Income	618	0.4%	553	0.3%	2,195	1.0%
Service Charges on Deposit Accounts	12,826	8.4%	14,049	8.3%	17,054	7.9%
Other Non-Interest Income	11,025	7.2%	11,357	6.7%	15,056	7.0%
Total Revenues	\$ 152,658	100.0%	\$ 169,918	100.0%	\$ 216,257	100.0%

**Regulatory Enforcement Action**

On November 2, 2009, the Board of Directors of the Bank consented to the issuance of a Final Order (the Final Order ) from the California Department of Financial Institutions ( DFI ). On the same date, Hanmi Financial and the Bank entered into a Written Agreement (the Written Agreement ) with the Federal Reserve Bank of San Francisco ( FRB ). The Final Order and the Written Agreement contain substantially similar provisions. Pursuant to the Final Order and the Written Agreement, the Board of Directors of the Bank prepared and submitted written

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plans to the DFI and the FRB that addressed the following items: (i) strengthening board oversight of the management and operation of the Bank; (ii) strengthening credit risk management practices; (iii) improving credit administration policies and procedures; (iv) improving the Bank's position with respect to problem assets; (v) maintaining adequate reserves for loan and lease losses; (vi) improving the capital position of the Bank and, with respect to the Written Agreement, of Hanmi Financial; (vii) improving the Bank's earnings through a strategic plan and a budget for 2010; (viii) improving the Bank's liquidity position and funds management practices; and (ix) contingency funding.

In addition, the Final Order and the Written Agreement place restrictions on the Bank's lending to borrowers who have adversely classified loans with the Bank and requires the Bank to charge off or collect certain problem loans. The Final Order and the Written Agreement also require the Bank to review and revise its allowance for loan and lease losses consistent with relevant supervisory guidance. The Bank is also prohibited from paying dividends, incurring, increasing or guaranteeing any debt, or making certain changes to its business without prior approval from the DFI, and the Bank and Hanmi Financial must obtain prior approval from the FRB prior to declaring and paying dividends. As of December 31, 2011, the Bank is in compliance with all requirements of the Final Order and the Written Agreement, and the Board and management intend to continue their efforts in cooperation with the FRB and the DFI to comply with all provisions in the Final Order and the Written Agreement.

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

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

If the Bank was not able to maintain the capital ratios identified in the Final Order, it was required to notify the DFI, and Hanmi Financial and the Bank are required to notify the FRB if their respective capital ratios fall below those set forth in the capital plan submitted to the FRB. On July 27, 2010, we completed a registered rights and best efforts public offering of our common stock by which we raised \$116.8 million in net proceeds. As a result, we satisfied the \$100 million capital contribution requirement set forth in the Final Order, but our ratio of tangible stockholders' equity to total tangible assets was below 9.5 percent as of December 31, 2010. On November 18, 2011, we completed an underwritten public offering of our common stock by which we raised \$77.1 million in net proceeds. As a result, we satisfied the tangible stockholders' equity to total tangible assets ratio requirement of not less than 9.5 percent set forth in the Final Order as of December 31, 2011. Based on submissions to and consultations with our regulators, we believe that the Bank has taken the required corrective action and has complied with substantially all of the requirements of the Final Order and the Written Agreement. For a further discussion of the Bank's capital condition and capital resources, see Capital Resources and Liquidity.

**Overview of Asset Quality and Liquidity**

We have made continuous efforts to improve our asset quality through proactive loan monitoring, accelerated problem loan resolutions, and sales of non-performing assets. In accordance with our liquidity preservation strategy, funds raised from the secondary stock offerings and sales of loans were placed into highly liquid assets. As a result, we maintained a strong liquidity position with \$700.4 million in cash and marketable securities as of December 31, 2011.



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Significant financial highlights include:

The Company's total risk-based capital ratio improved to 18.66 percent as of December 31, 2011 compared to 12.32 percent as of December 31, 2010. The Bank's tangible common equity to tangible assets also improved to 12.48 percent as of December 31, 2011 compared to 8.59 percent as of December 31, 2010.

Non-performing loans decreased to \$52.4 million, or 2.70 percent of total gross loans, as of December 31, 2011 compared to \$142.4 million, or 6.38 percent as of December 31, 2010. The coverage ratio of the allowance to non-performing loans increased to 171.71 percent as of December 31, 2011 compared to 102.54 percent as of December 31, 2010.

The cost of funds and deposit decreased through changes in the composition of our deposit portfolio. The average funding cost decreased by 29 basis points to 1.41 percent for the year ended December 31, 2011 compared to 1.70 percent for the year ended December 31, 2010. The average deposit cost decreased by 33 basis points to 1.00 percent for the year ended December 31, 2011 compared to 1.33 percent for the year ended December 31, 2010.

Net interest margin improved by 13 basis points to 3.68 percent for the year ended December 31, 2011 compared to 3.55 percent for the year ended December 31, 2010.

Operating efficiency improved with total overhead costs down 13.2 percent to \$84.0 million for the year ended December 31, 2011 from \$96.8 million for the year ended December 31, 2010. As a result, the efficiency ratio improved to 67.2 percent for the year ended December 31, 2011 from 73.7 percent for the year ended December 31, 2010.

### **Agreement with Woori**

On June 15, 2011, Hanmi Financial (the Company) and Woori Finance Holdings Co., Ltd. (Woori) terminated the Securities Purchase Agreement dated May 25, 2010, as previously amended, by mutual agreement. The Securities Purchase Agreement contemplated a potential private placement of the Company's common stock to Woori subject to certain terms and conditions.

On June 15, 2011, the Company and Woori entered into a non-binding Memorandum of Business Alliance (the Memorandum). The Memorandum sets forth certain proposed mutually beneficial and non-exclusive business alliance programs between the parties. Such programs include: mutual efforts to expand the parties' international trade finance businesses; mutual efforts to create a correspondent banking relationship for international remittances; exploring ways to provide services to each other's VIP customers; providing mutual support and assistance in benchmarking studies related to best practices; cooperation and communication in connection with personnel training; sharing of industry and economic information, and information regarding potential capital investments in the Company (when legally permitted); and potential business activities between the companies' respective subsidiaries.

In our November 2011 underwritten public offering of our common stock, Woori purchased approximately 4.0 percent of our common stock outstanding after the offering.

### **Market Area**

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



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### **Lending Activities**

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

#### ***Real Estate Loans***

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

#### ***Commercial Property***

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

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

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

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

### *Construction*

The Bank finances the construction of multifamily, low-income housing, commercial and industrial properties within its market area. The future condition of the local economy could negatively affect the collateral values of such loans. The Bank's construction loans typically have the following characteristics:

maturities of two years or less;

a floating rate of interest based on the Bank Prime Rate or the WSJ Prime Rate;

minimum cash equity of 35 percent of project cost;

reserve of anticipated interest costs during construction or advance of fees;

first lien position on the underlying real estate;

loan-to-value ratios at time of origination generally not exceeding 65 percent; and

recourse against the borrower or a guarantor in the event of default.

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

the uncertain value of the project prior to completion;

the inherent uncertainty in estimating construction costs, which are often beyond the borrower's control;

construction delays and cost overruns;

possible difficulties encountered in connection with municipal or other governmental regulations during construction; and

the difficulty in accurately evaluating the market value of the completed project.

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

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### *Residential Property*

The Bank originates fixed-rate and variable-rate mortgage loans secured by one- to four-family properties with amortization schedules of 15 to 30 years and maturities of up to 30 years. The loan fees charged, interest rates and other provisions of the Bank's residential loans are determined by an analysis of the Bank's cost of funds, cost of origination, cost of servicing, risk factors and portfolio needs. The Bank may sell some of the mortgage loans that it originates to secondary market participants. The typical turn-around time from origination to sale is between 30 and 90 days. The interest rate and the price of the loan are typically agreed to prior to the loan origination.

### *Commercial and Industrial Loans*

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

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

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

### *Commercial Term Loans*

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

### *Commercial Lines of Credit*

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

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### *SBA Loans*

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

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA loan, it has a right to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. The Bank retains the right to service the SBA loans, for which it receives servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2011, the Bank had \$122.1 million of SBA loans in its portfolio, and was servicing \$218.5 million of SBA loans sold to investors.

### *International Trade Finance*

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

### *Consumer Loans*

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

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

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### **Off-Balance Sheet Commitments**

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

### **Lending Procedures and Loan Limits**

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

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of stockholders' equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2011, the Bank's authorized legal lending limits for loans to one borrower were \$64.1 million for unsecured loans plus an additional \$42.7 million for specific secured loans. However, the Bank has established internal loan limits that are lower than the legal lending limits.

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

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

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

The Bank analyzes its allowance for loan losses on a quarterly basis. As an integral part of the quarterly credit review process of the Bank, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The California Department of Financial Institutions (the DFI) and/or the Board of Governors of the Federal Reserve System may require the Bank to recognize additions to the allowance for loan losses through a provision for credit losses based upon their assessment of the information available to them at the time of their examinations.



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### **Deposits**

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

### **Website**

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

### **Employees**

As of December 31, 2011, the Bank had 419 full-time employees and 24 part-time employees, and Chun-Ha and All World had 38 full-time employees and 2 part-time employees. Our employees are not represented by a union or covered by a collective bargaining agreement. We believe that our employee relations are satisfactory.

### **Insurance**

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

### **Competition**

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

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

Other institutions, including brokerage firms, credit card companies and retail establishments, offer banking services to consumers in competition with the Bank, including money market funds with check access and cash

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advances on credit card accounts. In addition, other entities (both public and private) seeking to raise capital through the issuance and sale of debt or equity securities compete with banks for the acquisition of deposits.

The Bank's major competitors are relatively smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank's service areas. These banks compete for loans primarily through the interest rates and fees they charge and the convenience and quality of service they provide to borrowers. The competition for deposits is primarily based on the interest rate paid and the convenience and quality of service.

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

## **Economic Legislative and Regulatory Developments**

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

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

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

The U.S. economy has recently been in a downturn. Business activity across a wide range of industries and regions in the U.S. has been reduced. Although economic conditions have improved in certain sectors, real estate remains weak. Local governments and many businesses are still in difficulty due to reduced consumer spending and continued liquidity challenges in the credit markets. In response to this economic downturn and financial industry instability, legislative and regulatory initiatives were, and are expected to continue to be, introduced and implemented, which substantially intensify the regulation of the financial services industry.

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*The Dodd-Frank Wall Street Reform and Consumer Protection Act*

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ), which became law on July 21, 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators. Dodd-Frank followed other legislative and regulatory initiatives in 2008 and 2009 in response to the economic downturn and financial industry instability. Dodd-Frank impacts many aspects of the financial industry and, in many cases, will impact larger and smaller financial institutions and community banks differently over time. Dodd-Frank includes, among other things, the following:

- (i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;
- (ii) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;
- (iii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;
- (iv) the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;
- (v) enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks;
- (vi) the termination of investments by the U.S. Treasury under TARP;
- (vii) the elimination and phase out of trust preferred securities ( TRUPS ) from Tier 1 capital with certain exceptions;
- (viii) a permanent increase of FDIC deposit insurance to \$250,000 for the full net amount held by depositors in non-interest bearing transaction accounts;
- (ix) authorization for financial institutions to pay interest on business checking accounts;
- (x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution's deposit base, but instead, will be its average consolidated total assets less its average tangible equity and an increase in the minimum insurance ratio for the Deposit Insurance Fund ( DIF ) from 1.15 percent to 1.35 percent;
- (xi) the elimination of remaining barriers to de novo interstate branching by banks;
- (xii) expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions;

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- (xiii) the transfer of oversight of federally chartered thrift institutions to the Office of the Comptroller of the Currency and state chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;
  
- (xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including financial institutions, including (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria, (3) enhanced independence requirements for compensation committee

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members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company's proxy statement; and

- (xv) the creation of a Consumer Financial Protection Bureau, which is authorized to promulgate consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than \$10 billion in assets.

We cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation by regulations and in supervisory policies and practices may affect us. Many of the requirements of Dodd-Frank will be implemented over time and most will be subject to regulations to be implemented or which will not become fully effective for several years. There can be no assurance that these or future reforms (such as possible new standards for commercial real estate ( CRE ) lending or new stress testing guidance for all banks) arising out of these regulations and studies and reports required by Dodd-Frank will not significantly increase our compliance or other operating costs and earnings or otherwise have a significant impact on our business, financial condition and results of operations. Dodd-Frank will likely result in more stringent capital, liquidity and leverage requirements on us and may otherwise adversely affect our business. For example, the provisions that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Hanmi Financial and the Bank could require Hanmi Financial and the Bank to seek other sources of capital in the future.

As a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted and we may be required to make changes to certain of our business practices. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Some of the regulations required by various sections of Dodd-Frank have been proposed and some adopted in final, including the following notices of proposed rulemakings ( NPRs ) and/or interim or final rules for the following sections of Dodd-Frank:

- Risk Based Capital Guidelines - Market Risk (Section 171) - Final Rule
- Orderly Liquidation (Section 209) - Initial Final Rule
- Implement Changes to DIF Assessment Base (Section 331) - NPR
- Designated Reserve Ratio and Restoration Plan for the Deposit Insurance Fund (Sections 332 and 334) - Final Rule
- \$250,000 Deposit Insurance Coverage Limit (Section 335) - Final Rule
- Unlimited coverage for Non-Interest Bearing Deposits (Section 343) - Final Rule
- Incentive-based Compensation (Section 956) - FDIC NPR.

*Federal Banking Agency Compensation Guidelines*

Guidelines adopted by the federal banking agencies pursuant to the FDI Act prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the federal bank regulatory agencies jointly issued additional comprehensive guidance



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on incentive compensation policies (the Incentive Compensation Guidance ) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

On April 14, 2011, the Federal Deposit Insurance Corporation (the FDIC ), the Board of Governors of the Federal Reserve System (the Board ) and other federal regulators, jointly published proposed regulations to implement Section 956 of the Dodd-Frank for covered financial institutions, including bank holding companies, with \$1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements those encourages inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed regulations would modify existing compensation standards by 1) requiring deferral of a substantial portion of incentive compensation for executive officers of particularly large institutions (generally banks and bank holding companies with \$10 billion or more in assets); 2) prohibiting incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excessive compensation; 3) prohibiting incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss; 4) requiring policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institution; and 5) requiring annual reports on incentive compensation structures to the institution s appropriate Federal regulator.

The scope, content and application of the U.S. banking regulators policies on incentive compensation continue to evolve in the aftermath of the economic downturn. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Hanmi Financial and the Bank to hire, retain and motivate key employees.

### *The Small Business Jobs Act of 2010*

The Small Business Jobs Act of 2010 makes available up to \$30 billion of funds for preferred stock capital investments by the U.S. Treasury in banks with less than \$10 billion assets as of December 31, 2009 through the Small Business Lending Fund ( SBLF ). Banks with up to \$1 billion assets may apply for up to 5 percent and banks with more than \$1 billion in assets, but less than \$10 billion, may apply for up to 3 percent of their risk-weighted assets. In some cases, preferred stock issued under the SBLF may be exchanged for preferred stock issued to the U.S. Treasury for TARP CPP funds. Banks on or recently removed from the FDIC problem bank list may not apply and banks with other supervisory problems or enforcement actions may be required to raise matching capital or may have their application denied. The new law provides that the term of the preferred stock is a maximum of 10 years and that the capital is to receive Tier 1 treatment. The interest rate on the preferred stock starts at 5 percent

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and may later range between 1 percent and 9 percent, depending on, among other things, the amount of qualifying small business loans which the recipient bank makes. The Bank has not participated in the SBLF.

### **International Capital and Liquidity Initiatives**

The international Basel Committee on Banking Supervision (the Basel Committee) is a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. In December 2009, the Basel Committee released two consultative documents proposing significant changes to bank capital, leverage and liquidity requirements in response to the economic downturn to enhance the Basel II framework which had not yet been fully implemented internationally and even less so in the United States. The Group of Twenty Finance Ministers and Central Bank Governors (commonly referred to as the G-20), including the United States, endorsed the reform package, referred to as Basel III, and proposed phase in timelines in November, 2010. Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a capital conservation buffer on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation's circumstances.

These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee's intention to introduce higher capital requirements on securitization and trading activities at the end of 2011.

The Basel III liquidity proposals have three main elements: (i) a liquidity coverage ratio designed to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a net stable funding ratio designed to promote more medium and long-term funding over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors.

Implementation of Basel III in the United States will require regulations and guidelines by United States banking regulators, which may differ in significant ways from the recommendations published by the Basel Committee. It is unclear how United States banking regulators will define well-capitalized in their implementation of Basel III and to what extent and when smaller banking organizations in the United States will be subject to these regulations and guidelines. Basel III standards, if adopted, would lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. United States banking regulators must also implement Basel III in conjunction with the provisions of Dodd-Frank related to increased capital and liquidity requirements. Further, Dodd-Frank required minimum leverage and risk-based capital requirements on a consolidated basis for all depository institution holding companies and insured depository institutions which may not be less than the strictest requirements in effect for depository institutions as of the date of enactment, July 21, 2010.

### **Supervision and Regulation**

#### ***General***

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



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***Hanmi Financial***

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

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

require bank holding companies to maintain certain levels of capital.

require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank.

restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks.

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

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

require the prior approval of senior executive officers or director changes and golden parachute payments, including change in control agreements or new employment agreements with payment terms which are contingent upon termination.

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

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

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

approve acquisitions of more than 5 percent of the voting shares of another bank and mergers with other banks or savings institutions and consider certain competitive, management, financial and other factors in granting these approvals. Similar California and other state banking agency approvals may also be required.

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

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market risk (for example, from changes in value of portfolio instruments and foreign currency), liquidity risk, operational risk, legal risk and reputation risk.

Bank holding companies may be subject to potential enforcement actions by the FRB for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the FRB. Enforcement actions may include the issuance of cease and desist orders, the imposition of

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civil money penalties, the requirement to meet and maintain specific capital levels for any capital measure, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against officers or directors and other institution-affiliated parties.

### *Regulatory Restrictions on Dividends; Source of Strength*

Hanmi Financial is regarded as a legal entity separate and distinct from its other subsidiaries. The principal source of our revenue is dividends received from the Bank. Various federal and state statutory provisions limit the amount of dividends the Bank can pay to Hanmi Financial without regulatory approval. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

The Federal Reserve's view is that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve Board's regulations, or both. The source-of-strength doctrine most directly affects bank holding companies where a bank holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take prompt corrective action including obtaining a guarantee by the bank holding company of a capital plan for and undercapitalized bank subsidiaries. See Prompt Corrective Action Regulations below. Additionally, if a bank holding company has more than one bank subsidiary, the FDI Act provides that each subsidiary bank may have cross-guaranty liability for any loss incurred by the FDIC in connection with the failure of another commonly-controlled bank.

Because Hanmi Financial is a legal entity separate and distinct from the Bank, its right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of the Bank, the claims of depositors and other general or subordinated creditors of the Bank would be entitled to a priority of payment over the claims of holders of any obligation of the Bank to its stockholders, including any depository institution holding company (such as Hanmi Financial) or any stockholder or creditor of such holding company. In the event of a bank holding company's bankruptcy under Chapter 11 of the United States Bankruptcy Code, the trustee will be deemed to have assumed, and is required to cure immediately, any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

### *Regulatory Restrictions on Activities*

Subject to prior notice or FRB approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without

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prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized, and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act ( CRA ), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. Hanmi Financial elected financial holding company status and Chun-Ha and All World are considered financial subsidiaries of Hanmi Financial. Hanmi Financial has agreed with the FRB to take certain corrective action pursuant to these GLBA requirements.

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

*Privacy Policies*

Under the GLBA, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties and establish procedures and practices to protect customer data from unauthorized access. Hanmi Financial and the Bank have established policies and procedures to assure our compliance with all privacy provisions of the GLBA.

*Capital Adequacy Requirements*

At December 31, 2011, Hanmi Financial and the Bank's capital ratios exceeded the minimum percentage requirements to be deemed well capitalized for regulatory purposes. See *Notes to Consolidated Financial Statements, Note 1 Regulatory Matters*. The regulatory capital guidelines and the actual capital ratios for Hanmi Financial and the Bank as of December 31, 2011, were as follows:

	Regulatory Capital Guidelines		Actual	
	Adequately Capitalized	Well Capitalized	Hanmi Financial	Hanmi Bank
Total Risk-Based Capital Ratio	8.00%	10.00%	18.66%	17.57%
Tier 1 Risk-Based Capital Ratio	4.00%	6.00%	17.36%	16.28%
Tier 1 Leverage Ratio	4.00%	5.00%	13.34%	12.50%

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Increased capital requirements are expected as a result of Dodd-Frank and the Basel III international supervisory developments. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors.

The current risk-based capital guidelines for bank holding companies and banks adopted by the federal banking agencies are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items.

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Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for assets with low credit risk, such as certain U.S. Treasury securities, to 100 percent for assets with relatively high credit risk, such as business loans.

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

Qualifying capital is classified depending on the type of capital:

Tier I capital currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. The capital received from trust preferred offerings also qualifies as Tier I capital, subject to the new provisions of Dodd-Frank. Under Dodd-Frank, depository institution holding companies with more than \$15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier 1 regulatory capital after the end of a 3-year phase-out period beginning 2013, and would need to replace any outstanding trust preferred securities issued prior to May 19, 2010 with qualifying Tier 1 regulatory capital during the phase-out period. For institutions with less than \$15 billion in total consolidated assets, existing trust preferred capital will still qualify as Tier 1. New issues by small bank holding companies with less than \$500 million assets could still qualify as Tier 1, however the market for any new trust preferred capital raises is uncertain.

Tier II capital includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for loan and lease losses, and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier II capital. The maximum amount of supplemental capital elements that qualifies as Tier 2 capital is limited to 100 percent of Tier 1 capital.

Tier III capital consists of qualifying unsecured debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

Under the current capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well-capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10 percent, 6 percent and 5 percent, respectively. At December 31, 2011, the respective capital ratios of Hanmi Financial and the Bank exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes.

In addition to the requirements of Dodd-Frank and Basel III, the federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. FRB guidelines also provide that banking organizations experiencing internal

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growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets. Federal banking regulators may set higher capital requirements when a bank's particular circumstances warrant and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized. In such cases, the institutions may no longer be deemed well capitalized and may therefore additionally be subject to restrictions on taking brokered deposits. Hanmi Financial and the Bank are subject to such requirements and restrictions pursuant to the Written Agreement with the FRB.

Hanmi Financial and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3 percent. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3 percent minimum, for a minimum of 4 percent to 5 percent. As of December 31, 2011, the Hanmi Financial's leverage capital ratio was 13.34 percent, and the Bank's leverage capital ratio was 12.50 percent, both ratios exceeding regulatory minimums.

As described previously, the Bank was required to increase its capital and maintain certain regulatory capital ratios prior to certain dates specified in the Final Order. See *Item 1. Business Regulatory Enforcement Action.* for further details.

### *Imposition of Liability for Undercapitalized Subsidiaries*

Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5 percent of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

### *Acquisitions by Bank Holding Companies*

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all, or substantially all, of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5 percent of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned the convenience and needs of the communities to be served, and various competitive factors.

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### *Control Acquisitions*

The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10 percent or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute acquisition of control.

In addition, any company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25 percent (5 percent in the case of an acquirer that is a bank holding company) or more of the outstanding common stock of the company, or otherwise obtaining control or a controlling influence over the company.

### *Cross-guarantees*

Under the Federal Deposit Insurance Act ( FDIA ), a depository institution (which definition includes both banks and savings associations), the deposits of which are insured by the FDIC, can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution or (2) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution in danger of default. Default is defined generally as the appointment of a conservator or a receiver and in danger of default is defined generally as the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance. In some circumstances (depending upon the amount of the loss or anticipated loss suffered by the FDIC), cross-guarantee liability may result in the ultimate failure or insolvency of one or more insured depository institutions in a holding company structure. Any obligation or liability owed by a subsidiary bank to its parent company is subordinated to the subsidiary bank's cross-guarantee liability with respect to commonly controlled insured depository institutions. The Bank is currently the only FDIC-insured depository institution subsidiary of Hanmi Financial.

Because Hanmi Financial is a legal entity separate and distinct from the Bank, its right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of the Bank, the claims of depositors and other general or subordinated creditors of the Bank would be entitled to a priority of payment over the claims of holders of any obligation of the Bank to its stockholders, including any depository institution holding company (such as Hanmi Financial) or any stockholder or creditor of such holding company.

### *Sarbanes-Oxley Act*

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure to stockholders of internal control reports and assessments by management regarding financial reporting.

### *Securities Registration*

Hanmi Financial's common stock is publicly held and listed on the NASDAQ Stock Market ( NASDAQ ), and we are subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the SEC promulgated thereunder as well as listing requirements of NASDAQ. Dodd-Frank includes the following provisions that affect corporate governance and executive compensation at most United States publicly traded companies,

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including Hanmi Financial: (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the ARRA for TARP CPP recipients (3) enhanced independence requirements for compensation committee members, and (4) SEC authority to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company's proxy statement.

***The Bank***

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision and regular examination by the DFI and by the FRB, as the Bank's primary Federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and federal banking regulations including Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to insiders, including officers directors and principal stockholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties.

Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Section 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

Pursuant to the FDI Act and the Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries or by non-bank subsidiaries of bank holding companies. Further, pursuant to GLBA, California banks may conduct certain financial activities in a subsidiary to the same extent as may a national bank, provided the bank is and remains well-capitalized, well-managed and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

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

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

direct an increase in capital or establish specific minimum capital ratios;

restrict the Bank's growth geographically, by products and services or by mergers and acquisitions;

enter into informal non-public or formal public memoranda of understanding or written agreements; enjoin unsafe and unsound practices and issue cease and desist orders to take corrective action;

remove officers and directors and assess civil monetary penalties;



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terminate the Bank's deposit insurance, which would also result in the revocation of the Bank's license by the DFI; and

take possession and close and liquidate the Bank.

As discussed above, the Bank entered into the Final Order issued by the DFI, and the Written Agreement with the FRB, each of which were issued effective as of November 2, 2009.

### ***Broker Deposits***

Under the FDI Act, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized could be restricted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. As of December 31, 2011, in compliance with the FRB Written Agreement, the Bank had no brokered deposits.

### ***Community Reinvestment Act***

Under the CRA, a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. Hanmi Financial has a Compliance Committee, which oversees the planning of products, and services offered to the community, especially those aimed to serve low and moderate income communities. The Federal Reserve rated the Bank as satisfactory in meeting community credit needs under the CRA at its most recent examination for CRA performance.

### ***Interstate Banking and Branching***

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

### ***Federal Home Loan Bank System***

The Bank is a member and stockholder of the capital stock of the Federal Home Loan Bank of San Francisco. Among other benefits, each Federal Home Loan Bank (FHLB) serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement with an initial cap of \$25 million (100 percent of membership asset value as defined), or (ii) an activity based stock requirement (based on percentage of outstanding advances). At December 31, 2011, the Bank was in compliance with the FHLB's stock ownership requirement and our investment

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in FHLB capital stock totaled \$22.9 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2011 were \$402.2 million and \$398.9 million, respectively.

### ***Federal Reserve System***

The FRB requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking and non-personal time deposits). At December 31, 2011, the Bank was in compliance with these requirements.

### ***Prompt Corrective Action Regulations***

The FDI Act requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution's classification within five capital categories as defined in the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio, and the leverage ratio. However, the federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. These include operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

A depository institution's capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulations. A bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0 percent or greater, a Tier 1 risk-based capital ratio of 6.0 percent or greater, and a leverage ratio of 5.0 percent or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0 percent or greater, a Tier 1 risk-based capital ratio of 4.0 percent or greater, and a leverage ratio of 4.0 percent or greater and is not well capitalized; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0 percent, a Tier 1 risk-based capital ratio of less than 4.0 percent, or a leverage ratio of less than 4.0 percent; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0 percent, a Tier 1 risk-based capital ratio of less than 3.0 percent, or a leverage ratio of less than 3.0 percent; and (v) critically undercapitalized if the institution's tangible equity is equal to or less than 2.0 percent of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

The FDI Act generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital

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restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0 percent of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDI Act provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for a hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

### ***FDIC Deposit Insurance***

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF) up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to \$250,000, and all non-interest-bearing transaction accounts are insured. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the greatly increased number of bank failures and losses incurred by DIF, as well as the recent extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's DIF was substantially depleted and the FDIC has incurred substantially increased operating costs.

In November, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The Bank prepaid its assessments based on the calculations of the projected assessments at that time.

Dodd-Frank changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base alone, and requires the FDIC to increase the DIF's reserves against future losses. This will necessitate increased deposit insurance premiums that are expected to be borne primarily by institutions with assets of greater than \$10 billion and with significant balance sheet debt obligations in addition to deposits liabilities.

As required by Dodd-Frank, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent).

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by the end of 2016, as formerly required); (3) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than \$10 million; (4) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (5) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The FDI Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2 percent of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by Dodd-Frank, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than \$10 billion in assets) and suspends dividend payments if the Deposit Insurance Fund reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the Deposit Insurance Fund reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the Deposit Insurance Fund than under the old system. Additionally, the final rule includes a new adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's Tier 1 capital. The new rule took effect for the quarter beginning April 1, 2011.

Our FDIC insurance expense totaled \$6.3 million for 2011. FDIC insurance expense includes deposit insurance assessments and Financing Corporation ( FICO ) assessments related to outstanding FICO bonds to fund interest payments on bonds to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017. The FICO assessment rate, which is determined quarterly, was 0.00165% of insured deposits for the year ended December 31, 2011. The total FICO assessment in 2011 was \$157,000.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

***Loans-to-One-Borrower***

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

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*Extensions of Credit to Insiders and Transactions with Affiliates*

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

a bank or bank holding company's executive officers, directors and principal stockholders (i.e., in most cases, those persons who own, control or have power to vote more than 10 percent of any class of voting securities);

any company controlled by any such executive officer, director or stockholder; or

any political or campaign committee controlled by such executive officer, director or principal stockholder.

Such loans and leases:

must comply with loan-to-one-borrower limits;

require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;

must be made on substantially the same terms (including interest rates and collateral) and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders;

must not involve more than the normal risk of repayment or present other unfavorable features; and

in the aggregate limit not exceed the bank's unimpaired capital and unimpaired surplus.

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

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

prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;

limit such loans and investments to or in any affiliate individually to 10 percent of the Bank's capital and surplus;

limit such loans and investments to all affiliates in the aggregate to 20 percent of the Bank's capital and surplus; and

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require such loans and investments to or in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with non-affiliated parties.

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

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***Dividends***

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

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

Further, the FRB's position that holding companies are expected to provide a source of managerial and financial strength to their subsidiary banks potentially restricts a bank holding company's ability to pay dividends. Hanmi Financial has agreed with the FRB that it will not declare or pay any dividends or make any payments on its trust preferred securities or any other capital distributions without the prior written consent of the FRB.

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

The powers of the Board of Directors of the Bank to declare a cash dividend to its holding company is subject to California law as set forth in the Financial Code, which restricts the amount available for cash dividends to the lesser of a bank's retained earnings or net income for its last three fiscal years (less any distributions to stockholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DFI, in an amount not exceeding the greatest of: 1) retained earnings of the bank; 2) the net income of the bank for its last fiscal year; or 3) the net income of the bank for its current fiscal year. Due to the Bank's retained deficit of \$218.6 million as of December 31, 2011, the Bank is restricted under the Financial Code from making dividends to Hanmi Financial without the prior approval of the DFI. See *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Dividends* for a further discussion of restrictions on the Bank's ability to pay dividends to Hanmi Financial.

Under the terms of the FRB Written Agreement and the DFI Final Order, the Bank is also prohibited from paying dividends, incurring, increasing or guaranteeing any debt, or making certain changes to its business without prior approval from the FRB and DFI, and the Bank and Hanmi Financial must obtain prior approval from the FRB and DFI prior to declaring and paying dividends.

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

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### ***Bank Secrecy Act and USA PATRIOT Act***

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

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

### ***Consumer Laws***

The Bank must comply with numerous consumer protection statutes and implementing regulations, including the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Americans with Disabilities Act and various federal and state privacy protection laws. Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines and one-time debit card transactions, submit to certain exceptions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. Noncompliance with these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and Hanmi Financial are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

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

Dodd-Frank provides for the creation of the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve. This bureau is a new regulatory agency for United States banks. It will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower 's ability to repay and prepayment penalties. The bureau 's functions include investigating consumer complaints, conducting market



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research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. It is anticipated that the bureau will begin regulating activities in 2011. Banks with less than \$10 billion in assets, such as the Bank, will continue to be examined for compliance by their primary federal banking agency.

**Regulation of Subsidiaries**

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

**ITEM 1A. RISK FACTORS**

Together with the other information on the risks we face and our management of risk contained in this Annual Report on Form 10-K (this Report ) or in our other SEC filings, the following presents significant risks that may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also adversely impact our financial condition, business operations and results of operations.

**Risks Relating to our Business**

*Our operations and regulatory capital needs require us to enhance our capital position in the near term and may also require us to raise additional capital in the future.* We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. As part of the Final Order, the Bank was required to increase its capital prior to certain dates, and is required to maintain certain regulatory capital ratios, as specified in the Final Order. The Bank is required to maintain a ratio of tangible stockholders' equity to total tangible assets as follows:

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

At December 31, 2011, the Bank had a tangible stockholders' equity to total tangible assets ratio of 12.48 percent. Accordingly, we are in compliance with the Final Order. Pursuant to the Written Agreement, we were also required to increase, and are required to maintain, sufficient capital at the Company and at the Bank that is satisfactory to the Federal Reserve Bank. Should our asset quality erode and require significant additional provision for credit losses, resulting in consistent net operating losses at the Bank, our capital levels will decline and we will need to raise capital to satisfy our agreements with the regulators and any future regulatory orders or agreements we may be subject to.

*The Bank is subject to additional regulatory oversight as a result of a formal regulatory enforcement action issued by the Federal Reserve Bank and the California Department of Financial Institutions.* On November 2, 2009, the members of the Board of Directors of the Bank consented to the issuance of the Final Order from the California Department Financial Institutions. On the same date, we and the Bank entered into the Written Agreement with the Federal Reserve Bank. Under the terms of the Final Order and the Written Agreement, the Bank is required to implement certain corrective and remedial measures under strict time frames.

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These regulatory actions will remain in effect until modified, terminated, suspended or set aside by the Federal Reserve Bank or the California Department of Financial Institutions, as applicable. Failure to comply with the terms of these regulatory actions within the applicable time frames provided or any extended deadlines could result in additional orders or penalties from the Federal Reserve Bank and the California Department of Financial Institutions, which could include further restrictions on our business, assessment of civil money penalties on us and the Bank, as well as our respective directors, officers and other affiliated parties, termination of deposit insurance, removal of one or more officers and/or directors, the liquidation or other closure of the Bank and our ability to continue as a going concern. Generally, these enforcement actions will be lifted only after subsequent examinations substantiate complete correction of the underlying issues.

***We may become subject to additional regulatory restrictions in the event that our regulatory capital levels were to decline.*** We cannot provide any assurance that our total risk-based capital ratio or other regulatory capital ratios will not decline in the future such that the Bank may be considered to be undercapitalized for regulatory purposes. If a state member bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the Federal Reserve Bank. Pursuant to Federal Deposit Insurance Corporation Improvement Act, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the Federal Reserve Bank of a capital restoration plan for the bank. Pursuant to Section 38 of the Federal Deposit Insurance Act and Federal Reserve Board Regulation H, the Bank was previously required to submit a capital restoration plan to the Federal Reserve Bank that must be guaranteed by the Company as a result of the previous decline in the Bank's capital position. The Bank is also subject to other restrictions pursuant to Section 38 and Federal Reserve Board Regulation H, including restrictions on dividends, asset growth and expansion through acquisitions, branching or new lines of business and is prohibited from paying certain management fees until its improving capital ratios are deemed satisfactory by its regulators. The Federal Reserve Bank also has the discretion to impose certain other corrective actions pursuant to Section 38 and Regulation H.

If a bank is classified as significantly undercapitalized, the Federal Reserve Bank would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. These actions may also be taken by the Federal Reserve Bank at any time on an undercapitalized bank if it determines those restrictions are necessary. If a bank is classified as critically undercapitalized, in addition to the foregoing restrictions, the Federal Deposit Insurance Corporation Improvement Act prohibits payment on any subordinated debt and requires the bank to be placed into conservatorship or receivership within 90 days, unless the Federal Reserve Bank determines that other action would better achieve the purposes of the Federal Deposit Insurance Corporation Improvement Act regarding prompt corrective action with respect to undercapitalized banks.

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.*** Liquidity is essential to our business. An inability to raise funds through deposits, including brokered deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us.

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Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of the recent turmoil faced by banking organizations in the domestic and worldwide credit markets.

***We may be required to make additional provisions for credit losses and charge off additional loans in the future, which could adversely affect our results of operations and capital levels.*** 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, along with high unemployment. This slowdown reflects declining prices and excess inventories of homes to be sold, which has contributed to a financial strain on homebuilders and suppliers, as well as an overall decrease in the collateral value of real estate securing loans. As of December 31, 2011, we had \$749.9 million in real estate loans. Continuing deterioration in the real estate market generally and in the residential property and construction segment in particular, along with high levels of unemployment, could result in additional loan charge-offs and provisions for credit losses in the future, which could have an adverse effect on our net income and capital levels.

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

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

***Our concentration in loans collateralized by commercial real estate property located primarily in Southern California could have adverse effects on credit quality.*** As of December 31, 2011, the Bank's loan portfolio included commercial property, construction, and commercial and industrial loans, which were collateralized by commercial real estate properties located primarily in Southern California, amounting to \$1.6 billion, or 83.1 percent of total gross loans. Because of this concentration, a potential deterioration of the commercial real estate market in Southern California could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans. Among the factors that could contribute to such a potential decline are general economic conditions in Southern California, interest rates and local market construction and sales activity.

***Our concentrations of loans in certain industries could have adverse effects on credit quality.*** As of December 31, 2011, the Bank's loan portfolio included loans to: 1) lessors of non-residential buildings totaling \$380.7 million, or 19.6 percent of total gross loans; 2) borrowers in the accommodation industry totaling \$283.6 million, or 14.6 percent of total gross loans; and 3) gas stations totaling \$260.1 million, or 13.4 percent of

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total gross loans. Most of these loans are in Southern California. Because of these concentrations of loans in specific industries, a continued deterioration of the Southern California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

***Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.*** Most of our commercial business and commercial real estate loans are made to small or middle market businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

***Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans.*** In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment and adherence to professional standards. If the appraisal does not reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to declines in property values after the date of the original appraisal or defective preparation, we may not realize an amount equal to the indebtedness secured by the property and may suffer losses.

***We may still be subject to continued regulatory scrutiny.*** Even with the completion of the underwritten public offering of our common stock by which we raised \$77.1 million in net proceeds in November 2011, and the satisfaction of the capital ratio requirements set forth in the regulatory agreements and orders we have entered into, we cannot assure you whether or when such regulatory agreements and orders will be lifted or terminated. Even if they are lifted or terminated in whole or in part, we may still be subject to supervisory enforcement actions that restrict our activities.

***Difficult economic and market conditions have adversely affected our industry.*** Declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and reduction in general business activity. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

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

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

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

***Instability in domestic and international financial markets could adversely affect us*** Global capital markets and economic conditions are still unstable and the resulting disruption has been particularly acute in the financial sector. As the European credit crisis continues, with the bailout of Greece, and problems in other countries such as Italy and Spain, there is a growing risk to the financial condition and stability of major European banks. During the past several years, several large European bank experienced financial difficulty and were either rescued by government assistance or by other large European banks.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. There can be no assurance as to the actual impact regulatory initiatives will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of regulatory initiatives to help stabilize the financial markets and a worsening of financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to capital, liquidity, the financial condition of our borrowers and credit or the value of our securities.

***Our success depends on our key management.*** Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. The unexpected loss of services of one or more of our key personnel or the inability to maintain consistent personnel in management could have a material adverse impact on our business and results of operations.

***Our interest expense may increase following the repeal of the Federal prohibition on payment of interest on demand deposits.*** The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to compete for clients. We do not yet know what interest rates other institutions may offer. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition, net income and results of operations.

***Changes in economic conditions could materially hurt our business.*** Our business is directly affected by changes in economic conditions, including finance, legislative and regulatory changes and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. The economic conditions in the markets in which many of our borrowers operate have deteriorated and the levels of loan delinquency and defaults that we experienced were substantially higher than historical levels.

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If economic conditions continue to deteriorate, it may exacerbate the following consequences:

problem assets and foreclosures may increase;

demand for our products and services may decline;

low cost or non-interest bearing deposits may decrease; and

collateral for loans made by us, especially real estate, may decline in value.

***If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans, we could sustain losses.*** A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believe are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying our credit portfolio.

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

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

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

***We are subject to government regulations that could limit or restrict our activities, which in turn could adversely affect our operations.*** The financial services industry is subject to extensive federal and state supervision and regulation. Significant new laws, including the recent enactment of Dodd-Frank Act, changes in existing laws, or repeals of existing laws may cause our results to differ materially from historical and projected

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performance. Further, federal monetary policy, particularly as implemented through the Federal Reserve Board, significantly affects credit conditions and a material change in these conditions could have a material adverse impact on our financial condition and results of operations.

***Additional requirements imposed by the Dodd-Frank Act and other regulations could adversely affect us.*** Recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, including expansive financial services regulatory reform legislation. Dodd-Frank, adopted in July 2010, sets out sweeping regulatory changes. Changes imposed by the Dodd-Frank include, among others: (i) new requirements on banking, derivative and investment activities, including modified capital requirements, the repeal of the prohibition on the payment of interest on business demand accounts, *and* debit card interchange fee requirements; (ii) corporate governance and executive compensation requirements; (iii) enhanced financial institution safety and soundness regulations, including increases in assessment fees and deposit insurance coverage; and (iv) the establishment of new regulatory bodies, such as the Bureau of Consumer Financial Protection. Certain provisions are effective immediately; however, much of the Financial Reform Act is subject to further rulemaking and/or studies. As such, while we are subject to the legislation, we cannot fully assess the impact of the Dodd-Frank until final rules are implemented, which depending on the rule, could be within six to twenty four months from the enactment of the Dodd-Frank, or later.

Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules and may make it more difficult for us to attract and retain qualified executive officers and employees.

***Our Tier 1 risk-based capital will be negatively impacted by the Collins Amendment provisions of the Dodd-Frank Act.*** The Collins Amendment provision of the Dodd-Frank Act imposes increased capital requirements in the future. The Collins Amendment also requires federal banking regulators to establish minimum leverage and risk-based capital requirements to apply to insured depository institutions, bank and thrift holding companies, and systemically important nonbank financial companies. These capital requirements must not be less than the Generally Applicable Risk Based Capital Requirements and the Generally Applicable Leverage Capital Requirements as of July 21, 2010, and must not be quantitatively lower than the requirements that were in effect for insured depository institution as of July 21, 2010. The Collins Amendment defines Generally Applicable Risk Based Capital Requirements and Generally Applicable Leverage Capital Requirements to mean the risk-based capital requirements and minimum ratios of Tier 1 risk-based capital to average total assets, respectively, established by the appropriate federal banking agencies to apply to insured depository institutions under the Prompt Corrective Action provisions, regardless of total consolidated asset size or foreign financial exposure. Over a three-year phase-out period effective January 1, 2013, trust preferred securities will no longer qualify as Tier 1 risk-based capital for certain bank holding companies, including us.

***The Consumer Financial Protection Bureau.*** The Dodd-Frank Act created the Consumer Financial Protection Bureau ( Bureau ) within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau, and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions, including the Bank.

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*The FDIC's restoration plan and the related increased assessment rate could adversely affect our earnings.* The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF) up to prescribed limits for each depositor. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), the maximum deposit insurance amount has been permanently increased to \$250,000 and all non-interest-bearing transaction accounts are insured. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the greatly increased number of bank failures and losses incurred by DIF, as well as the recent extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's DIF was substantially depleted and the FDIC has incurred substantially increased operating costs. In November, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The Bank received a waiver from prepayment of the FDIC assessment.

As required by the Dodd-Frank Act, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required); (3) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than \$10 billion; (4) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (5) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The Federal Deposit Insurance Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2 percent of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by the Dodd-Frank Act, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than \$10 billion in assets) and suspends dividend payments if the DIF reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the Deposit Insurance Fund reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the DIF than under the old system. Additionally, the final rule includes a new adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's Tier 1 capital.

Our FDIC insurance expense totaled \$6.3 million for 2011. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.



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***The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us.*** On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III, which were approved in November 2010 by the G20 leadership. Basel III increases the minimum Tier 1 common equity ratio to 4.5 percent, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent. Basel III increases the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer, increases the minimum total capital ratio to 10.5 percent inclusive of the capital buffer and introduces a countercyclical capital buffer of up to 2.5 percent of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a multi-year period. The Federal Reserve will likely implement changes to the capital adequacy standards applicable to us and the Bank which will increase our capital requirements and compliance costs.

***A failure by the U.S. government to meet the conditions of the August 2011 debt ceiling agreement or to reduce its budget deficit or a further downgrade of U.S. sovereign debt could have a material adverse effect on the availability of financing, our borrowing costs, the liquidity and valuation of securities in our investment portfolio, our financial condition and our results of operations.*** As widely reported, there continues to be concerns over the ability of the United States government to reduce its budget deficit and resolve its debt crisis. The U.S. sovereign debt was downgraded from AAA to AA+ in August 2011 and continues to be under review for a downgrade of its credit rating to account for the risk that U.S. lawmakers fail to meet the conditions of the August 2011 debt ceiling agreement and/or reduce its overall debt. Any such failures or a downgrade of the U.S. sovereign debt rating could have a material adverse effect both on the U.S. economy and on the global economy. In particular, this could cause disruption in the capital markets and impact the stability of future U.S. treasury auctions and the trading market for U.S. government securities, resulting in increased interest rates and borrowing costs. The Bank relies on customer deposits, brokered deposits and advances from the Federal Home Loan Bank to fund operations. The Bank's financial flexibility will be severely constrained if it is unable to maintain its access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If the Bank is required to rely on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected. Any of these factors could negatively impact our borrowing costs and our liquidity, which could have a material adverse impact on our financial condition and our results of operations.

***We are subject to the risk that the global credit crisis, despite efforts by global governments to halt that crisis, may affect interest rates and the availability of financing in general, which could adversely affect our financing and our operating results.*** During the past several years, several large European banks experienced financial difficulty and were either rescued by government assistance or by other large European banks. Several European governments have coordinated plans to attempt to shore up their financial sectors through loans, credit guarantees, capital infusions, promises of continued liquidity funding and interest rate cuts. Additionally, other governments of the world's largest economic countries also implemented interest rate cuts. There is no assurance that these and other plans and programs will be successful in halting the global credit crisis or in preventing other banks from failing. If unsuccessful, this could adversely affect our financing and operations as well as those of the entire banking sector in general.

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

***We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.*** The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

***We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services.*** We offer various Internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients' confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services and could harm our business.

***The soundness of other financial institutions could adversely affect us.*** Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any such losses could have a material adverse effect on our financial condition and results of operations.

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

***Negative publicity could damage our reputation.*** Reputation risk, or the risk to our earnings and capital from negative publicity or public opinion, is inherent in our business. Negative publicity or public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory

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consequences. Negative public opinion could result from our actual or perceived conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

***We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.*** Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, and finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. Failure to attract or retain such employees could have a material adverse effect on our financial condition and results of operations.

***Our controls and procedures could fail or be circumvented.*** Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

***Our ability to use some or all of our net operating loss carryforwards may be impaired.*** Section 382 of the Internal Revenue Code imposes restrictions on the use of a corporation's NOLs, as well as certain recognized built-in losses and other carryforwards, after an ownership change occurs. A Section 382 ownership change occurs if one or more stockholders or groups of stockholders who own at least 5 percent of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of pre-change NOLs and other losses we can use to reduce our taxable income generally equal to the product of the total value of our outstanding equity immediately prior to the ownership change and the applicable federal long-term tax-exempt interest rate for the month of the ownership change.

### **Risks Relating to Ownership of Our Common Stock**

***The Bank is currently restricted from paying dividends to us and we are restricted from paying dividends to stockholders and from making any payments on our trust preferred securities.*** The primary source of our income from which we pay our 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 a retained deficit of \$218.6 million as of December 31, 2011 and has suffered net losses in 2010, 2009 and 2008, largely caused by provision for credit losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, with or without Commissioner approval. In addition, the Bank is prohibited from paying dividends to us unless it receives prior regulatory approval. Furthermore, we agreed that we will not pay any dividends or make any payments on our outstanding \$82.4 million of trust preferred securities or any other capital distributions without the prior written consent of the Federal Reserve Bank.

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We began to defer interest payment on our trust preferred securities commencing with the interest payment that was due on January 15, 2009. If we defer interest payments for more than 20 consecutive quarters under any of our outstanding trust preferred instruments, then we would be in default under such trust preferred arrangements and the amounts due under the agreements pursuant to which we issued our trust preferred securities would be immediately due and payable.

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

actual or anticipated quarterly fluctuations in our operating results and financial condition;

changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;

failure to meet analysts' revenue or earnings estimates;

speculation in the press or investment community;

strategic actions by us or our competitors, such as acquisitions or restructurings;

actions by institutional stockholders;

fluctuations in the stock price and operating results of our competitors;

general market conditions and, in particular, developments related to market conditions for the financial services industry;

proposed or adopted legislative or regulatory changes or developments;

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

domestic and international economic factors unrelated to our performance.

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

*Your share ownership may be diluted by the issuance of additional shares of our common stock in the future.* Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. We may decide to raise additional funds through public or private debt or equity financings for a number

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of reasons, including in response to regulatory or other requirements to meet our liquidity and capital needs, to finance our operations and business strategy or for other reasons. If we raise funds by issuing equity securities or instruments that are convertible into equity securities, the percentage ownership of our existing stockholders will further be reduced, the new equity securities may have rights, preferences and privileges superior to those of our common stock, and the market of our common stock could decline.

In addition, we have adopted a stock option plan that provides for the granting of stock options to our directors, executive officers and other employees. As of December 31, 2011, 383,361 shares of our common stock were issuable under options granted in connection with our stock option plans and stock warrants issued in connection with the registered rights and best efforts offerings. In addition, 183,920 shares of our common stock are reserved for future issuance to directors, officers and employees under our stock option plans. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

Furthermore, as of December 31, 2011, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to an additional 32,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

***Future sales of common stock by existing stockholders may have an adverse impact on the market price of our common stock.*** Sales of a substantial number of shares of our common stock in the public market, or the perception that large sales could occur, could cause the market price of our common stock to decline or limit our future ability to raise capital through an offering of equity securities.

***Holders of our junior subordinated debentures have rights that are senior to those of our stockholders.*** As of December 31, 2011, we had outstanding \$82.4 million of trust preferred securities issued by our subsidiary trusts. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. The junior subordinated debentures underlying the trust preferred securities are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock. We commenced deferring distributions on the junior subordinated debentures (and the related trust preferred securities) with the payment that was due on January 15, 2009.

***Anti-takeover provisions and state and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.*** Various provisions of our Amended and Restated Certificate of Incorporation and By-laws could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our stockholders. These provisions provide for, among other things, supermajority voting approval for certain actions, limitation on large stockholders taking certain actions and the authorization to issue blank check preferred stock by action of the Board of Directors acting alone, thus without obtaining stockholder approval. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either Federal Reserve Bank approval must be obtained or notice must be furnished to the Federal Reserve Bank and not disapproved

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prior to any person or entity acquiring control of a state member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to stockholders and could limit the price investors would be willing to pay in the future for our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents****ITEM 2. PROPERTIES**

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

The following table sets forth information about our offices as of December 31, 2011:

Office	Address	City/State	Owned/ Leased
Corporate Headquarters <sup>(1)</sup>	3660 Wilshire Boulevard, Penthouse Suite A	Los Angeles, CA	Leased
<b>Branches:</b>			
Beverly Hills Branch	9300 Wilshire Boulevard, Suite 101	Beverly Hills, CA	Leased
Cerritos Artesia Branch	11754 East Artesia Boulevard	Artesia, CA	Leased
Cerritos South Branch	11900 South Street, Suite 109	Cerritos, CA	Leased
Downtown Los Angeles Branch	950 South Los Angeles Street	Los Angeles, CA	Leased
Diamond Bar Branch	1101 Brea Canyon Road, Suite A-1	Diamond Bar, CA	Leased
Fashion District Branch	726 East 12th Street, Suite 211	Los Angeles, CA	Leased
Fullerton Beach Branch	5245 Beach Boulevard	Buena Park, CA	Leased
Garden Grove Brookhurst Branch	9820 Garden Grove Boulevard	Garden Grove, CA	Owned
Garden Grove Magnolia Branch	9122 Garden Grove Boulevard	Garden Grove, CA	Owned
Gardena Branch	2001 West Redondo Beach Boulevard	Gardena, CA	Leased
Irvine Branch	14474 Culver Drive, Suite D	Irvine, CA	Leased
Koreatown Galleria Branch	3250 West Olympic Boulevard, Suite 200	Los Angeles, CA	Leased
Koreatown Plaza Branch	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
Northridge Branch	10180 Reseda Boulevard	Northridge, CA	Leased
Olympic Branch <sup>(2)</sup>	3737 West Olympic Boulevard	Los Angeles, CA	Owned
Olympic Kingsley Branch	3099 West Olympic Boulevard	Los Angeles, CA	Owned
Rancho Cucamonga Branch	9759 Baseline Road	Rancho Cucamonga, CA	Leased
Rowland Heights Branch	18720 East Colima Road	Rowland Heights, CA	Leased
San Diego Branch	4637 Convoy Street, Suite 101	San Diego, CA	Leased
San Francisco Branch	1469 Webster Street	San Francisco, CA	Leased
Silicon Valley Branch	2765 El Camino Real	Santa Clara, CA	Leased
Torrance Crenshaw Branch	2370 Crenshaw Boulevard, Suite H	Torrance, CA	Leased
Torrance Del Amo Mall Branch	21838 Hawthorne Boulevard	Torrance, CA	Leased
Van Nuys Branch	14427 Sherman Way	Van Nuys, CA	Leased
Vermont Branch <sup>(3)</sup>	933 South Vermont Avenue	Los Angeles, CA	Owned
Western Branch	120 South Western Avenue	Los Angeles, CA	Leased
Wilshire Hobart Branch	3660 Wilshire Boulevard, Suite 103	Los Angeles, CA	Leased
<b>Departments:</b>			
Commercial Loan Department <sup>(1)</sup>	3660 Wilshire Boulevard, Suite 1050	Los Angeles, CA	Leased
Consumer Loan Center <sup>(1)</sup>	3660 Wilshire Boulevard, Suite 424	Los Angeles, CA	Leased
Private Banking Department <sup>(1)</sup>	3737 West Olympic Boulevard	Los Angeles, CA	Leased
International Finance Department <sup>(1)</sup>	933 South Vermont Avenue, 2nd Floor	Los Angeles, CA	Leased
SBA Loan Center <sup>(1)</sup>	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
<b>LPOs and Subsidiaries:</b>			
Northwest Region LPO <sup>(1)</sup>	500 108th Avenue NE, Suite 1760	Bellevue, WA	Leased
Chun-Ha/All World <sup>(1)</sup>	12912 Brookhurst Street, Suite 480	Garden Grove, CA	Leased
Chun-Ha <sup>(1)</sup>	3225 Wilshire Boulevard, Suite 1806	Los Angeles, CA	Leased

<sup>(1)</sup> Deposits are not accepted at this facility.

<sup>(2)</sup> Training Facility is also located at this facility.



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

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As of December 31, 2011, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled \$16.6 million. Our lease expense was \$5.6 million for the year ended December 31, 2011. Hanmi Financial and its subsidiaries consider their present facilities to be sufficient for their current operations.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial's common stock for the last two years as reported on the Nasdaq Global Select Market under the symbol H AFC :

	High	Low	Cash Dividend
<b>2011:</b>			
Fourth Quarter	\$ 8.56	\$ 6.48	
Third Quarter	\$ 10.00	\$ 6.40	
Second Quarter	\$ 11.44	\$ 6.64	
First Quarter	\$ 11.44	\$ 8.80	
<b>2010:</b>			
Fourth Quarter	\$ 10.24	\$ 6.88	
Third Quarter	\$ 13.60	\$ 9.36	
Second Quarter	\$ 34.08	\$ 10.08	
First Quarter	\$ 22.64	\$ 8.16	

**Holders**

Hanmi Financial had 575 registered stockholders of record as of February 1, 2012.

**Dividends**

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

As a result of the net loss incurred by the Bank in recent years, 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 set forth in Section 642, dividends in an amount not exceeding the greatest of (a) the retained earnings of the bank; (b) the net income of the bank for its last fiscal year or (c) the net income of the bank for its current fiscal year may be declared with the prior approval of the California Commissioner of Financial Institutions. The Bank had a retained deficit of \$218.6 million as of December 31, 2011 and is not able to pay dividends under Section 643.

FRB Regulation H Section 208.5 provides that the Bank must obtain FRB approval to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years. On August 29, 2008, we announced the suspension of our quarterly cash dividend. As a result of our existing regulatory agreements, we are required to obtain regulatory approval prior to the Bank or Hanmi Financial declaring any dividends to its respective stockholders.

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It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The junior subordinated debentures underlying our trust preferred securities are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We began to defer distributions on our \$82.4 million of outstanding junior subordinated debentures (and related trust preferred securities) commencing with the interest payment that was due on January 15, 2009.

We currently do not have any present intention of paying cash dividends to Hanmi Financial stockholders.

**Table of Contents****Performance Graph**

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

Index	December 31,					
	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Hanmi Financial Corporation	\$ 100.00	\$ 38.93	\$ 9.43	\$ 5.49	\$ 5.27	\$ 4.24
NASDAQ Composite	\$ 100.00	\$ 110.66	\$ 66.42	\$ 96.54	\$ 114.06	\$ 113.16
S&P 500 Financials	\$ 100.00	\$ 81.37	\$ 36.36	\$ 42.62	\$ 47.79	\$ 39.64
SNL Bank \$1B-\$5B Index	\$ 100.00	\$ 72.84	\$ 60.42	\$ 43.31	\$ 49.09	\$ 44.77

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

During the fourth quarter of 2011, there were no purchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates. As of December 31, 2011, there was no current plan authorizing purchases of Hanmi Financial's equity securities by Hanmi Financial or its affiliates.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Report and the information contained in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*. The selected historical financial data as of and for each of the years in the five years ended December 31, 2011 is derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	2011	As of and for the Year Ended December 31,			2007
		2010	2009	2008	
		(In Thousands, Except for Per Share Data)			
<b>SUMMARY STATEMENTS OF OPERATIONS:</b>					
Interest and Dividend Income	\$ 128,807	\$ 144,512	\$ 184,147	\$ 238,183	\$ 280,896
Interest Expense	27,630	38,638	82,918	103,782	129,110
Net Interest Income Before Provision for Credit Losses	101,177	105,874	101,229	134,401	151,786
Provision for Credit Losses	12,100	122,496	196,387	75,676	38,323
Non-Interest Income	23,851	25,406	32,110	32,854	40,006
Non-Interest Expense	84,048	96,805	90,354	195,027	189,929
Income (Loss) Before Provision (Benefit) for Income Taxes	28,880	(88,021)	(153,402)	(103,448)	(36,460)
Provision (Benefit) for Income Taxes	733	(12)	(31,125)	(1,355)	24,302
<b>NET INCOME (LOSS)</b>	<b>\$ 28,147</b>	<b>\$ (88,009)</b>	<b>\$ (122,277)</b>	<b>\$ (102,093)</b>	<b>\$ (60,762)</b>
<b>SUMMARY BALANCE SHEETS:</b>					
Cash and Cash Equivalents	\$ 201,683	\$ 249,720	\$ 154,110	\$ 215,947	\$ 122,398
Total Investment Securities	441,604	413,963	133,289	197,117	350,457
Net Loans <sup>(1)</sup>	1,871,607	2,121,067	2,674,064	3,291,125	3,241,097
Total Assets	2,744,824	2,907,148	3,162,706	3,875,816	3,983,657
Total Deposits	2,344,910	2,466,721	2,749,327	3,070,080	3,001,699
Total Liabilities	2,459,216	2,733,892	3,012,962	3,611,901	3,613,101
Total Stockholders' Equity	285,608	173,256	149,744	263,915	370,556
Tangible Equity	284,075	171,023	146,362	258,965	256,548
Average Net Loans <sup>(1)</sup>	1,995,313	2,368,369	3,044,395	3,276,142	3,049,775
Average Investment Securities	446,198	215,280	188,325	271,802	368,144
Average Interest-Earning Assets	2,752,696	2,981,878	3,611,009	3,653,720	3,494,758
Average Total Assets	2,787,707	2,998,507	3,717,179	3,866,856	3,882,891
Average Deposits	2,404,655	2,587,686	3,109,322	2,913,171	2,989,806
Average Borrowings	153,148	243,690	341,514	591,930	355,819
Average Interest-Bearing Liabilities	1,957,077	2,268,954	2,909,014	2,874,470	2,643,296
Average Stockholders' Equity	200,517	137,968	225,708	323,462	492,637
Average Tangible Equity	198,626	135,171	221,537	264,490	275,036
<b>PER SHARE DATA:</b>					
Earnings (Loss) Per Share Basic <sup>(2)</sup>	\$ 1.38	\$ (7.46)	\$ (20.56)	\$ (17.84)	\$ (10.16)
Earnings (Loss) Per Share Diluted <sup>(2)</sup>	\$ 1.38	\$ (7.46)	\$ (20.56)	\$ (17.84)	\$ (10.16)
Book Value Per Share <sup>(3)</sup>	\$ 9.07	\$ 9.20	\$ 23.44	\$ 46.00	\$ 64.64
Tangible Book Value Per Share <sup>(4)</sup>	\$ 9.02	\$ 9.04	\$ 22.88	\$ 45.12	\$ 44.72
Cash Dividends Per Share				\$ 0.72	\$ 1.92
Common Shares Outstanding	31,489,201	18,899,799	6,397,799	5,738,194	5,732,618

<sup>(1)</sup> Loans receivable, net of allowance for loan losses and deferred loan fees.

<sup>(2)</sup> The computation of basic and diluted earnings (loss) per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.

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

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

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	As of and for the Year Ended December 31,				
	2011	2010	2009	2008	2007
<b>SELECTED PERFORMANCE RATIOS:</b>					
Return on Average Assets <sup>(5)</sup>	1.01%	-2.94%	-3.29%	-2.64%	-1.56%
Return on Average Stockholders' Equity <sup>(6)</sup>	14.04%	-63.79%	-54.17%	-31.56%	-12.33%
Return on Average Tangible Equity <sup>(7)</sup>	14.17%	-65.11%	-55.19%	-38.60%	-22.09%
Net Interest Spread <sup>(8)</sup>	3.27%	3.15%	2.28%	2.95%	3.20%
Net Interest Margin <sup>(9)</sup>	3.68%	3.55%	2.84%	3.72%	4.39%
Efficiency Ratio <sup>(10)</sup>	67.22%	73.74%	67.76%	116.60%	99.03%
Dividend Payout Ratio <sup>(11)</sup>				-4.05%	-18.11%
Average Stockholders' Equity to Average Total Assets	7.19%	4.60%	6.07%	8.36%	12.69%
<b>SELECTED CAPITAL RATIOS:</b>					
Total Capital to Total Risk-Weighted Assets:					
Hanmi Financial	18.66%	12.32%	9.12%	10.79%	10.65%
Hanmi Bank	17.57%	12.22%	9.07%	10.70%	10.59%
Tier 1 Capital to Total Risk-Weighted Assets:					
Hanmi Financial	17.36%	10.09%	6.76%	9.52%	9.40%
Hanmi Bank	16.28%	10.91%	7.77%	9.44%	9.34%
Tier 1 Capital to Average Total Assets:					
Hanmi Financial	13.34%	7.90%	5.82%	8.93%	8.52%
Hanmi Bank	12.50%	8.55%	6.69%	8.85%	8.47%
<b>SELECTED ASSET QUALITY RATIOS:</b>					
Non-Performing Loans to Total Gross Loans <sup>(12)</sup>	2.70%	7.45%	7.77%	3.62%	1.66%
Non-Performing Assets to Total Assets <sup>(13)</sup>	1.91%	5.95%	7.76%	3.17%	1.37%
Net Loan Charge-Offs to Average Total Gross Loans	3.25%	4.79%	3.88%	1.38%	0.73%
Allowance for Loan Losses to Total Gross Loans	4.64%	6.55%	5.15%	2.11%	1.33%
Allowance for Loan Losses to Non-Performing Loans	171.71%	102.54%	66.51%	58.23%	80.05%

<sup>(5)</sup> Net income (loss) divided by average total assets.

<sup>(6)</sup> Net income (loss) divided by average stockholders' equity.

<sup>(7)</sup> Net income (loss) divided by average tangible equity.

<sup>(8)</sup> Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent

<sup>(9)</sup> Net interest income before provision for credit losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent

<sup>(10)</sup> Total non-interest expense divided by the sum of net interest income before provision for credit losses and total non-interest income.

<sup>(11)</sup> Dividends declared per share divided by basic earnings (loss) per share.

<sup>(12)</sup> Non-performing loans, excluding loans held for sale, consist of non-accrual loan and loans past due 90 days or more still accruing interest.

<sup>(13)</sup> Non-performing assets consist of non-performing loans and other real estate owned.

**Non-GAAP Financial Measures**



***Return on Average Tangible Equity***

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

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

	2011	2010	Year Ended December 31,		2007
			2009	2008	
			<i>(In Thousands)</i>		
Average Stockholders' Equity	\$ 200,517	\$ 137,968	\$ 225,708	\$ 323,462	\$ 492,637
Less Average Goodwill and Average Other Intangible Assets	(1,891)	(2,797)	(4,171)	(58,972)	(217,601)
<b>Average Tangible Equity</b>	<b>198,626</b>	<b>135,171</b>	<b>221,537</b>	<b>264,490</b>	<b>275,036</b>
Return on Average Stockholders' Equity	14.04%	-63.79%	-54.17%	-31.56%	-12.33%
Effect of Average Goodwill and Average Other Intangible Assets	0.13%	-1.32%	-1.02%	-7.04%	-9.76%
<b>Return on Average Tangible Equity</b>	<b>14.17%</b>	<b>-65.11%</b>	<b>-55.19%</b>	<b>-38.60%</b>	<b>-22.09%</b>

**Tangible Book Value Per Share**

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

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

	2011	2010	Year Ended December 31,		2007
			2009	2008	
			<i>(In Thousands, Except Per Share Amounts)</i>		
Total Stockholders' Equity	\$ 285,608	\$ 173,256	\$ 149,744	\$ 263,915	\$ 370,556
Less Goodwill and Other Intangible Assets	(1,533)	(2,233)	(3,382)	(4,950)	(114,008)
<b>Tangible Equity</b>	<b>\$ 284,075</b>	<b>\$ 171,023</b>	<b>\$ 146,362</b>	<b>\$ 258,965</b>	<b>\$ 256,548</b>
Book Value Per Share	\$ 9.07	\$ 9.20	\$ 23.44	\$ 46.00	\$ 64.64
Effect of Goodwill and Other Intangible Assets	(0.05)	(0.16)	(0.56)	(0.88)	(19.92)
<b>Tangible Book Value Per Share</b>	<b>\$ 9.02</b>	<b>\$ 9.04</b>	<b>\$ 22.88</b>	<b>\$ 45.12</b>	<b>\$ 44.72</b>

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion presents management's analysis of the financial condition and results of operations as of and for the years ended December 31, 2011, 2010 and 2009. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also Cautionary Note Regarding Forward-Looking Statements.

**CRITICAL ACCOUNTING POLICIES**

We have established various accounting policies that govern the application of GAAP in the preparation of our consolidated financial statements. Our significant accounting policies are described in the *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies*. 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. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial's Board of Directors.

***Allowance for Loan Losses***

We believe the allowance for loan losses and allowance for off-balance sheet items are critical accounting policies that require significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements. Our allowance for loan losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on 14 segmented loan pools by type and risk rating, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in non-performing loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rate are other qualitative factors that are considered in our methodologies. See *Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items, Results of Operations Provision for Credit Losses* and *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* for additional information on methodologies used to determine the allowance for loan losses and allowance for off-balance sheet items.

***Loan Sales***

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

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servicing assets are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* and *Note 5 Loans* presented elsewhere herein.

We reclassify certain nonperforming loans to loans held for sale. In such reclassification, we take into consideration of the following factors, but are not limited to;

NPL and/or classified status, non-accrual status, and days delinquent;

possibility of rehabilitation or workout for the near future and long term earning capability as an asset;

number of times the note was modified;

overall debt coverage ratio;

whether the debt is on troubled debt restructure status;

the location of the collateral; and

the borrower's overall financial condition.

The fair value of nonperforming loans held for sale is generally based upon the recent appraisal, quotes, bids or sales contract price which approximate the fair value. Nonperforming loans held for sale are recorded at the lower of cost or fair value.

## ***Investment Securities***

The classification and accounting for investment securities are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* presented elsewhere herein. Under FASB ASC 320, *Investment*, investment securities generally must be classified as held-to-maturity, available-for-sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held-to-maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

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

We are obligated to assess, at each reporting date, whether there is an other-than-temporary impairment ( OTTI ) to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. The determination of OTTI is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for OTTI. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of



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the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. Our impairment assessment also takes into consideration factor that we do not intend to sell the security and it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis of the security. If the decline in fair value is judged to be other than temporary, the security is written down to fair value which becomes the new cost basis and an impairment loss is recognized.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or it more likely than not will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If we do not intend to sell the security or it is more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition.

The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, that are deemed other-than-temporarily impaired as of December 31, 2011 and 2010. Investment securities are discussed in more detail in *Notes to Consolidated Financial Statements, Note 4 Investment Securities* presented elsewhere herein.

### ***Income Taxes***

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

For the year ended December 31, 2011, we decreased the valuation allowance by \$10.4 million to record total valuation allowance of \$82.3 million and a net deferred tax asset of zero. For the year ended December 31, 2010, we increased the valuation allowance by \$47.5 million to record total valuation allowance of \$92.7 million and a net deferred tax asset of zero. Income taxes are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* and *Note 11 Income Taxes* presented elsewhere herein.

### **EXECUTIVE OVERVIEW**

For the years ended December 31, 2011, 2010 and 2009, we recognized net income of \$28.1 million, and net loss of \$88.0 million and \$122.3 million, respectively. The increase in net income for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was primarily due to the lower levels of provision for

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credit losses of \$12.1 million compared to \$122.5 million in 2010. The decline in net losses for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was primarily the result of lower levels of provision for credit losses of \$122.5 million compared to \$196.4 million in 2009. For the years ended December 31, 2011, 2010 and 2009, our income per diluted share was \$1.38, and loss per diluted share was \$(7.46) and \$(20.56), respectively.

On July 27, 2010, we completed a registered rights and best efforts public offering of our common stock by which we raised \$116.8 million in net proceeds. As a result, we satisfied the \$100 million capital contribution requirement set forth in the Final Order and the Bank has met the threshold for being considered well-capitalized for regulatory purposes since September 30, 2010. On November 18, 2011, we completed an underwritten public offering of our common stock by which we raised \$77.1 million in net proceeds. As a result, we satisfied the tangible stockholders' equity to total tangible assets ratio requirement of not less than 9.5 percent, set forth in the Final Order as of December 31, 2011. Based on submissions to and consultations with our regulators, we believe that the Bank has taken the required corrective action and has complied with substantially all of the requirements of the Final Order and the Written Agreement. For a further discussion of the Bank's capital condition and capital resources, see Capital Resources and Liquidity.

We have made continuous efforts to improve our asset quality through proactive loan monitoring, accelerated problem loan resolutions, and sales of non-performing assets. In accordance with our liquidity preservation strategy, funds raised from the secondary stock offerings and sales of loans were placed into highly liquid assets. As a result, we maintained a strong liquidity position with \$700.4 million in cash and marketable securities as of December 31, 2011.

Significant financial highlights include:

The Company's total risk-based capital ratio improved to 18.66 percent as of December 31, 2011 compared to 12.32 percent as of December 31, 2010. The Bank's tangible common equity to tangible assets also improved to 12.48 percent as of December 31, 2011 compared to 8.59 percent as of December 31, 2010.

Non-performing loans decreased to \$52.4 million, or 2.70 percent of total gross loans, as of December 31, 2011 compared to \$142.4 million, or 6.38 percent as of December 31, 2010. The coverage ratio of the allowance to non-performing loans increased to 171.71 percent as of December 31, 2011 compared to 102.54 percent as of December 31, 2010.

The cost of funds and deposit decreased through changes in the composition of our deposit portfolio. The average funding cost decreased by 29 basis points to 1.41 percent for the year ended December 31, 2011 compared to 1.70 percent for the year ended December 31, 2010. The average deposit cost decreased by 33 basis points to 1.00 percent for the year ended December 31, 2011 compared to 1.33 percent for the year ended December 31, 2010.

Net interest margin improved by 13 basis points to 3.68 percent for the year ended December 31, 2011 compared to 3.55 percent for the year ended December 31, 2010.

Operating efficiency improved with total non-interest expense down 13.2 percent to \$84.0 million for the year ended December 31, 2011 from \$96.8 million for the year ended December 31, 2010. As a result, the efficiency ratio improved to 67.2 percent for the year December 31, 2011 from 73.7 percent for the year ended December 31, 2010.

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### ***Outlook for fiscal 2012***

For 2012, our priorities will be to enhance our capital position, continue to improve our credit quality and to comply fully with all of the requirements of the Final Order and the Written Agreement.

We believe that our proactive initiatives to manage credit risk exposure have resulted in improvement of our asset quality over the past several quarters. We are committed to refine our credit risk management systems to meet the challenges of our changing economic environment.

Based on our current liquidity position, we have begun to consider strategic changes. We are currently planning to develop innovative new products and services as well as generate quality new loans to expand our existing customer base with the goal of improving our profitability. Based on our current liquidity position, we have begun to consider strategic changes. We are currently planning to develop innovative new products and services as well as generate quality new loans to expand our existing customer base with the goal of improving our profitability. In the event that the Final Order and the Written Agreement are lifted, we intend to pay interest in arrears on our outstanding junior subordinated debentures to bring them current.

We continue to evaluate available options to enhance our capital position. Responding to the rapidly changing economy, additional capital from alternative sources may be necessary to provide us with adequate capital resources to support our business, our level of problem assets and our operations.

## **RESULTS OF OPERATIONS**

### **Net Interest Income, Net Interest Spread and Net Interest Margin**

Our earnings depend largely upon net interest income, which is 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 between the yield earned on interest-earning assets and the cost of interest-bearing liabilities is net interest spread. Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin.

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



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

	December 31, 2011			For The Year Ended December 31, 2010			December 31, 2009		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
<b>ASSETS</b>									
Interest-Earning Assets:									
Gross Loans, Net <sup>(1)</sup>	\$ 2,114,546	\$ 117,671	5.56%	\$ 2,544,472	\$ 137,328	5.40%	\$ 3,157,133	\$ 173,318	5.49%
Municipal Securities:									
Taxable	21,740	884	4.07%	3,746	189	5.05%			0.00%
Tax Exempt <sup>(2)</sup>	6,544	332	5.07%	6,909	346	5.01%	54,448	3,543	6.51%
Obligations of Other U.S. Government									
Agencies	121,961	1,963	1.61%	69,112	1,952	2.82%	24,417	1,108	4.54%
Other Debt Securities	295,953	6,921	2.34%	135,513	3,733	2.75%	109,460	4,568	4.17%
Equity Securities	33,573	534	1.59%	37,437	532	1.42%	41,399	656	1.58%
Federal Funds Sold	5,857	27	0.46%	10,346	52	0.50%	84,363	326	0.39%
Term Federal Funds Sold	38,693	276	0.71%	8,342	33	0.40%	95,822	1,718	1.79%
Interest-Bearing Deposits	113,829	315	0.28%	166,001	468	0.28%	43,967	151	0.34%
<b>Total Interest-Earning Assets</b>	<b>2,752,696</b>	<b>128,923</b>	<b>4.68%</b>	<b>2,981,878</b>	<b>144,633</b>	<b>4.85%</b>	<b>3,611,009</b>	<b>185,388</b>	<b>5.13%</b>
Noninterest-Earning Assets:									
Cash and Cash Equivalents	68,255			67,492			71,448		
Allowance for Loan Losses	(119,233)			(176,103)			(112,738)		
Other Assets	85,989			125,240			147,460		
<b>Total Noninterest-Earning Assets</b>	<b>35,011</b>			<b>16,629</b>			<b>106,170</b>		
<b>TOTAL ASSETS</b>	<b>\$ 2,787,707</b>			<b>\$ 2,998,507</b>			<b>\$ 3,717,179</b>		
<b>LIABILITIES AND STOCKHOLDERS</b>									
<b>EQUITY</b>									
Interest-Bearing Liabilities:									
Deposits:									
Savings	\$ 109,272	2,757	2.52%	\$ 119,754	3,439	2.87%	\$ 91,089	2,328	2.56%
Money Market Checking and NOW									
Accounts	465,840	3,461	0.74%	464,864	4,936	1.06%	507,619	9,786	1.93%
Time Deposits of \$100,000 or More	913,643	13,855	1.52%	1,069,600	19,529	1.83%	1,051,994	34,807	3.31%
Other Time Deposits	315,174	3,885	1.23%	371,046	6,504	1.75%	916,798	29,325	3.20%
Federal Home Loan Bank Advances	66,191	662	1.00%	158,531	1,366	0.86%	257,529	3,399	1.32%
Other Borrowings	4,551	95	2.09%	2,753	53	1.93%	1,579	2	0.13%
Junior Subordinated Debentures	82,406	2,915	3.54%	82,406	2,811	3.41%	82,406	3,271	3.97%
<b>Total Interest-Bearing Liabilities</b>	<b>1,957,077</b>	<b>27,630</b>	<b>1.41%</b>	<b>2,268,954</b>	<b>38,638</b>	<b>1.70%</b>	<b>2,909,014</b>	<b>82,918</b>	<b>2.85%</b>
Noninterest-Bearing Liabilities:									
Demand Deposits	600,726			562,422			541,822		
Other Liabilities	29,387			29,163			40,635		
<b>Total Noninterest-Bearing Liabilities</b>	<b>630,113</b>			<b>591,585</b>			<b>582,457</b>		
<b>Total Liabilities</b>	<b>2,587,190</b>			<b>2,860,539</b>			<b>3,491,471</b>		
Stockholders' Equity	200,517			137,968			225,708		

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<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,787,707</b>	<b>\$ 2,998,507</b>	<b>\$ 3,717,179</b>
<b>NET INTEREST INCOME</b>	<b>\$ 101,293</b>	<b>\$ 105,995</b>	<b>\$ 102,470</b>
<b>NET INTEREST SPREAD <sup>(3)</sup></b>	<b>3.27%</b>	<b>3.15%</b>	<b>2.28%</b>
<b>NET INTEREST MARGIN <sup>(4)</sup></b>	<b>3.68%</b>	<b>3.55%</b>	<b>2.84%</b>

<sup>(1)</sup> Average balances for loans include non-accrual loans and net of deferred fees and related direct costs. Loan fees have been included in the calculation of interest income. Loan fees were \$2.0 million, \$1.8 million and \$2.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

<sup>(2)</sup> Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.

<sup>(3)</sup> Represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

<sup>(4)</sup> Represents net interest income as a percentage of average interest-earning assets.

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

	Year Ended December 31,					
	2011 vs. 2010			2010 vs. 2009		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in			Due to Change in		
Volume	Rate	Total	Volume	Rate	Total	
<i>(In Thousands)</i>						
<b>Interest and Dividend Income:</b>						
Gross Loans, Net	\$ (21,995)	\$ 2,338	\$ (19,657)	\$ (33,111)	\$ (2,879)	\$ (35,990)
<b>Municipal Securities:</b>						
Taxable	739	(44)	695	189		189
Tax Exempt	(19)	5	(14)	(2,530)	(667)	(3,197)
Obligations of Other U.S. Government Agencies	1,082	(1,071)	11	1,393	(549)	844
Other Debt Securities	3,828	(640)	3,188	935	(1,770)	(835)
Equity Securities	(58)	60	2	(60)	(64)	(124)
Federal Funds Sold	(21)	(4)	(25)	(350)	76	(274)
Term Federal Funds Sold	198	45	243	(909)	(776)	(1,685)
Interest-Earning Deposits	(144)	(9)	(153)	349	(32)	317
<b>Total Interest and Dividend Income</b>	<b>(16,390)</b>	<b>680</b>	<b>(15,710)</b>	<b>(34,094)</b>	<b>(6,661)</b>	<b>(40,755)</b>
<b>Interest Expense:</b>						
Savings	(286)	(396)	(682)	798	313	1,111
Money Market Checking and NOW Accounts	5	(1,480)	(1,475)	(766)	(4,084)	(4,850)
Time Deposits of \$100,000 or More	(2,626)	(3,048)	(5,674)	574	(15,852)	(15,278)
Other Time Deposits	(882)	(1,737)	(2,619)	(12,972)	(9,849)	(22,821)
Federal Home Loan Bank Advances	(809)	105	(704)	(1,068)	(965)	(2,033)
Other Borrowings	38	4	42	2	49	51
Junior Subordinated Debentures		104	104		(460)	(460)
<b>Total Interest Expense</b>	<b>(4,560)</b>	<b>(6,448)</b>	<b>(11,008)</b>	<b>(13,432)</b>	<b>(30,848)</b>	<b>(44,280)</b>
<b>Change in Net Interest Income</b>	<b>\$ (11,830)</b>	<b>\$ 7,128</b>	<b>\$ (4,702)</b>	<b>\$ (20,662)</b>	<b>\$ 24,187</b>	<b>\$ 3,525</b>

For the years ended December 31, 2011, 2010 and 2009, net interest income before provision for credit losses on a tax-equivalent basis was \$101.3 million, \$106.0 million and \$102.5 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2011 were 3.27 percent and 3.68 percent, respectively, compared to 3.15 percent and 3.55 percent, respectively, for the year ended December 31, 2010 and 2.28 percent and 2.84 percent, respectively, for the year ended December 31, 2009. The decrease in net interest income in 2011 as compared to 2010 was primarily due to the decrease in volume of loans and lower yield on investment securities, which was partially offset by the higher yield on loans and the lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposit products through the changes in the composition of our deposit portfolio. The increase in net interest income in 2010 as compared to 2009 was primarily due to lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposit products through the changes in the composition of our deposit portfolio, which was partially offset by the lower volume of loans.

Average loans were \$2.11 billion in 2011, as compared with \$2.54 billion in 2010 and \$3.16 billion in 2009, representing a decrease of 16.9 percent and a decrease of 19.4 percent in 2011 and 2010, respectively. Average interest-earning assets were \$2.75 billion in 2011, as compared with \$2.98 billion in 2010 and \$3.61 billion in

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2009, representing a decrease of 7.7 percent and a decrease of 17.4 percent in 2011 and 2010, respectively. The \$229.2 million decrease in average interest earning assets in 2011 was a direct result of our deleveraging strategy implemented since early 2009. Average investment securities were \$446.2 million in 2011, as compared with \$215.3 million in 2010 and \$188.3 million in 2009, representing an increase of 107.3 percent and an increase of 14.3 percent in 2011 and 2010, respectively. Despite significant pressure on yields on interest-earning assets, the increase in investment securities in 2011 was due to the increased investment in short-term instruments to maintain a strong level of liquidity. Consistent with the balance sheet deleveraging strategy implemented in early 2009, the average interest-bearing liabilities decreased by \$311.9 million in 2011 as compared to 2010. Average FHLB advances were \$66.2 million in 2011, as compared with \$158.5 million in 2010 and \$257.5 million in 2009, representing a decrease of 58.2 percent and a decrease of 38.4 percent in 2011 and 2010, respectively.

The average yield on interest-earning assets decreased by 17 basis points to 4.68 percent in 2011, after a 28 basis point decrease in 2010 to 4.85 percent from 5.13 percent in 2009, primarily due to lower yields on investment securities, which was partially offset by an increase in loan portfolio yield. The average investment yield decreased by 63 basis points to 2.26 percent in 2011, compared to 2.89 percent in 2010 due to the current low interest rate environment. The average loan yield increased by 16 basis points to 5.56 percent in 2011, after a 9 basis point decrease in 2010 to 5.40 percent from 5.49 percent in 2009, reflecting a decrease in our overall level of nonaccrual loans. Our interest income forgone on impaired loans decreased by \$8.5 million, or 91.0 percent from \$9.4 million in 2010 to \$844,000 in 2011. In 2009, the interest income forgone on nonaccrual loans was \$7.9 million. The average cost on interest-bearing liabilities decreased by 29 basis points to 1.41 percent in 2011, compared to a decrease of 115 basis points to 1.70 percent in 2010 from 2.85 percent in 2009. These decreases were primarily due to a continued shift in funding sources toward lower-cost funds through disciplined deposit pricing while reducing wholesale funds and rate sensitive deposits. During the first six months of 2010, total brokered deposits of \$203.5 million matured. Since then, we had no brokered deposits.

For the year ended December 31, 2011, interest income decreased 10.9 percent to \$128.8 million from \$144.6 million for the year ended December 31, 2010, while interest expense decreased 28.5 percent to \$27.6 million from \$38.6 million for the year ended December 31, 2010. For the year ended December 31, 2010, interest income decreased by 22.0 percent to \$144.6 million from \$185.4 million for the year ended December 31, 2009, while interest expense decreased 53.4 percent to \$38.6 million from \$82.9 million for the year ended December 31, 2009.

For the year ended December 31, 2011, net interest income on a tax-equivalent basis decreased by 4.4 percent to \$101.3 million compared to \$106.0 million for the year ended December 31, 2010, due to the decrease in interest-earning assets and interest earned being larger than the decrease in interest-bearing liabilities and interest paid. For the year ended December 31, 2010, net interest income on a tax-equivalent basis increased by 3.4 percent to \$106.0 million, compared to \$102.5 million for the year ended December 31, 2009, due to decreases in interest-bearing liabilities and interest paid, partially offset by decrease in average interest-earning assets and interest earned.

**Provision for Credit Losses**

For the year ended December 31, 2011, the provision for credit losses was \$12.1 million, compared to \$122.5 million for the year ended December 31, 2010. The decrease in the provision for credit losses is attributable to a decrease in problem loans, and an improvement in asset quality through aggressive management of our problem assets. Net charge-offs decreased by \$53.2 million, or 43.6 percent, from \$121.9 million for the year ended December 31, 2010 to \$68.7 million for the year ended December 31, 2011. Non-performing loans decreased from \$142.4 million, or 6.38 percent of total gross loans, as of December 31, 2010 to \$52.4 million, or 2.70 percent of

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total gross loans, as of December 31, 2011. See *Non-Performing Assets* and *Allowance for Loan Losses and Allowance for Off-Balance Sheet Items* for further details.

For the year ended December 31, 2010, the provision for credit losses was \$122.5 million, compared to \$196.4 million for the year ended December 31, 2009. The decrease in the provision for credit losses was attributable to decreases in problem loans, and on improvement in asset quality through aggressive management of our problem assets. Net charge-offs decreased by \$0.7 million, or 0.6 percent, from \$122.6 million for the year ended December 31, 2009 to \$121.9 million for the year ended December 31, 2010. Non-performing loans decreased from \$219.1 million, or 7.77 percent of total gross loans, as of December 31, 2009 to \$169.0 million, or 7.45 percent of total gross loans, as of December 31, 2010.

**Non-Interest Income**

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

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

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Service Charges on Deposit Accounts	\$ 12,826	\$ 14,049	\$ 17,054
Insurance Commissions	4,500	4,695	4,492
Remittance Fees	1,925	1,968	2,109
Trade Finance Fees	1,305	1,523	1,956
Other Service Charges and Fees	1,447	1,516	1,810
Bank-Owned Life Insurance Income	939	942	932
Net (Loss) Gain on Sales of Loans	(1,477)	514	1,220
Net Gain on Sales of Investment Securities	1,635	122	1,833
Other-Than-Temporary Impairment Loss on Securities		(790)	
Other Operating Income	751	867	704
<b>Total Non-Interest Income</b>	<b>\$ 23,851</b>	<b>\$ 25,406</b>	<b>\$ 32,110</b>

For the year ended December 31, 2011, non-interest income was \$23.9 million, a decrease of \$1.6 million or 6.1 percent, from \$25.4 million for the year ended December 31, 2010. The decrease in non-interest income for 2011 is primarily attributable to a decrease in service charges on deposit accounts, and an increase in net loss on sales of loans partially offset by a net gain recognized from the sale of investment securities. The service charges on deposit accounts decreased \$1.2 million, or 8.7 percent, to \$12.8 million for the year ended December 31, 2011 compared to \$14.0 million for the year ended December 31, 2010 due to the shrinkage in the deposit portfolio under our deleveraging strategy in the slowed economy. The net loss on sale of loans was \$1.5 million compared to the net gain of \$514,000 for the year ended December 31, 2010, as a result of our effort to enhance our credit quality through note sales. Approximately, \$135.0 million and \$119.2 million of impaired loans were sold during 2011 and 2010, respectively. The net gain from the sales of investment securities increased by \$1.5 million for the year ended December 31, 2011 to \$1.6 million compared to \$122,000 for the year ended December 31, 2010. The aforementioned higher level of sales transaction of loans and investment securities in 2011 was a direct result of our balance-sheet deleveraging strategy. The additional liquidity from such sale of assets allowed us to reduce wholesale funds.

For the year ended December 31, 2010, non-interest income was \$25.4 million, a decrease of 20.9 percent from \$32.1 million for the year ended December 31, 2009. The decrease in non-interest income for 2010 is

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primarily attributable to decreases in service charges on deposit accounts, a net gain on sales of loans and investment securities, and impairment loss on investment securities. The service charges on deposit accounts decreased \$3.0 million, or 17.6 percent, to \$14.0 million in 2010 compared to \$17.1 million in 2009 due to the shrinkage in the deposit portfolio under our deleveraging strategy in the slowed economy. Impairment loss on investment securities of \$790,000 resulted from a write-down of equity securities, acquired prior to 2004 for Community Reinvestment Act purposes, upon recapitalization of the issuer of such equity securities. The net gain on sale of loans decreased by \$706,000 in 2010 compared to 2009 as a result of lower sales volume. In 2009, we sold accumulated inventory of SBA loans upon the recovery of the SBA secondary market. The net gain on sales of investment securities also decreased by \$1.7 million in 2010 compared to 2009. The aforementioned higher level of sales transaction of loans and investment securities in 2009 was a direct result of our balance-sheet deleveraging strategy. The additional liquidity from such sale of assets allowed us to reduce wholesale funds.

**Non-Interest Expense**

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

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Salaries and Employee Benefits	\$ 35,465	\$ 36,730	\$ 33,101
Occupancy and Equipment	10,353	10,773	11,239
Deposit Insurance Premiums and Regulatory Assessments	6,630	10,756	10,418
Data Processing	5,601	5,931	6,297
Other Real Estate Owned Expense	1,620	10,679	5,890
Professional Fees	4,187	3,521	4,099
Advertising and Promotion	2,993	2,394	2,402
Supplies and Communications	2,323	2,302	2,352
Loan-Related Expense	827	1,147	1,947
Amortization of Other Intangible Assets	700	1,149	1,568
Directors and Officers Liability Insurance	2,940	2,865	1,175
Expenses Related to Unconsumated Capital Offering	2,220		
Other Operating Expenses	8,189	8,558	9,866
<b>Total Non-Interest Expense</b>	<b>\$ 84,048</b>	<b>\$ 96,805</b>	<b>\$ 90,354</b>

For the year ended December 31, 2011, non-interest expense was \$84.0 million, a decrease of \$12.8 million or 13.2 percent, from \$96.8 million for the year ended December 31, 2010. The decrease was primarily due to the decreases in OREO expense and deposit insurance premiums and regulatory assessments, partially offset by the expense incurred in relation to an unconsummated capital offering transaction. OREO expense decreased by \$9.1 million to \$1.6 million for the year ended December 31, 2011 compared to \$10.7 million for the year ended December 31, 2010, mainly due to the absence of \$8.7 million valuation allowance charged during the prior year and a decrease in maintenance costs related to foreclosed assets. The deposit insurance premiums and regulatory assessments decreased by \$4.1 million or 38.4 percent, to \$6.6 million compared to \$10.8 million for the year ended December 31, 2010, primarily due to the lower assessment rates for the FDIC insurance on deposits. The average assessment rates decreased by 16 basis points to 26 basis points for the year ended December 31, 2011 from 41 basis points for the year ended December 31, 2010, resulting from the improvement in risk categories of the Bank and the Dodd-Frank Act's changes to FDIC assessment systems in early 2011. Such decreases in non-interest expense was partially offset by the expense of \$2.2 million associated with the unconsummated capital offering related to a definitive securities purchase agreement with Woori Finance Holdings Co., Ltd.

For the year ended December 31, 2010, non-interest expense was \$96.8 million, an increase of \$6.5 million, or 7.1 percent, from \$90.4 million for the year ended December 31, 2009. The increase in 2010 was primarily due

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to the increases in OREO expense, salaries, and employee benefits. OREO expense increased by \$4.8 million to \$10.7 million in 2010 as compared with \$5.9 million in 2009, due primarily to a \$5.6 million additional provision for our OREO valuation allowance. Salaries and employee benefits expense for 2010 also increased by \$3.6 million, or 11.0 percent, to \$36.7 million for 2010 from \$33.1 million for 2009 due primarily to a \$1.2 million compensation expense for the payments associated with an employee retention plan. Furthermore, the 2009 expense was lower than usual due to the \$2.5 million reversal of post-retirement death benefit liabilities upon amendments of our bank-owned life insurance policies. We also had a substantial increase in directors and officers liability insurance premiums due to the change in risk categories of the Bank. Such increases were partially offset by decreases in loan-related expense and other operating expense.

### **Income Taxes**

For the year ended December 31, 2011, a tax provision of \$733,000 was recognized on pre-tax income of \$28.9 million, representing an effective tax rate of 2.54 percent compared to a tax benefit of \$12,000 recognized on pre-tax loss of \$88.0 million, representing an effective tax benefit rate of 0.1 percent, for the year ended December 31, 2010, and compared to a tax benefit of \$31.1 million recognized on pre-tax losses of \$153.4 million, representing an effective tax benefit rate of 20.3 percent, for the year ended December 31, 2009.

For the year ended December 31, 2011, we recognized an income tax credit of \$945,000 from qualified low-income housing investments of \$5.8 million. An income tax credit of \$1.1 million was recognized from \$6.5 million and \$6.2 million in such investments for each of the tax years of 2010 and 2009, respectively. We intend to continue to make such investments as part of an effort to lower the effective tax rate and to meet our community reinvestment obligations under the CRA.

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

Most of our temporary differences involve recognizing more expenses in our financial statements than we have been allowed to deduct for taxes, and therefore we normally had a net deferred tax asset. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. For the year ended December 31, 2011, we decreased the valuation allowance by \$10.4 million to record total valuation allowance of \$82.3 million and a net deferred tax asset of zero. As of December 31, 2010, we increased the valuation allowance by \$47.5 million to record total valuation allowance of \$92.7 million and a net deferred tax asset of zero.

## **FINANCIAL CONDITION**

### **Investment Portfolio**

Investment securities are classified as held to maturity or available for sale in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading securities as of December 31, 2011, 2010, and 2009. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while

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maintaining an appropriate level of liquidity. The investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2011, the investment portfolio was composed primarily of collateralized mortgage obligations, U.S. Government agency securities, mortgage-backed securities, municipal bonds and corporate bonds. Investment securities available for sale were 86.5 percent, 99.8 percent and 99.3 percent of the total investment portfolio as of December 31, 2011, 2010 and 2009, respectively. Most of the securities held carried fixed interest rates. Other than holdings of U.S. Government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2011, 2010 or 2009.

As of December 31, 2011, securities available for sale were \$381.9 million, or 13.9 percent of total assets, compared to \$413.1 million, or 14.2 percent of total assets, as of December 31, 2010. Securities available for sale decreased in 2011, due mainly to \$220.1 million called and matured bonds, \$120.9 million sales of securities, and \$62.2 million principal paydowns, partially offset by \$368.4 million new purchases for the year ended December 31, 2011. In 2011, 2010 and 2009, we purchased \$427.6 million, \$448.4 million and \$89.4 million, respectively, of various types of marketable securities to replenish the portfolio for principal repayments in the form of calls, prepayments and scheduled amortization and to maintain an investment portfolio mix and size consistent with our capital market expectations and asset-liability management strategies.

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

	2011		As of December 31, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In Thousands)</i>						
<b>Securities Held to Maturity:</b>						
Municipal Bonds	\$ 9,815	\$ 9,867	\$ 696	\$ 696	\$ 696	\$ 696
Municipal Bonds-Tax Exempt	38,797	38,392				
Mortgage-Backed Securities	3,137	3,128				
U.S. government Agency Securities	7,993	7,976	149	151	173	175
<b>Total Securities Held to Maturity</b>	<b>\$ 59,742</b>	<b>\$ 59,363</b>	<b>\$ 845</b>	<b>\$ 847</b>	<b>\$ 869</b>	<b>\$ 871</b>
<b>Securities Available for Sale:</b>						
Mortgage-Backed Securities <sup>(1)</sup>	\$ 110,433	\$ 113,005	\$ 108,436	\$ 109,842	\$ 65,218	\$ 66,332
Collateralized Mortgage Obligations	161,214	162,837	139,053	137,193	12,520	12,789
U.S. Government Agency Securities	72,385	72,548	114,066	113,334	33,325	32,763
Municipal Bonds	3,389	3,482	4,388	4,425	7,369	7,359
Municipal Bonds-Tax Exempt	5,901	6,138	18,032	16,603		
Corporate Bonds	20,460	19,836	20,449	20,205		
Asset-Backed Securities			7,115	7,384	8,127	8,188
Other Securities	3,318	3,335	3,305	3,259	3,925	4,195
Equity Securities <sup>(2)</sup>	647	681	647	873	511	794
<b>Total Securities Available for Sale</b>	<b>\$ 377,747</b>	<b>\$ 381,862</b>	<b>\$ 415,491</b>	<b>\$ 413,118</b>	<b>\$ 130,995</b>	<b>\$ 132,420</b>

<sup>(1)</sup> Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities.

<sup>(2)</sup> Balances presented for amortized cost, representing two corporate bonds, were net of an OTTI charge of \$790,000, which was related to a credit loss, as of December 31, 2010. We recorded an OTTI charge of \$790,000 to write down the value of one investment security to its fair value during the year ended December 31, 2010.





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The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of December 31, 2011:

	Within One Year		After One Year But Within Five Years		After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	<i>(In Thousands)</i>							
Collateralized Mortgage Obligations	\$ 14,508	1.76%	\$ 146,704	2.60%	\$		\$	
U.S. Government Agency Securities			38,141	1.40%	34,243	1.87%	7,995	1.82%
Mortgage-Backed Securities	248	3.92%	105,761	2.51%	7,560	2.54%		
Municipal Bonds <sup>(1)</sup>			697	7.06%	29,075	4.14%	28,129	4.51%
Corporate Bonds			20,460	2.48%				
Asset-Backed Securities								
Other Securities	3,318	3.04%						
Equity Securities							647	
	<b>\$ 18,074</b>	<b>2.02%</b>	<b>\$ 311,763</b>	<b>2.41%</b>	<b>\$ 70,878</b>	<b>2.87%</b>	<b>\$ 36,771</b>	<b>4.51%</b>

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

The amortized cost of mortgage-backed securities and collateralized mortgage obligations are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

In accordance with FASB ASC 320, Investments – Debt and Equity Securities, amended current other-than-temporary impairment ( OTTI ) guidance, we periodically evaluate our investments for OTTI. We perform periodic reviews for impairment in accordance with FASB ASC 320.

In 2010, we had an investment security in mutual funds ( Special Series A Shares ) with an aggregate carrying value of \$925,000. During 2010, the issuer of the Special Series A Shares completed a comprehensive restructuring which resulted in the exchange of our Special Series A Shares into common shares of the issuer. Based on the closing price of the shares at September 30, 2010, we recorded an OTTI charge of \$790,000 to write down the value of the investment securities to their fair value.

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Gross unrealized losses on investment securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2011 and 2010:

Investment Securities Available for Sale	Less than 12 Months			Holding Period 12 Months or More			Total		
	Gross Unrealized Losses	Estimated Fair Value	Number of Securities	Gross Unrealized Losses	Estimated Fair Value	Number of Securities	Gross Unrealized Losses	Estimated Fair Value	Number of Securities
<b>December 31, 2011:</b>									
Mortgage-Backed Securities	\$ 1	\$ 3,076	1	\$	\$		\$ 1	\$ 3,076	1
Collateralized Mortgage Obligation	260	36,751	16				260	36,751	16
U.S. Government Agency Securities	5	6,061	2				5	6,061	2
Other Securities	1	12	1	41	959	1	42	971	2
Corporate Bonds	41	4,445	2	582	15,391	4	623	19,836	6
Equity Securities	51	85	1				51	85	1
	<b>\$ 359</b>	<b>\$ 50,430</b>	<b>23</b>	<b>\$ 623</b>	<b>\$ 16,350</b>	<b>5</b>	<b>\$ 982</b>	<b>\$ 66,780</b>	<b>28</b>
<b>December 31, 2010:</b>									
Mortgage-Backed Securities	\$ 731	\$ 62,738	16	\$	\$		\$ 731	\$ 62,738	16
Collateralized Mortgage Obligation	2,330	99,993	20				2,330	99,993	20
Municipal Bonds	1,440	16,907	11				1,440	16,907	11
U.S. Government Agency Securities	830	69,266	14				830	69,266	14
Other Securities	3	1,997	2	43	957	1	46	2,954	3
Corporate Bonds	257	17,210	5				257	17,210	5
	<b>\$ 5,591</b>	<b>\$ 268,111</b>	<b>68</b>	<b>\$ 43</b>	<b>\$ 957</b>	<b>1</b>	<b>\$ 5,634</b>	<b>\$ 269,068</b>	<b>69</b>

The impairment losses described previously are not included in the table above. All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2011 and 2010 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of December 31, 2011. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The unrealized losses on investments in U.S. agencies securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

Of the residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at December 31, 2011, all of them are issued and guaranteed by governmental sponsored entities. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and no concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

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The unrealized losses on corporate bonds are not considered other-than-temporarily impaired as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as agreed and management believe this will continue in the future and the bonds will be repaid in full as scheduled.

In the opinion of management, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2011 and 2010 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2011 and 2010 are warranted.

Investment securities available for sale with carrying values of \$45.8 million and \$118.0 million as of December 31, 2011 and 2010, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

## **Loan Portfolio**

Total gross loans decreased by \$292.3 million, or 13.1 percent, in 2011 and decreased by \$584.5 million, or 20.8 percent in 2010. Total gross loans represented 70.6 percent of total assets at December 31, 2011, compared with 76.7 percent and 89.0 percent at December 31, 2010 and 2009, respectively. The overall decrease in total gross loans is attributable to management's balance sheet deleveraging strategy, which includes a careful evaluation of credits that are subject to renewal and acceptance of credits that management believes are of high quality, as well as loan charge-offs and transfers to other real estate owned.

Real estate loans were \$749.9 million and \$852.9 million at December 31, 2011 and 2010, respectively, representing 38.7 percent and 38.2 percent, respectively, of total gross loans. Real estate loans are extended to finance the purchase and/or improvement of commercial real estate and residential property. The properties generally are investor-owned, but may be for user-owned purposes. Underwriting guidelines include, among other things, an appraisal in conformity with the USPAP, limitations on loan-to-value ratios, and minimum cash flow requirements to service debt. The majority of the properties taken as collateral are located in Southern California.

Commercial and industrial loans were \$1.15 billion and \$1.33 billion at December 31, 2011 and 2010, respectively, representing 59.1 percent and 59.5 percent, respectively, of total gross loans. Commercial loans include term loans and revolving lines of credit. Term loans typically have a maturity of three to seven years and are extended to finance the purchase of business entities, owner-occupied commercial property, business equipment, leasehold improvements or for permanent working capital. SBA guaranteed loans usually have a longer maturity (5 to 20 years). Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. These borrowers are well diversified as to industry, location and their current and target markets.

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The following table sets forth the amount of total loans outstanding in each category as of the dates indicated, excluding loans held for sale:

	2011	2010	As of December 31, 2009 (In Thousands)	2008	2007
<b>Real Estate Loans:</b>					
Commercial Property	\$ 663,023	\$ 729,222	\$ 839,598	\$ 908,970	\$ 795,675
Construction	33,976	60,995	126,350	178,783	215,857
Residential Property	52,921	62,645	77,149	92,361	90,065
<b>Total Real Estate Loans</b>	<b>749,920</b>	<b>852,862</b>	<b>1,043,097</b>	<b>1,180,114</b>	<b>1,101,597</b>
<b>Commercial and Industrial Loans:</b>					
Commercial Term Loans	944,836	1,118,999	1,420,034	1,611,449	1,599,853
Commercial Lines of Credit	55,770	59,056	101,159	214,699	256,978
SBA Loans	116,192	105,688	134,521	140,989	112,503
International Loans	28,676	44,167	53,488	95,185	119,360
<b>Total Commercial and Industrial Loans</b>	<b>1,145,474</b>	<b>1,327,910</b>	<b>1,709,202</b>	<b>2,062,322</b>	<b>2,088,694</b>
Consumer Loans <sup>(1)</sup>	43,346	50,300	63,303	83,525	90,449
<b>Total Gross Loans</b>	<b>\$ 1,938,740</b>	<b>\$ 2,231,072</b>	<b>\$ 2,815,602</b>	<b>\$ 3,325,961</b>	<b>\$ 3,280,740</b>

<sup>(1)</sup> Consumer loans include home equity lines of credit.

As of December 31, 2011 and December 31, 2010, loans receivable (excluding loans held for sale), net of deferred loan fees and allowance for loan losses, totaled \$1.85 billion and \$2.08 billion, respectively, a decrease of \$235.4 million, or 11.3 percent. Total gross loans decreased by \$292.3 million, or 13.1 percent, from \$2.23 billion as of December 31, 2010 to \$1.94 billion as of December 31, 2011, reflecting the continued implementation of our deleveraging strategy.

During 2011, total new loan production and advances amounted to \$504.1 million. For the same period, we experienced decreases in loans totaling \$292.3 million, comprised of \$538.3 million in principal amortization and payoffs, \$78.7 million in charge-offs, \$129.7 million in problem loan sales, \$45.5 million in SBA loan sales and \$4.2 million that were transferred to OREO. The \$174.2 million decrease in commercial term loans was attributable to \$46.6 million in problem loan sales, \$241.2 million in principal amortization and payoffs, \$32.7 million in charge-offs, and \$309,000 that were transferred to OREO, partially offset by \$146.6 million of new loan production, for the year ended December 31, 2011.

Real estate loans, composed of commercial property, construction loans and residential property, decreased \$102.9 million, or 12.1 percent, to \$749.9 million as of December 31, 2011 from \$852.9 million as of December 31, 2010, representing 38.7 percent of total gross loans as of December 31, 2011 and 38.2 percent of total gross loans as of December 31, 2010, respectively. Commercial and industrial loans, composed of owner-occupied commercial property, trade finance, SBA and commercial lines of credit, decreased \$182.4 million, or 13.7 percent, to \$1.15 billion as of December 31, 2011 from \$1.33 billion as of December 31, 2010, representing 59.1 percent of total gross loans as of December 31, 2011 and 60.0 percent of total gross loans as of December 31, 2010. Consumer loans decreased \$7.0 million, or 13.8 percent, to \$43.3 million as of December 31, 2011 from \$50.3 million as of December 31, 2010.

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

	As of December 31,				
	2011	2010	2009	2008	2007
<b>Real Estate Loans:</b>					
Commercial Property	34.2%	32.3%	29.8%	27.0%	24.2%
Construction	1.8%	2.8%	4.5%	5.3%	6.6%
Residential Property	2.7%	2.7%	2.7%	2.8%	2.7%
<b>Total Real Estate Loans</b>	<b>38.7%</b>	<b>37.8%</b>	<b>37.0%</b>	<b>35.1%</b>	<b>33.5%</b>
<b>Commercial and Industrial Loans:</b>					
Commercial Term Loans	48.7%	50.0%	50.3%	47.9%	48.7%
Commercial Lines of Credit	2.9%	2.6%	3.6%	6.4%	7.8%
SBA Loans	6.0%	5.5%	4.9%	5.3%	3.6%
International Loans	1.5%	1.9%	2.0%	2.8%	3.6%
<b>Total Commercial and Industrial Loans</b>	<b>59.1%</b>	<b>60.0%</b>	<b>60.8%</b>	<b>62.4%</b>	<b>63.7%</b>
Consumer Loans	2.2%	2.2%	2.2%	2.5%	2.8%
<b>Total Gross Loans</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
Commitments to Extend Credit	\$ 158,748	\$ 178,424
Standby Letters of Credit	12,742	15,226
Commercial Letters of Credit	9,298	11,899
Unused Credit Card Lines	15,937	24,649
<b>Total Undisbursed Loan Commitments</b>	<b>\$ 196,725</b>	<b>\$ 230,198</b>

The table below shows the maturity distribution and repricing intervals of outstanding loans as of December 31, 2011. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes non-accrual loans of \$52.4 million.

	Within One Year	After One Year But Within Five Years	After Five Years	Total
	<i>(In Thousands)</i>			
<b>Real Estate Loans:</b>				
Commercial Property	\$ 480,842	\$ 173,706	\$ 8,475	\$ 663,023
Construction	33,976			33,976
Residential Property	33,423	18,247	1,251	52,921
<b>Total Real Estate Loans</b>	<b>548,241</b>	<b>191,953</b>	<b>9,726</b>	<b>749,920</b>
<b>Commercial and Industrial Loans:</b>				
Commercial Term Loans	766,670	177,415	751	944,836
Commercial Lines of Credit	55,770			55,770

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SBA Loans	108,297	7,895		116,192
International Loans	28,676			28,676
<b>Total Commercial and Industrial Loans</b>	<b>959,413</b>	<b>185,310</b>	<b>751</b>	<b>1,145,474</b>
Consumer Loans	43,060	286		43,346
<b>Total Gross Loans</b>	<b>\$ 1,550,714</b>	<b>\$ 377,549</b>	<b>\$ 10,477</b>	<b>\$ 1,938,740</b>
Loans With Predetermined Interest Rates	\$ 284,550	\$ 363,525	\$ 10,477	\$ 658,552
Loans With Variable Interest Rates	\$ 1,266,164	\$ 14,024	\$	\$ 1,280,188

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As of December 31, 2011, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

Industry	Balance as of December 31, 2011 <i>(In Thousands)</i>	Percentage of Total Gross Loans Outstanding
Lessors of Non-Residential Buildings	\$ 380,746	19.6%
Accommodation/Hospitality	283,649	14.6%
Gasoline Stations	260,130	13.4%

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

**Non-Performing Assets**

Non-performing loans consist of loans on non-accrual status and loans 90 days or more past due and still accruing interest. Non-performing assets consist of non-performing loans and 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.

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

Except for non-performing loans set forth below, management is not aware of any loans as of December 31, 2011 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.



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

	2011	2010	December 31, 2009 <i>(In Thousands)</i>	2008	2007
<b>Non-Performing Loans:</b>					
<b>Non-Accrual Loans:</b>					
<b>Real Estate Loans:</b>					
Commercial Property	\$ 4,820	\$ 45,677	\$ 58,927	\$ 8,160	\$ 2,684
Construction	8,310	17,691	15,185	38,163	24,118
Residential Property	2,745	1,925	3,335	1,350	1,490
Commercial and Industrial Loans	36,342	76,097	140,931	73,007	25,729
Consumer Loans	161	1,047	622	143	231
<b>Total Non-Accrual Loans</b>	<b>52,378</b>	<b>142,437</b>	<b>219,000</b>	<b>120,823</b>	<b>54,252</b>
<b>Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest):</b>					
Commercial and Industrial Loans				989	150
Consumer Loans			67	86	77
<b>Total Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest)</b>			<b>67</b>	<b>1,075</b>	<b>227</b>
<b>Total Non-Performing Loans <sup>(1)(2)</sup></b>	<b>52,378</b>	<b>142,437</b>	<b>219,067</b>	<b>121,898</b>	<b>54,479</b>
Other Real Estate Owned	180	4,089	26,306	823	287
<b>Total Non-Performing Assets</b>	<b>\$ 52,558</b>	<b>\$ 146,526</b>	<b>\$ 245,373</b>	<b>\$ 122,721</b>	<b>\$ 54,766</b>
Performing Troubled Debt Restructured Loans	<b>\$ 28,375</b>	<b>\$ 47,395</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Non-Performing Loans as a Percentage of Total Gross Loans	2.70%	6.38%	7.77%	3.62%	1.66%
Non-Performing Assets as a Percentage of Total Assets	1.91%	5.04%	7.76%	3.17%	1.37%

<sup>(1)</sup> Include troubled debt restructured non-performing loans of \$23.2 million, \$27.0 million and \$36.7 million as of December 31, 2011, December 31, 2010 and December 31, 2009, respectively.

<sup>(2)</sup> Exclude loans held for sale.

Non-accrual loans, excluding loans held for sale, totaled \$52.4 million as of December 31, 2011, compared to \$142.4 million as of December 31, 2010, representing a 63.2 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were \$35.2 million as of December 31, 2011, compared to \$120.9 million as of December 31, 2010, representing a 70.9 percent decrease. Non-performing loans decreased by \$90.1 million, or 63.2 percent, to \$52.4 million as of December 31, 2011, compared to \$142.4 million as of December 31, 2010. For the year ended December 31, 2011, loans totaling \$118.8 million were placed on nonaccrual status. The additions to nonaccrual loans of \$118.8 million were offset by \$88.2 million in sales of problem loans, \$63.3 million were charged off, \$33.1 million in principal paydowns and/or payoffs, \$19.2 million in a short sale, \$15.0 million classified to loans held for sale, and \$2.9 million that were transferred to OREO. For the year ended December 31, 2011, \$13.7 million of non-accrual loans were re-instated to accrual status.

The ratio of non-performing loans to total gross loans decreased to 2.70 percent at December 31, 2011 from 6.38 percent at December 31, 2010 due primarily to the decrease in non-accrual loans. During the same period, the allowance for loan losses decreased by \$56.2 million, or 38.4 percent, to \$89.9 million from \$146.1 million. Of the \$52.4 million non-performing loans, approximately \$45.2 million were impaired based on the definition contained in FASB ASC 310, Receivables, which resulted in aggregate impairment reserve of \$7.4 million as of December 31, 2011. We calculate our allowance for the collateral-dependent loans as the difference between the recorded investment and the value of the collateral as determined by recent appraisals less estimated costs to sell.



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The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

For the year ended December 31, 2011, no individual charge-off exceeded 5 percent of total charge offs. At December 31, 2011, one commercial term loan had a specific allowance of \$2.7 million that exceeded 10 percent of the specific allowance of \$23.4 million.

At December 31, 2011, our non-performing loans included two large credit relationships, which accounted for more than 20 percent of our total non-performing loans, and several small credit relationships.

A participated construction loan secured by land was classified as non-performing with a carrying amount of \$8.3 million as of December 31, 2011. In February 2007, the loan was purchased from the leading bank, which financed the construction of a real estate project in Monterey Park, California. The project was completed in late 2010, and the loan matured in November 2011. Due to the slow-down of the economy, the sale of the completed project has been delayed. The loan became impaired in December 2011 without a specific allowance as the appraised value, of the collateral, as of August 2011, was sufficient to cover the contractual amount due. As of December 31, 2011, the Bank downgraded this loan to substandard as the leading bank is formulating a work out plan for this loan.

A business property loan secured by a gas station and car wash was classified as non-performing with a carrying value of \$3.2 million as of December 31, 2011. The loan originated in July 2007 to finance the purchase of the business property. Due to the slow-down of the economy, the operating income generated from the business has been negatively affected. The loan has been downgraded to substandard since September 2009. In June 2011, the loan was modified with an extension of the term and reduced payments with a re-amortization payment schedule. A specific reserve of \$373,000 was established based upon a current appraisal in December 2011.

As of December 31, 2011, \$35.3 million, or 67.4 percent, of the \$52.4 million of non-performing loans were secured by real estate, compared to \$114.3 million, or 80.3 percent, of the \$142.3 million of non-performing loans as of December 31, 2010. In light of declining property values in the current economic recession affecting the real estate markets, the Bank continued to obtain current appraisals and factor in market discounts on the collateral to compensate for any non-current appraisals.

As of December 31, 2011, other real estate owned was a property located in California, with a net carrying value of \$180,000. For the year ended December 31, 2011, nine properties, with a carrying value of \$4.2 million, were transferred from loans receivable to other real estate owned and sixteen properties, with a carrying value of \$6.9 million, were sold and a net loss of \$671,000 was recognized. As of December 31, 2010, other real estate owned consisted of eight properties, primarily located in California, with a combined net carrying value of \$4.1 million. For the year ended December 31, 2010, fourteen properties, with a carrying value of \$13.0 million, were transferred from loans receivable to other real estate owned and eighteen properties, with a carrying value of \$26.1 million, were sold and a net loss of \$196,000 was recognized.

We evaluate loan impairment in accordance with applicable GAAP. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off

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against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

In measuring impairment for real estate related impaired loans, we continued to obtain appraisals to value such collateral. For impaired loans which have an appraisal six months or older from the reporting date, we will re-evaluate whether such valuation is reflective of current market conditions. As of December 31, 2011, approximately 56.1 percent of impaired loans were analyzed using an appraisal that was less than six months old.

For those loans where a current appraisal was not available, the Bank considered whether a discount to the appraised value was needed to reflect current market conditions. In calculating the discount to the appraised value, the Bank considered the location of the collateral, the property type, the property's market condition, and any third party comparable sales. The aggregate average reduction applied to these impaired loans was 9.6 percent, although each property is separately considered and percentage reductions ranged from 5 percent to 55 percent.

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The following table provides information on impaired loans, disaggregated by class of loan, as of the dates indicated:

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>With No Related Allowance Recorded</b>	<b>With an Allowance Recorded</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>
	<i>(In Thousands)</i>					
<b>December 31, 2011:</b>						
Real Estate Loans:						
Commercial Property						
Retail	\$ 1,260	\$ 1,260	\$ 1,100	\$ 160	\$ 126	\$ 105
Land	3,178	3,210		3,178	360	16,910
Other	14,773	14,823	1,131	13,642	3,004	14,850
Construction	14,120	14,120	14,120			14,353
Residential Property	5,368	5,408	3,208	2,160	128	5,399
Commercial and Industrial Loans:						
Commercial Term Loans						
Unsecured	16,035	16,559	54	15,981	10,793	15,685
Secured by Real Estate	53,159	54,156	14,990	38,169	7,062	51,977
Commercial Lines of Credit	1,431	1,554	715	716	716	1,590
SBA Loans	11,619	12,971	6,053	5,566	1,167	12,658
Consumer Loans	746	788	511	235	26	832
<b>Total</b>	<b>\$ 121,689</b>	<b>\$ 124,849</b>	<b>\$ 41,882</b>	<b>\$ 79,807</b>	<b>\$ 23,382</b>	<b>\$ 134,359</b>
<b>December 31, 2010:</b>						
Real Estate Loans:						
Commercial Property						
Retail	\$ 17,606	\$ 18,050	\$ 6,336	\$ 11,270	\$ 1,543	\$ 21,190
Land	35,207	35,295	5,482	29,725	1,485	40,858
Other	11,357	11,476	10,210	1,147	33	15,342
Construction	17,691	17,831	13,992	3,699	280	12,311
Residential Property	1,926	1,990	1,926			2,383
Commercial and Industrial Loans:						
Commercial Term Loans						
Unsecured	17,847	18,799	6,465	11,382	10,313	18,460
Secured by Real Estate	80,213	81,395	35,154	45,059	11,831	101,617
Commercial Lines of Credit	4,067	4,116	1,422	2,645	1,321	4,988
SBA Loans	17,715	18,544	7,112	10,603	2,122	23,213
International Loans	127	141		127	127	397
Consumer Loans	934	951	393	541	393	639
<b>Total</b>	<b>\$ 204,690</b>	<b>\$ 208,588</b>	<b>\$ 88,492</b>	<b>\$ 116,198</b>	<b>\$ 29,448</b>	<b>\$ 241,398</b>

For the year ended December 31, 2011 and 2010, we recognized interest income of \$33,000 and \$402,000 on one impaired commercial term loan secured by real estate, respectively, using the cash-basis method. Except for such loan, no interest income was recognized on impaired loans subsequent to classification as impaired using a cash-basis method. The following is a summary of interest foregone on impaired loans for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<i>(In Thousands)</i>		
Interest Income That Would Have Been Recognized Had Impaired Loans Performed in Accordance with Their Original Terms	\$ 9,192	\$ 20,848	\$ 17,471
Less: Interest Income Recognized on Impaired Loans <sup>(1)</sup>	(8,348)	(11,473)	(9,569)
<b>Interest Foregone on Impaired Loans</b>	<b>\$ 844</b>	<b>\$ 9,375</b>	<b>\$ 7,902</b>

(1) *Includes interest income recognized on an accrual basis prior to classification as impaired.*

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

For the year ended December 31, 2011, we restructured monthly payments on 167 loans, with a net carrying value of \$133.7 million at the time of modification, through temporary payment structure modification such as extending the maturity date, reducing the amount of principal and/or interest due monthly and/or allowing for interest only monthly payments for six months or less. As of December 31, 2011, troubled debt restructurings on accrual status totaled \$28.4 million, all of which were temporary interest rate and payment reductions, and a \$8.0 million reserve relating to these loans is included in the allowance for loan losses. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers' past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms is probable. As of December 31, 2011, troubled debt restructuring on non-accrual status totaled \$23.2 million, and a \$6.3 million reserve relating to these loans was included in the allowance for loan losses.

For the year ended December 31, 2010, we restructured monthly payments on 272 loans, with a net carrying value of \$228.4 million as of December 31, 2010. As of December 31, 2010, troubled debt restructurings on accrual status totaled \$47.4 million, all of which were temporary interest rate and payment reductions, and a \$6.4 million reserve relating to these loans is included in the allowance for loan losses.

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

The Bank will charge off a loan and declare a loss when its collectability is sufficiently questionable that the Bank can no longer justify showing the loan as an asset on its balance sheet. To determine if a loan should be charged off, all possible sources of repayment are analyzed, including the potential for future cash flow from income or liquidation of other assets, the value of any collateral, and the strength of co-makers or guarantors. When these sources do not provide a reasonable probability that principal can be collected in full, the Bank will fully or partially charge off the loan.

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 determined through analysis involving quantitative calculations based on historic loss rates for general reserves and individual impairment calculations for specific allocations to impaired loans as well as qualitative adjustments.

To determine general reserve requirements, existing loans are divided into 11 general loan pools of risk-rated loans (Commercial Real Estate, Construction, Commercial Term- Unsecured, Commercial Term - T/D Secured, Commercial Line of Credit, SBA-Unsecured, SBA-T/D Secured International, Consumer Installment, Consumer Line of Credit, and Miscellaneous loans) as well as 3 homogenous loan pools (Residential Mortgage, Auto Loans, and Credit Card). For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade (pass, special mention, substandard, and doubtful) to determine risk factors for potential loss inherent in the current outstanding loan portfolio.

During the first quarter of 2010, to enhance reserve calculations to better reflect the Bank's current loss profile, the two loan pools of commercial real estate and commercial term T/D secured were subdivided according to the 21 collateral codes used by the Bank to identify commercial property types (Apartment, Auto, Car Wash, Casino, Church, Condominium, Gas Station, Golf Course, Industrial, Land, Manufacturing, Medical, Mixed Used, Motel, Office, Retail, School, Supermarket, Warehouse, Wholesale, and Others). This further segregation allows the Bank to more specifically allocate reserves within the commercial real estate portfolio according to risks defined by historic loss as well as current loan concentrations of the different collateral types.

Risk factor calculations were previously based on 12-quarters of historic loss analysis with 1.5 to 1 weighting given to the most recent six quarters. In the first quarter of 2010, the historic loss window was reduced to eight quarters with 1.5 to 1 weighting given to the most recent four quarters. The shorter window places greater

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emphasis on losses taken by the Bank recently within the past year, as recent loss history is more relevant to the Bank's risks given the rapid changes to asset quality within the current economic conditions. The Bank's implementation made in our risk factor calculation regarding change in look-back periods for historical loss data did not have a significant impact on our financial condition or results of operations.

As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis; however, as with risk-rated loans, risk factor calculations are based on 8-quarters of historic loss analysis with 1.5 to 1 weighting given to the most recent four quarters.

The Bank will charge off a loan and declare a loss when its collectability is sufficiently questionable that the Bank can no longer justify showing the loan as an asset on its balance sheet. To determine if a loan should be charged off, all possible sources of repayment are analyzed, including the potential for future cash flow from income or liquidation of other assets, the value of any collateral, and the strength of co-makers or guarantors. When these sources do not provide a reasonable probability that principal can be collected in full, the Bank will fully or partially charge off the loan.

For purposes of determining the allowance for credit losses, the loan portfolio is subdivided into three portfolio segments: Real Estate, Commercial and Industrial, and Consumer. The portfolio segment of Real Estate contains the allowance loan pools of Commercial Real Estate, Construction, and Residential Mortgage. The portfolio segment of Commercial and Industrial contains the loan pools of Commercial Term Unsecured, Commercial Term T/D Secured, Commercial Line of Credit, SBA, International, and Miscellaneous. Lastly, the portfolio segment of Consumer contains the loan pools of Consumer Installment, Consumer Line of Credit, Auto, and Credit Card.

Real Estate loans, which are mostly dependent on rental income from non-owner occupied or investor properties, have been subject to increased losses. Prior to 2009, no historic losses were recorded for loans secured by commercial real estate. However, given the decrease in sales and increase in vacancies due to the current slowed economy, losses in loans secured by office and retail properties have been significant. Loans secured by vacant land have also had significant losses as valuations have decreased and further development has been limited. Similarly, Construction loans have been subject to losses due to unforeseen difficulties in completion of projects. As such, allocations to general reserves for those loan pools have been higher than that of loan pools with lower risk. Residential Mortgage loans constitute a limited concentration within the Bank's entire loan portfolio, and losses as well as supplementary reserves have been minimal.

Commercial and Industrial loans, which are largely subject to changes in business cash flow, have had the most historic losses within the Bank's entire loan portfolio. The largest loan pool within the C & I sector is Commercial Term T/D Secured, which are mostly loans secured by owner-occupied business properties. Loans secured by car washes, gas stations, golf courses, and motels have had the most significant losses, as the hospitality and recreation industries have been negatively affected by the current economy. As such, allocations to general reserve for those loan pools have been increased. Also, Commercial Term Unsecured and SBA loans have had considerable losses and additional general reserves as decreased business cash flow due to the economic recession has jeopardized borrowers' repayment abilities.

Consumer loans constitute a limited concentration within the Bank's loan portfolio and are mostly evaluated in bulk for general reserve requirements due to the relatively small volume per loan.

Specific reserves are allocated for loans deemed impaired. FASB ASC 310, Receivables, indicates that a loan is impaired when it is probable that a creditor will be unable to collect all amounts due, including principal and interest, according to the contractual terms and schedules of the loan agreement. Loans that represent



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significant concentrations of credit, material non-performing loans, insider loans and other material credit exposures are subject to FASB ASC 310 impairment analysis.

Loans that are determined to be impaired under FASB ASC 310, are individually analyzed to estimate the Bank's exposure to loss based on the borrower's character, the current financial condition of the borrower and the guarantor, the borrower's resources, the borrower's payment history, repayment ability, debt servicing ability, action plan, the prevailing value of the underlying collateral, the Bank's lien position, general economic conditions, specific industry conditions, outlook for the future, etc.

The loans identified as impaired are measured using one of the three methods of valuations: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair market value of the collateral if the loan is collateral dependent, or (3) the loan's observable market price.

When determining the appropriate level for allowance for loan losses, the management considers qualitative adjustments for any factors that are likely to cause estimated credit losses associated with the Bank's current portfolio to differ from historical loss experience, including but not limited to:

changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practice;

changes in national and local economic and business conditions and developments, including the condition of various market segments;

changes in the nature and volume of the portfolio;

changes in the trend of the volume and severity of past due and classified loans, and trends in the volume of non-accrual loans, troubled debt restructurings, charge-offs and other loan modifications;

changes in the quality of the Bank's loan review system and the degree of oversight by the Board of Directors;

the existence and effect of any concentrations of credit, and changes in the level of such concentrations;

transfer risk on cross-border lending activities;

the effect of external factors such as competition and legal and regulatory requirements as well as declining collateral values on the level of estimated credit losses in the Bank's current portfolio.

In order to systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The above factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the asset portfolio along with corresponding basis points for qualitative adjustments.

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The following table reflects our allocation of allowance for loan and lease losses by loan category as well as the loans receivable for each loan type:

Allowance for Loan Losses Applicable To	2011		2010		December 31, 2009		2008		2007	
	Allowance Amount	Loans Receivable	Allowance Amount	Loans Receivable	Allowance Amount	Loans Receivable	Allowance Amount	Loans Receivable	Allowance Amount	Loans Receivable
<i>(In Thousands)</i>										
Real Estate Loans:										
Commercial Property	\$ 17,129	\$ 663,023	\$ 26,248	\$ 729,222	\$ 19,149	\$ 839,598	\$ 5,587	\$ 908,970	\$ 2,269	\$ 795,675
Construction	1,403	33,976	5,606	60,995	9,043	126,350	4,102	178,783	3,478	215,857
Residential Property	1,105	52,921	911	62,645	997	77,149	449	92,361	32	90,065
<b>Total Real Estate Loans</b>	<b>19,637</b>	<b>749,920</b>	<b>32,765</b>	<b>852,862</b>	<b>29,189</b>	<b>1,043,097</b>	<b>10,138</b>	<b>1,180,114</b>	<b>5,779</b>	<b>1,101,597</b>
Commercial and Industrial Loans	66,005	1,145,474	108,986	1,327,910	110,678	1,709,202	58,866	2,062,322	36,011	2,088,694
Consumer Loans	2,243	43,346	2,077	50,300	2,690	63,303	1,586	83,525	1,821	90,449
Unallocated	2,051		2,231		2,439		396			
<b>Total</b>	<b>\$ 89,936</b>	<b>\$ 1,938,740</b>	<b>\$ 146,059</b>	<b>\$ 2,231,072</b>	<b>\$ 144,996</b>	<b>\$ 2,815,602</b>	<b>\$ 70,986</b>	<b>\$ 3,325,961</b>	<b>\$ 43,611</b>	<b>\$ 3,280,740</b>

<sup>(1)</sup> Loans held for sale are excluded.

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The following table sets forth certain information regarding our allowance for loan losses and allowance for off-balance sheet items for the periods presented. Allowance for off-balance sheet items is determined by applying reserve factors according to loan pool and grade as well as actual current commitment usage figures by loan type to existing contingent liabilities.

	2011	As of and for the Year Ended December 31,			2007
		2010	2009	2008	
		(In Thousands)			
<b>Allowance for Loan Losses:</b>					
Balance at Beginning of Year	\$ 146,059	\$ 144,996	\$ 70,986	\$ 43,611	\$ 27,557
<b>Charge-Offs:</b>					
Real Estate Loans	18,539	33,216	27,262	15,005	199
Commercial and Industrial Loans	58,721	97,340	95,768	31,916	22,255
Consumer Loans	1,392	1,267	2,350	1,231	876
<b>Total Charge-Offs</b>	<b>78,652</b>	<b>131,823</b>	<b>125,380</b>	<b>48,152</b>	<b>23,330</b>
<b>Recoveries on Loans Previously Charged Off:</b>					
Real Estate Loans	2,794	3,131	5		
Commercial and Industrial Loans	7,101	6,623	2,650	1,979	494
Consumer Loans	98	177	128	203	202
<b>Total Recoveries on Loans Previously Charged Off</b>	<b>9,993</b>	<b>9,931</b>	<b>2,783</b>	<b>2,182</b>	<b>696</b>
<b>Net Loan Charge-Offs</b>	<b>68,659</b>	<b>121,892</b>	<b>122,597</b>	<b>45,970</b>	<b>22,634</b>
<b>Provision Charged to Operating Expense</b>	<b>12,536</b>	<b>122,955</b>	<b>196,607</b>	<b>73,345</b>	<b>38,688</b>
<b>Balance at End of Year</b>	<b>\$ 89,936</b>	<b>\$ 146,059</b>	<b>\$ 144,996</b>	<b>\$ 70,986</b>	<b>\$ 43,611</b>
<b>Allowance for Off-Balance Sheet Items:</b>					
Balance at Beginning of Year	\$ 3,417	\$ 3,876	\$ 4,096	\$ 1,765	\$ 2,130
Provision Charged to Operating Expense	436	459	220	(2,331)	365
<b>Balance at End of Year</b>	<b>\$ 2,981</b>	<b>\$ 3,417</b>	<b>\$ 3,876</b>	<b>\$ 4,096</b>	<b>\$ 1,765</b>
<b>Ratios:</b>					
Net Loan Charge-Offs to Average Total Gross Loans	3.25%	4.79%	3.88%	1.38%	0.73%
Net Loan Charge-Offs to Total Gross Loans at End of Period	3.54%	5.46%	4.35%	1.37%	0.69%
Allowance for Loan Losses to Average Total Gross Loans	4.25%	5.74%	4.59%	2.13%	1.41%
Allowance for Loan Losses to Total Gross Loans at End of Period	4.64%	6.55%	5.14%	2.11%	1.33%
Net Loan Charge-Offs to Allowance for Loan Losses	76.34%	83.45%	84.55%	64.76%	51.90%
Net Loan Charge-Offs to Provision Charged to Operating Expense	547.69%	99.14%	62.36%	62.68%	58.50%
Allowance for Loan Losses to Non-Performing Loans	171.71%	102.54%	66.19%	58.23%	80.05%
<b>Balances:</b>					
Average Total Gross Loans Outstanding During Period	\$ 2,114,546	\$ 2,545,408	\$ 3,158,624	\$ 3,334,008	\$ 3,082,671
Total Gross Loans Outstanding at End of Period	\$ 1,938,740	\$ 2,231,072	\$ 2,820,612	\$ 3,363,371	\$ 3,287,075
Non-Performing Loans at End of Period	\$ 52,378	\$ 142,437	\$ 219,067	\$ 121,898	\$ 54,479

The allowance for loan losses decreased by \$56.1 million or 38.4 percent, to \$89.9 million at December 31, 2011 as compared to \$146.1 million at December 31, 2010, and increased by \$1.1 million, or 0.7 percent, compared to \$145.0 million at December 31, 2009. The allowance for loan losses as a percentage of total gross loans decreased to 4.64 percent as of December 31, 2011 compared to 6.55 percent as of December 31, 2010 and increased compared to 5.14 percent as of December 31, 2009. The provision for credit losses decreased by \$110.4 million, or 90.1 percent, to \$12.1 million for the year ended December 31, 2011, and decreased by \$73.9 million, or 37.6 percent, to \$122.5 million for the year ended December 31, 2010 as compared to \$196.4 million at December 31, 2009.

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General reserves decreased \$46.9 million, or 52.9 percent, to \$41.8 million at December 31, 2011 as compared to \$88.7 million at December 31, 2010. The overall gross loan balance decreased by \$292.3 million, or 13.1 percent, to \$1.94 billion at December 31, 2011, as compared to \$2.23 billion at December 31, 2010. There

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were no changes to qualitative adjustments during 2011. However, qualitative reserves decreased by \$2.9 million, or 11.3 percent, to \$22.6 million at December 31, 2011 as compared to \$25.5 million at December 31, 2010. Impairment reserves decreased by \$6.0 million, or 10.4 percent, to \$23.4 million at December 31, 2011 as compared to \$29.4 million at December 31, 2010. Allowance coverage for impaired loans also increased to 19.9 percent at December 31, 2011 as compared to 13.2 percent at December 31, 2010.

For the year ended December 31, 2011, total charge-offs were \$78.7 million, which decreased by \$53.2 million or 40.34 percent, compared to \$131.8 million for the year ended December 31, 2010. Total charge-offs in Commercial Real Estate loans decreased by \$14.7 million or 44.3 percent, to \$18.5 million at December 31, 2011 as compared to \$33.2 million at December 31, 2010. Total charge-offs in commercial and industrial loans also decreased by \$38.6 million or 39.7 percent, to \$58.7 million at December 31, 2011 as compared to \$97.3 million at December 31, 2010. However, total charge-offs in consumer loan increased by \$125,000 or 9.9 percent, to \$1.4 million at December 31, 2011 compared to \$1.3 million at December 31, 2010. The overall decrease in total charge-offs was mainly due to the improvement made in credit quality in our loan portfolio during 2011 and the result of aggressive efforts to sell problem assets at competitive discount rates as well as prudent write-down of loans with collateral shortfalls during 2010.

The Bank also recorded in other liabilities an allowance for off-balance sheet exposure, primarily unfunded commitments, of \$3.0 million and \$3.4 million at December 31, 2011 and 2010, respectively. The Bank closely monitors the borrower's repayment capabilities while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of December 31, 2011 and 2010.

**Deposits**

Total deposits at December 31, 2011, 2010 and 2009 were \$2.34 billion, \$2.47 billion and \$2.75 billion, respectively, representing a decrease of \$121.8 million, or 4.9 percent, in 2011 and a decrease of \$282.6 million, or 10.3 percent, in 2010. The decreases in total deposits were the direct results of strategic plans aiming to reduce the reliance on volatile wholesale funds. As of December 31, 2011 and 2010, we had no broker deposits, compared to \$203.5 million as of December 31, 2009. At December 31, 2011, 2010 and 2009, total time deposits outstanding were \$1.16 billion, \$1.40 billion and \$1.40 billion, respectively, representing 49.3 percent, 56.9 percent and 50.8 percent, respectively, of total deposits. During 2010, under the FDIC's interest rate restriction on deposits, we successfully shifted a substantial portion of non-maturity money market deposits to one and two-year maturity time deposits through Advantage and Diamond Freedom CD products with innovative and flexible features such as call options, penalty-free withdrawals, and additional deposits. The Bank is not subject to the FDIC's interest rate restriction as of December 31, 2011.

The table below summarizes the deposit balances by major category for the periods indicated:

	2011		Year Ended December 31, 2010		2009	
	Balance	Percent	Balance	Percent	Balance	Percent
	<i>(In Thousands)</i>					
Demand, Noninterest-Bearing	\$ 634,466	27.1%	\$ 546,815	22.2%	\$ 556,306	20.2%
Savings	104,664	4.4%	113,968	4.6%	111,172	4.0%
Money Market Checking and NOW Accounts	449,854	19.2%	402,481	16.3%	685,858	24.9%
Time Deposits of \$100,000 or More	822,165	35.1%	1,118,621	45.3%	815,190	29.8%
Other Time Deposits	333,761	14.2%	284,836	11.6%	580,801	21.1%
<b>Total Deposits</b>	<b>\$ 2,344,910</b>	<b>100.0%</b>	<b>\$ 2,466,721</b>	<b>100.0%</b>	<b>\$ 2,749,327</b>	<b>100.0%</b>

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For the year ended December 31, 2011, savings and time deposits of \$100,000 or more decreased by \$305.8 million, or 24.8 percent, but demand deposit, money market checking and NOW accounts, and other time deposit increased by \$183.9 million, or 14.9 percent. For the year ended December 31, 2010, demand deposits, money market checking and NOW accounts, and other time deposits decreased by \$588.8 million, or 32.3 percent, but saving and time deposits of \$100,000 or more increased by \$306.2 million, or 33.1 percent in 2010. Core deposits (defined as demand, money market and savings deposits) increased by \$125.7 million, or 11.8 percent, to \$1.19 billion as of December 31, 2011 from \$1.06 billion as of December 31, 2010. At December 31, 2011, noninterest-bearing demand deposits represented 27.1 percent of total deposits compared to 22.2 percent at December 31, 2010.

As of December 31, 2011 and 2010, there was no broker deposits. The Bank is currently restricted from accepting brokered deposits due to our capital classification. Brokered deposits are not a guaranteed source of funds, which may affect our ability to raise necessary liquidity. We plan to continue to reduce the Bank's reliance on wholesale funding and build our deposit base with long-term relationships. For additional discussion regarding our brokered deposits and payment of interest rates on our deposits, see *Interest Rate Risk Management Liquidity Hanmi Bank*.

Average deposits for the years ended December 31, 2011, 2010 and 2009 were \$2.40 billion, \$2.59 billion and \$3.11 billion, respectively. Average deposits decreased by 7.1 percent in 2011 and decreased by 16.8 percent in 2010. On October 3, 2008, the FDIC deposit insurance limit on most accounts was increased from \$100,000 to \$250,000. As of December 31, 2011, time deposits of more than \$250,000 were \$341.3 million.

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

	2011		Year Ended December 31, 2010		2009	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	<i>(In Thousands)</i>					
Demand, Noninterest-Bearing	\$ 600,726		\$ 562,422		\$ 541,822	
Savings	109,272	2.52%	119,754	2.87%	91,089	2.56%
Money Market Checking and NOW Accounts	465,840	0.74%	464,864	1.06%	507,619	1.93%
Time Deposits of \$100,000 or More	913,643	1.52%	1,069,600	1.83%	1,051,994	3.31%
Other Time Deposits	315,174	1.23%	371,046	1.75%	916,798	3.20%
<b>Total Deposits</b>	<b>\$ 2,404,655</b>	<b>1.00%</b>	<b>\$ 2,587,686</b>	<b>1.33%</b>	<b>\$ 3,109,322</b>	<b>2.45%</b>

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

	2011	December 31, 2010	2009
	<i>(In Thousands)</i>		
Three Months or Less	\$ 357,527	\$ 343,946	\$ 344,901
Over Three Months Through Six Months	186,230	135,620	246,116
Over Six Months Through Twelve Months	202,780	118,428	219,739
Over Twelve Months	75,628	520,627	4,434
<b>Total Time Deposits of \$100,000 or More</b>	<b>\$ 822,165</b>	<b>\$ 1,118,621</b>	<b>\$ 815,190</b>

**Federal Home Loan Bank Advances**

FHLB advances and other borrowings mostly take the form of advances from the FHLB of San Francisco and overnight federal funds. At December 31, 2011, advances from the FHLB were \$3.3 million, a decrease of \$150.3

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million, or 97.9 percent, from the December 31, 2010 balance of \$153.7 million. FHLB advances at December 31, 2011, there was no FHLB advance with a remaining maturity of less than one year. The weighted-average interest rate was 5.27 percent. See *Note 9 FHLB Advances and Other Borrowings* for more details.

### **Junior Subordinated Debentures**

During the first half of 2004, we issued two junior subordinated notes bearing interest at the three-month London InterBank Offered Rate ( LIBOR ) plus 2.90 percent totaling \$61.8 million and one junior subordinated note bearing interest at the three-month LIBOR plus 2.63 percent totaling \$20.6 million. The outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of Pacific Union Bank, totaled \$82.4 million at December 31, 2011 and 2010. In October 2008, we committed to the FRB that no interest payments on the junior subordinated debentures would be made without the prior written consent of the FRB. Therefore, in order to preserve its capital position, Hanmi Financial's Board of Directors has elected to defer quarterly interest payments on its outstanding junior subordinated debentures until further notice, beginning with the interest payment that was due on January 15, 2009. In addition, we are prohibited from making interest payments on our outstanding junior subordinated debentures under the terms of our regulatory enforcement actions without the prior written consent of the FRB and DFI. Accrued interest payable on junior subordinated debentures amounted to \$9.8 million and \$6.9 million at December 31, 2011 and 2010, respectively. See *Note 10 Junior Subordinated Debentures* for further details.

### **INTEREST RATE RISK MANAGEMENT**

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

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The following table shows the status of our gap position as of December 31, 2011:

	Less Than Three Months	More Than Three Months But Less Than One Year	More Than One Year But Less Than Three Years	More Than Three Year But Less Than Five Years	More Than Five Years	Non- Interest- Sensitive	Total
<i>(In Thousands)</i>							
<b>ASSETS</b>							
Cash and Due from Banks	\$	\$	\$	\$	\$	\$ 80,582	\$ 80,582
Interest-Bearing Deposits in Other Banks	99,117	1,984					101,101
Federal Funds Sold	115,000	20,000					135,000
Restricted Cash						1,818	1,818
Investment Securities:							
Fixed Rate	37,417	96,353	131,652	35,002	61,515	15,093	377,032
Floating Rate	22,422	24,336	4,602	7,559	5,533	120	64,572
Loans:							
Fixed Rate	67,269	176,880	273,503	90,022	10,477		618,151
Floating Rate	1,236,733	29,401	13,276	748			1,280,158
Non-Accrual <sup>(1)</sup>						67,401	67,401
Deferred Loan Fees, Discounts, and Allowance for Loan Losses						(94,103)	(94,103)
Federal Home Loan Bank and Federal Reserve Bank Stock					31,412		31,412
Other Assets		28,289			5,767	47,644	81,700
<b>TOTAL ASSETS</b>	<b>\$ 1,577,958</b>	<b>\$ 377,243</b>	<b>\$ 423,033</b>	<b>\$ 133,331</b>	<b>\$ 114,704</b>	<b>\$ 118,555</b>	<b>\$ 2,744,824</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>							
Liabilities:							
Deposits:							
Demand Noninterest-Bearing	\$	\$	\$	\$	\$	\$ 634,466	\$ 634,466
Savings	22,211	23,245	37,286	9,707	12,215		104,664
Money Market Checking and NOW Accounts	55,281	141,472	118,775	48,476	85,850		449,854
Time Deposits:							
Fixed Rate	457,012	592,858	104,678	1,320			1,155,868
Floating Rate	58						58
Federal Home Loan Bank Advances	92	282	2,929				3,303
Junior Subordinated Debentures	82,406						82,406
Other Liabilities						28,597	28,597
Stockholders Equity						285,608	285,608
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 617,060</b>	<b>\$ 757,857</b>	<b>\$ 263,668</b>	<b>\$ 59,503</b>	<b>\$ 98,065</b>	<b>\$ 948,671</b>	<b>\$ 2,744,824</b>
Repricing Gap	\$ 960,898	\$ (380,614)	\$ 159,365	\$ 73,828	\$ 16,639	\$ (830,116)	\$
Cumulative Repricing Gap	\$ 960,898	\$ 580,284	\$ 739,649	\$ 813,477	\$ 830,116	\$	\$
Cumulative Repricing Gap as a Percentage of Total Assets	35.01%	21.14%	26.95%	29.64%	30.24%	0.00%	
Cumulative Repricing Gap as a Percentage of Interest-Earning Assets	36.85%	22.26%	28.37%	31.20%	31.84%	0.00%	

<sup>(1)</sup> Loans held for sale are included.

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



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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.

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As of December 31, 2011, the cumulative repricing gap for the three-month period reflected an asset-sensitive position of 36.85 percent of interest-earning assets, which increased from 33.67 percent at December 31, 2010. The increase was caused primarily by an increase of \$115.0 million in Term Federal Funds, \$28.3 million in investment securities, and a decrease of \$150.0 million in Federal Home Loan Bank advance, partially offset by a decrease of \$105.0 million in loans.

The cumulative repricing gap for the twelve-month period reflected an asset-sensitive position of 22.26 percent of interest-earning assets, which decreased from 31.25 percent at December 31, 2010. The decrease was caused primarily by an increase of \$240.4 million in time deposits within the maturities and reprice terms, \$36.1 million in other interest-bearing deposits, and a decrease of \$270.8 million in loans, partially offset by an increase of \$135.0 million in Federal Fund Sold and a decrease of \$150.0 million in Federal Home Loan Bank Advance.

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

	Less Than Three Months December 31,		Less Than Twelve Months December 31,	
	2011	2010	2011	2010
	<i>(In Thousands)</i>			
Cumulative Repricing Gap	\$ 960,898	\$ 921,942	\$ 580,284	\$ 855,812
Percentage of Total Assets	35.01%	31.71%	21.14%	29.44%
Percentage of Interest-Earning Assets	36.85%	33.67%	22.26%	31.25%

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 attempt to 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.

Change in Interest Rate	Rate Shock Table Percentage Changes		Change in Amount	
	Net Interest Income	Economic Value of Equity <i>(In Thousands)</i>	Net Interest Income	Economic Value of Equity
200%	7.36%	4.07%	\$ 7,638	\$ 10,976
100%	3.01%	2.47%	\$ 3,119	\$ 6,655
-100%	(1)	(1)	(1)	(1)
-200%	(1)	(1)	(1)	(1)

<sup>(1)</sup> The table above only reflects the impact of upward shocks due to the fact that a downward parallel shock of 100 basis points or more is not possible given that some short-term rates are currently less than one percent.

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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Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, the Board continually assesses projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, earnings generated from operations, and access to capital from financial markets through the issuance of additional securities, including common stock or notes, to meet our capital needs.

Under the Final Order, the Bank was required to increase its capital prior to certain dates, and is required to maintain certain regulatory capital ratios as specified in the Final Order. By July 31, 2010, the Bank was required to increase its contributed equity capital by not less than an additional \$100 million, which it was able to do following the successful completion of a registered rights and best efforts offering by which we raised net proceeds of approximately \$116.8 million.

As of December 31, 2010, the Bank was well capitalized according to the regulatory guidelines. However, the Final Order requires the Bank to maintain a ratio of tangible stockholders' equity to total tangible assets as follows:

**Ratio of Tangible Stockholders****Date****Equity to Total Tangible Assets**

From December 31, 2010 and Until the Order is Terminated

Not Less Than 9.5 Percent

If the Bank was not able to maintain the capital ratios identified in the Final Order, it was required to notify the DFI, and Hanmi Financial and the Bank are required to notify the FRB if their respective capital ratios fall below those set forth in the capital plan submitted to the FRB. On July 27, 2010, we completed a registered rights and best efforts public offering of our common stock by which we raised \$116.8 million in net proceeds. As a result, we satisfied the \$100 million capital contribution requirement set forth in the Final Order, but as of December 31, 2010, the Bank had a tangible stockholders' equity to total tangible assets ratio of 8.59 percent. Accordingly, we notified the DFI and the FRB of such event.

On November 18, 2011, we completed an underwritten public offering of our common stock by which we raised \$77.1 million in net proceeds. As a result, we satisfied tangible stockholders' equity to total tangible assets ratio requirement of not less than 9.5 percent, set forth in the Final Order, as of December 31, 2011. Based on submissions to and consultations with our regulators, we believe that the Bank has taken the required corrective action and has complied with substantially all of the requirements of the Final Order and the Written Agreement. For a further discussion of the Bank's capital resources, see *Capital Resources and Liquidity*.

***Liquidity Hanmi Financial***

Currently, management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through December 31, 2012. On August 29, 2008, we elected to suspend payment of quarterly dividends on our common stock in order to preserve our capital position. In addition, we are prohibited from making interest payments on our outstanding junior subordinated debentures under the term of our recently issued regulatory enforcement actions without the prior written consent on FRB and DFI, beginning with the interest payment that was due on January 15, 2009. Accrued interest payable on junior subordinated debentures amounted to \$9.8 million and \$6.9 million at December 31, 2011 and 2010, respectively. Upon the termination of the regulatory enforcement actions, management intends to pay interest in arrears on junior subordinated debentures to bring them current. As of December 31, 2011, Hanmi Financial's liquid assets, including amounts deposited with the Bank, totaled \$31.7 million, up from \$7.7 million as of December 31, 2010.

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**Table of Contents*****Liquidity Hanmi Bank***

Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originated through its branch platform. Total deposits decreased by \$121.8 million, or 4.9 percent, from \$2.47 billion as of December 31, 2010 to \$2.34 billion as of December 31, 2011, primarily due to a \$296.5 million decrease in time deposits of \$100,000 or more, partially offset by an increase of \$87.7 million on demand deposit. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of December 31, 2011 and 2010, in compliance with its regulatory restrictions, the Bank had no broker deposits, and had FHLB advances of only \$3.3 million that substantially decreased from \$153.7 million in 2010.

The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 15 percent of its total assets. As of December 31, 2011, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$402.2 million and \$398.9 million, respectively. The Bank's FHLB borrowings as of December 31, 2011 totaled \$3.3 million, representing 0.12 percent of total assets. As of March 9, 2012, the Bank's FHLB borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$410.9 million and \$407.7 million, respectively. The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had \$336.1 million unpledged marketable securities that are available for sale at December 31, 2011. Also, the Bank had an available borrowing source of \$124.7 million from the Federal Reserve Discount Window (the Fed Discount Window), to which the Bank pledged loans with a carrying value of \$278.4 million, and had no borrowings as of December 31, 2011. The Bank is currently in the secondary program of the Borrower in Custody Program of the Fed Discount Window, which allows the Bank to request very short-term credit (typically overnight) at a rate that is above the primary credit rate within a specified period. In October 2011, South Street Securities LLC extended a line of credit to the Bank for reverse repurchase agreements up to a maximum of \$100.0 million.

Current market conditions have limited the Bank's liquidity sources principally to interest-bearing deposits, unpledged marketable securities, and secured funding outlets such as the FHLB and Fed Discount Window. There can be no assurance that actions by the FHLB or Federal Reserve Bank would not reduce the Bank's borrowing capacity or that the Bank would be able to continue to replace deposits at competitive rates. As of December 31, 2011, in compliance with its regulatory restrictions, the Bank does not have any brokered deposits and would consult in advance with its regulators if it were to consider accepting brokered deposits in the future.

The Bank has Contingency Funding Plans (CFPs) designed to ensure that liquidity sources are sufficient to meet its ongoing obligations and commitments, particularly in the event of a liquidity contraction. The CFPs are designed to examine and quantify its liquidity under various stress scenarios. Furthermore, the CFPs provide a framework for management and other critical personnel to follow in the event of a liquidity contraction or in anticipation of such an event. The CFPs address authority for activation and decision making, liquidity options and the responsibilities of key departments in the event of a liquidity contraction.

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The Bank believes that it nonetheless has adequate liquidity resources to fund its obligations with its interest-bearing deposits, unpledged marketable securities, and secured credit lines with the FHLB and Fed Discount Window.

**OFF-BALANCE SHEET ARRANGEMENTS**

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 on 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, was based on management's credit evaluation of the counterparty.

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:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Commitments to Extend Credit	\$ 158,748	\$ 178,424
Standby Letters of Credit	12,742	15,226
Commercial Letters of Credit	9,298	11,899
Unused Credit Card Lines	15,937	24,649
<b>Total Undisbursed Loan Commitments</b>	<b>\$ 196,725</b>	<b>\$ 230,198</b>

**CONTRACTUAL OBLIGATIONS**

Our contractual obligations as of December 31, 2011 are as follows:

<b>Contractual Obligations</b>	<b>Less Than One Year</b>	<b>More Than One Year and Less Than Three Years</b>	<b>More Than Three Years and Less Than Five Years</b>	<b>More Than Five Years</b>	<b>Total</b>
	<i>(In Thousands)</i>				
Time Deposits	\$ 1,049,928	\$ 104,678	\$ 1,320	\$	\$ 1,155,926
Federal Home Loan Bank Advances and Other Borrowings	374	2,929			3,303
Commitments to Extend Credit	158,748				158,748
Junior Subordinated Debentures				82,406	82,406
Standby Letters of Credit	12,742				12,742
Operating Lease Obligations	4,132	5,690	3,397	4,020	17,239
<b>Total Contractual Obligations</b>	<b>\$ 1,225,924</b>	<b>\$ 113,297</b>	<b>\$ 4,717</b>	<b>\$ 86,426</b>	<b>\$ 1,430,364</b>

Operating lease obligations represent the total minimum lease payments under non-cancelable operating leases with remaining terms of up to 10 years.

**Table of Contents****RECENTLY ISSUED ACCOUNTING STANDARDS**

**FASB ASU No. 2011-08, *Testing Goodwill for Impairment (Topic 350)*** ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Adoption of ASU 2011-08 is not expected to have a significant impact on our financial condition or result of operations.

**FASB ASU 2011-05, *Presentation of Comprehensive Income (Topic 220)*** ASU 2011-05 is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. These amendments apply to all entities that report items of other comprehensive income, in any period presented. Under the amendments to Topic 220, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in ASU 2011-05 are effective fiscal years, and interim periods within those years, beginning after December 15, 2011. Adoption of ASU 2011-05 is not expected to have a significant impact on our financial condition or result of operations.

**FASB ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820)*** ASU 2011-04 provides guidance on fair value measurement and disclosure requirements that the FASB deemed largely identical across U.S. GAAP and IFRS. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or allowed. ASU 2011-04 supersedes most of the guidance in ASC topic 820, but many of the changes are clarifications of existing guidance or wording changes to reflect IFRS 13. Amendments in ASU 2011-04 change the wording used to describe U.S. GAAP requirements for fair value and disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011, and early application is not permitted. Adoption of ASU 2011-04 is not expected to have a significant impact on our financial condition or result of operations.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures regarding market risks in the Bank's portfolio, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk Management* and *Capital Resources and Liquidity*.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements required to be filed as a part of this Report are set forth on pages 97 through 164

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

*Disclosure Controls and Procedures*

As of December 31, 2011, Hanmi Financial carried out an evaluation, under the supervision and with the participation of Hanmi Financial's management, including Hanmi Financial's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Hanmi Financial's disclosure controls and procedures and internal controls over financial reporting pursuant to Securities and Exchange Commission (SEC) rules. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Hanmi Financial's disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are defined in SEC rules as 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 by an issuer in the reports it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

*Internal Control Over Financial Reporting*

During the quarter ended December 31, 2011, there have been no changes in Hanmi Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial's internal control over financial reporting.

*Management's Report on Internal Control Over Financial Reporting*

Management of Hanmi Financial Corporation (Hanmi Financial) is responsible for establishing and maintaining adequate internal control over financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission. Hanmi Financial's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those written policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles;

provide reasonable assurance that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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Management assessed the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2011. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Hanmi Financial's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2011, Hanmi Financial maintained effective internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm that audited and reported on the consolidated financial statements of Hanmi Financial and subsidiaries, has issued a report on Hanmi Financial's internal control over financial reporting as of December 31, 2011. The report expresses an unqualified opinion on the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2011.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation's (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hanmi Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hanmi Financial Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated March 14, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California

March 14, 2012

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**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Except as hereinafter noted, the information concerning directors and officers of Hanmi Financial is incorporated by reference from the sections entitled *The Board of Directors and Executive Officers* and *Section 16(a) Beneficial Ownership Reporting Compliance* in Hanmi Financial's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the close of Hanmi Financial's fiscal year ended December 31, 2011 (or information will be provided in an amendment to this Form 10-K).

**Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial and accounting officer, controller and other persons performing similar functions. It will be provided to any stockholder without charge, upon the written request of that stockholder. Such requests should be addressed to Lisa Kim, Associate General Counsel, Hanmi Financial Corporation, 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010. It is also available on our website at [www.hanmi.com](http://www.hanmi.com).

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning executive compensation is incorporated by reference from the section entitled *Executive Compensation* in Hanmi Financial's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the close of Hanmi Financial's fiscal year ended December 31, 2011 (or information will be provided in an amendment to this Form 10-K).

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from the section entitled *Beneficial Ownership of Principal Stockholders and Management* in Hanmi Financial's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the close of Hanmi Financial's fiscal year ended December 31, 2011 (or information will be provided by amendment to this Form 10-K).

**Table of Contents****Securities Authorized for Issuance Under Equity Compensation Plans**

The following table summarizes information as of December 31, 2011 relating to equity compensation plans of Hanmi Financial pursuant to which grants of options, restricted stock awards or other rights to acquire shares may be granted from time to time.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved By Security Holders	133,361	\$ 95.44	305,792
Equity Compensation Plans Not Approved By Security Holders	250,000 <sup>(1)</sup>	\$ 9.60	250,000
<b>Total Equity Compensation Plans</b>	<b>383,361</b>	<b>\$ 39.46</b>	<b>555,792</b>

<sup>(1)</sup> Reflects warrants issued to Cappello Capital Corp. in connection with services it provided to us as a placement agent in connection with our best efforts public offering and as our financial adviser in connection with our completed rights offering. The warrants were immediately exercisable when issued at a purchase price of \$9.60 per share of our common stock and expire on October 14, 2015. The warrants may be exercised for cash or by cashless exercise. The exercise price and number of shares subject to the warrants are subject to adjustment for, among other events, stock splits and stock dividends.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information concerning certain relationships and related transactions and director independence is incorporated by reference from the sections entitled *Certain Relationships and Related Transactions* and *Director Independence* in Hanmi Financial's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the close of Hanmi Financial's fiscal year ended December 31, 2011 (or information will be provided by amendment to this Form 10-K).

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information concerning Hanmi Financial's principal accountants' fees and services is incorporated by reference from the section entitled *Independent Accountants* in Hanmi Financial's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the close of Hanmi Financial's fiscal year ended December 31, 2011 (or information will be provided by amendment to this Form 10-K).

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**  
Financial Statements and Schedules

- (1) The Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 97 of this Report.
- (2) All Financial Statement Schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.
- (3) The Exhibits required to be filed with this Report are listed in the Exhibit Index included herein at pages 168 and 171.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	98
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	99
<u>Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009</u>	100
<u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009</u>	101
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009</u>	102
<u>Notes to Consolidated Financial Statements</u>	103

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hanmi Financial Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hanmi Financial Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

March 14, 2012

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

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 80,582	\$ 60,983
Interest-Bearing Deposits in Other Banks	101,101	158,737
Federal Funds Sold	20,000	30,000
Cash and Cash Equivalents	201,683	249,720
Restricted Cash	1,818	
Term Federal Funds Sold	115,000	
Securities Held to Maturity, at Amortized Cost (Fair Value of \$59,363 as of December 31, 2011 and \$847 as of December 31, 2010)	59,742	845
Securities Available for Sale, at Fair Value (Amortized Cost of \$377,747 as of December 31, 2011 and \$415,491 as of December 31, 2010)	381,862	413,118
Loans Receivable, Net of Allowance for Loan Losses of \$89,936 as of December 31, 2011 and \$146,059 as of December 31, 2010	1,849,020	2,084,447
Loans Held for Sale, at the Lower of Cost or Fair Value	22,587	36,620
Accrued Interest Receivable	7,829	8,048
Premises and Equipment, Net	16,603	17,599
Other Real Estate Owned, Net	180	4,089
Customers' Liability on Acceptances	1,715	711
Servicing Assets	3,720	2,890
Other Intangible Assets, Net	1,533	2,233
Investment in Federal Home Loan Bank Stock, at Cost	22,854	27,282
Investment in Federal Reserve Bank Stock, at Cost	8,558	7,449
Income Taxes Receivable	9,073	9,188
Bank-Owned Life Insurance	28,289	27,350
Other Assets	12,758	15,559
<b>TOTAL ASSETS</b>	<b>\$ 2,744,824</b>	<b>\$ 2,907,148</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
<b>Deposits:</b>		
Noninterest-Bearing	\$ 634,466	\$ 546,815
Interest-Bearing	1,710,444	1,919,906
	2,344,910	2,466,721
Accrued Interest Payable	16,032	15,966
Bank's Liability on Acceptances	1,715	711
Federal Home Loan Bank Advances	3,303	153,650
Other Borrowings		1,570
Junior Subordinated Debentures	82,406	82,406
Accrued Expenses and Other Liabilities	10,850	12,868
<b>TOTAL LIABILITIES</b>	<b>2,459,216</b>	<b>2,733,892</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common Stock, \$0.008 Par Value; Authorized 62,500,000 Shares; Issued 32,066,987 Shares (31,489,201 Shares Outstanding) and 19,478,862 Shares (18,899,799 Shares Outstanding) as of December 31, 2011 and 2010, respectively	257	156
Additional Paid-In Capital	549,744	472,335
Unearned Compensation	(166)	(219)



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Accumulated Other Comprehensive Income (Loss)-Unrealized Gain (Loss) on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes of \$602 as of December 31, 2011, and 2010	3,524	(2,964)
Accumulated Deficit	(197,893)	(226,040)
Less Treasury Stock, at Cost: 577,786 Shares as of December 31, 2011, and 579,063 Shares as of December 31, 2010	(69,858)	(70,012)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>285,608</b>	<b>173,256</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,744,824</b>	<b>\$ 2,907,148</b>

See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS***(In Thousands, Except Per Share Data)*

	Year Ended December 31,		
	2011	2010	2009
<b>INTEREST AND DIVIDEND INCOME:</b>			
Interest and Fees on Loans	\$ 117,671	\$ 137,328	\$ 173,318
Taxable Interest on Investment Securities	9,768	5,874	5,675
Tax-Exempt Interest on Investment Securities	216	225	2,303
Interest on Term Federal Funds Sold	276	33	1,718
Dividends on Federal Reserve Bank Stock	458	430	592
Interest on Federal Funds Sold and Securities Purchased Under Resale Agreements	27	52	326
Interest on Interest-Bearing Deposits in Other Banks	315	468	151
Dividends on Federal Home Loan Bank Stock	76	102	64
<b>Total Interest and Dividend Income</b>	<b>128,807</b>	<b>144,512</b>	<b>184,147</b>
<b>INTEREST EXPENSE:</b>			
Interest on Deposits	23,958	34,408	76,246
Interest on Federal Home Loan Bank Advances	662	1,366	3,399
Interest on Junior Subordinated Debentures	2,915	2,811	3,271
Interest on Other Borrowings	95	53	2
<b>Total Interest Expense</b>	<b>27,630</b>	<b>38,638</b>	<b>82,918</b>
<b>NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES</b>	<b>101,177</b>	<b>105,874</b>	<b>101,229</b>
Provision for Credit Losses	12,100	122,496	196,387
<b>NET INTEREST INCOME (LOSS) AFTER PROVISION FOR CREDIT LOSSES</b>	<b>89,077</b>	<b>(16,622)</b>	<b>(95,158)</b>
<b>NON-INTEREST INCOME:</b>			
Service Charges on Deposit Accounts	12,826	14,049	17,054
Insurance Commissions	4,500	4,695	4,492
Remittance Fees	1,925	1,968	2,109
Trade Finance Fees	1,305	1,523	1,956
Other Service Charges and Fees	1,447	1,516	1,810
Bank-Owned Life Insurance Income	939	942	932
Net (Loss) Gain on Sales of Loans	(1,477)	514	1,220
Net Gain on Sales of Investment Securities	1,635	122	1,833
Impairment Loss on Investment Securities			
Total Other-than-temporary Impairment Loss on Investment Securities		(790)	
Less: Portion of Loss Recognized in Other Comprehensive Income			
Net Impairment Loss Recognized in Earnings		(790)	
<b>Other Operating Income</b>	<b>751</b>	<b>867</b>	<b>704</b>
<b>Total Non-Interest Income</b>	<b>23,851</b>	<b>25,406</b>	<b>32,110</b>
<b>NON-INTEREST EXPENSE:</b>			
Salaries and Employee Benefits	35,465	36,730	33,101
Occupancy and Equipment	10,353	10,773	11,239
Deposit Insurance Premiums and Regulatory Assessments	6,630	10,756	10,418
Data Processing	5,601	5,931	6,297
Other Real Estate Owned Expense	1,620	10,679	5,890
Professional Fees	4,187	3,521	4,099

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Advertising and Promotion	2,993	2,394	2,402
Supplies and Communications	2,323	2,302	2,352
Loan-Related Expense	827	1,147	1,947
Amortization of Other Intangible Assets	700	1,149	1,568
Directors and Officers Liability Insurance	2,940	2,865	1,175
Expenses Related to Unconsummated Capital Offering	2,220		
Other Operating Expenses	8,189	8,558	9,866
<b>Total Non-Interest Expense</b>	<b>84,048</b>	<b>96,805</b>	<b>90,354</b>
<b>INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>28,880</b>	<b>(88,021)</b>	<b>(153,402)</b>
Provision (Benefit) for Income Taxes	733	(12)	(31,125)
<b>NET INCOME (LOSS)</b>	<b>\$ 28,147</b>	<b>\$ (88,009)</b>	<b>\$ (122,277)</b>
<b>INCOME (LOSS) PER SHARE:</b>			
Basic	\$ 1.38	\$ (7.46)	\$ (20.56)
Diluted	\$ 1.38	\$ (7.46)	\$ (20.56)
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>			
Basic	20,403,549	11,790,278	5,946,295
Diluted	20,422,984	11,790,278	5,946,295
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)***(In Thousands)*

	Common Stock		Number of Shares		Additional		Stockholders Equity		Treasury	Total
	Gross	Treasury	Net	Common	Paid-in	Unearned	Other	Retained	Stock,	Stockholders
	Shares	Shares	Shares	Stock	Capital	Compensation	Comprehensive	Earnings	at Cost	Equity
	Issued and		Issued and				Income	(Deficit)		
	Outstanding		Outstanding				(Loss)			
<b>BALANCE AT JANUARY 1, 2009</b>	<b>6,317,257</b>	<b>(579,063)</b>	<b>5,738,194</b>	<b>\$ 51</b>	<b>\$ 349,304</b>	<b>\$ (218)</b>	<b>\$ 544</b>	<b>\$ (15,754)</b>	<b>\$ (70,012)</b>	<b>\$ 263,915</b>
Shares Issued for Business Acquisitions	4,927		4,927		46					46
Shares Issued, Net of Offering and Underwriting Costs	633,803		633,803	5	6,834					6,839
Share-Based Compensation Expense					836	70				906
Restricted Stock Awards	25,625		25,625		284	(284)				
Cancellation of Restricted Stock Award	(4,750)		(4,750)		(130)	130				
Comprehensive Loss:										
Net Loss								(122,277)		(122,277)
Change in Unrealized Gain on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes								315		315
Total Comprehensive Loss										(121,962)
<b>BALANCE AT DECEMBER 31, 2009</b>	<b>6,976,862</b>	<b>(579,063)</b>	<b>6,397,799</b>	<b>\$ 56</b>	<b>\$ 357,174</b>	<b>\$ (302)</b>	<b>\$ 859</b>	<b>\$ (138,031)</b>	<b>\$ (70,012)</b>	<b>\$ 149,744</b>
Shares Issued, Net of Offering and Underwriting Costs	12,500,000		12,500,000	100	114,209					114,309
Exercises of Stock Options	2,000		2,000		22					22
Share-Based Compensation Expense					930	83				1,013
Comprehensive Loss:										
Net Loss								(88,009)		(88,009)
Change in Unrealized Loss on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes								(3,823)		(3,823)
Total Comprehensive Loss										(91,832)
<b>BALANCE AT DECEMBER 31, 2010</b>	<b>19,478,862</b>	<b>(579,063)</b>	<b>18,899,799</b>	<b>\$ 156</b>	<b>\$ 472,335</b>	<b>\$ (219)</b>	<b>\$ (2,964)</b>	<b>\$ (226,040)</b>	<b>\$ (70,012)</b>	<b>\$ 173,256</b>
Shares Issued, Net of Offering and Underwriting Costs	12,578,125		12,578,125	101	77,008					77,109
Treasury Shares Issued related to reverse stock split		1,277	1,277		(154)				154	

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Share-Based Compensation Expense				456	152					608
Restricted Stock Awards	10,000		10,000	99	(99)					
Comprehensive Income:										
Net Income								28,147		28,147
Change in Unrealized Loss on Securities Available for Sale and Interest-Only Strips, Net of Income Taxes								6,488		6,488
Total Comprehensive Income										34,635
<b>BALANCE AT</b>										
<b>DECEMBER 31, 2011</b>	<b>32,066,987</b>	<b>(577,786)</b>	<b>31,489,201</b>	<b>\$ 257</b>	<b>\$ 549,744</b>	<b>\$ (166)</b>	<b>\$ 3,524</b>	<b>\$(197,893)</b>	<b>\$(69,858)</b>	<b>\$ 285,608</b>

See Accompanying Notes to Consolidated Financial Statements.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In Thousands)*

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss)	\$ 28,147	\$ (88,009)	\$ (122,277)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:			
Depreciation and Amortization of Premises and Equipment	2,163	2,286	2,610
Amortization of Premiums and Accretion of Discounts on Investment Securities, Net	3,222	1,329	(516)
Amortization of Other Intangible Assets	700	1,149	1,568
Amortization of Servicing Assets	730	1,033	823
Share-Based Compensation Expense	608	1,013	906
Provision for Credit Losses	12,100	122,496	196,387
Net Gain on Sales of Investment Securities	(1,635)	(122)	(1,833)
Other-Than-Temporary Impairment Loss on Investment Securities		790	
Net Loss (Gain) on Sales of Loans	1,477	(514)	(1,220)
Loss on Sales of Other Real Estate Owned	671	196	211
Valuation Impairment on Other Real Estate Owned	488	8,683	3,115
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(939)	(942)	(932)
Deferred Tax Expense		3,561	26,016
Origination of Loans Held for Sale	(60,238)	(20,228)	(1,711)
Proceeds from Sale of Loans Held for Sale	63,950	144,308	35,331
Increase in Cash Reserve Account for Loans Held for Sale	(1,818)		
Changes in Fair Value of Stock Warrants	(717)	(362)	
Loss on Investment in Affordable Housing Partnership	846	880	895
Decrease in Accrued Interest Receivable	219	1,444	2,855
Increase in Servicing Assets, Net	(1,560)	(81)	(874)
(Increase) Decrease in Other Assets	1,951	(3,014)	3,105
(Increase) Decrease in Income Taxes Receivable	115	47,366	(44,842)
Increase (Decrease) in Accrued Interest Payable	66	3,360	(5,933)
Decrease in Other Liabilities	(1,301)	(177)	(1,428)
<b>Net Cash Provided By Operating Activities</b>	<b>49,245</b>	<b>226,445</b>	<b>92,256</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from Redemption of Federal Home Loan Bank and Federal Reserve Bank Stock	4,428	4,510	2,350
Proceeds from Matured or Called Securities Available for Sale	249,282	130,125	62,144
Proceeds from Sales of Investment Securities Available for Sale	155,468	31,832	93,685
Repayments and Redemption of Investment Securities Held to Maturity	135	24	
Proceeds from Sales of Other Real Estate Owned	6,453	25,113	4,917
Proceeds from Sales of Loans Held for Sale	107,782		
Net Decrease in Loans Receivable	120,686	294,701	354,328
Purchases of Term Federal Fund	(115,000)		
Purchases of Federal Home Loan Bank and Federal Reserve Bank Stock	(1,109)	(666)	
Purchases of Investment Securities Available for Sale	(368,442)	(448,428)	(89,357)
Purchases of Investment Securities Held to Maturity	(59,179)		
Purchases of Premises and Equipment	(1,167)	(1,228)	(988)
<b>Net Cash Provided By Investing Activities</b>	<b>99,337</b>	<b>35,983</b>	<b>427,079</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Decrease in Deposits	(121,811)	(282,606)	(320,753)
Net Proceeds from Issuance of Common Stock in Offering	77,109	116,271	6,839
Proceeds from Exercises of Stock Options		22	
Repayment of Long-Term Federal Home Loan Bank Advances	(347)	(328)	(107,218)
Net Change in Short-Term Federal Home Loan Bank Advances and Other Borrowings	(151,570)	(177)	(160,040)

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<b>Net Cash Used In Financing Activities</b>	(196,619)	(166,818)	(581,172)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(48,037)	95,610	(61,837)
Cash and Cash Equivalents at Beginning of Year	249,720	154,110	215,947
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 201,683</b>	<b>\$ 249,720</b>	<b>\$ 154,110</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

**Cash Paid During the Period for:**

Interest Paid	\$ 27,696	\$ 35,278	\$ 88,851
Income Taxes Paid (Refund)	\$ 3	\$ (49,971)	\$

**Non-Cash Activities:**

Stock Issued for Business Acquisition	\$	\$	\$ 46
Transfer of Loans to Other Real Estate Owned	\$ 4,213	\$ 12,992	\$ 38,726
Transfer of Loans to Loans Held for Sale	\$ 110,290	\$ 155,176	\$
Loans Provided in the Sale of Loans Held for Sale	\$ 5,750	\$	\$
Loans Provided in the Sale of Other Real Estate Owned	\$ 510	\$ 1,217	\$ 5,000
Issuance of Stock Warrants in Connection with Common Stock Offering	\$	\$ 1,962	\$
Issuance of Treasury Stocks in Connection with Reverse Stock Split	\$ 154	\$	\$

See Accompanying Notes to Consolidated Financial Statements.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009**

**NOTE 1 REGULATORY MATTERS**

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

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

***Written Agreement and Final Order***

The Order and the Written Agreement contain substantially similar provisions. Pursuant to the Order and the Written Agreement, the Board of Directors of the Bank prepared and submitted written plans to the DFI and the FRB that addressed the following items: (i) strengthening board oversight of the management and operation of the Bank; (ii) strengthening credit risk management practices; (iii) improving credit administration policies and procedures; (iv) improving the Bank s position with respect to problem assets; (v) maintaining adequate reserves for loan and lease losses; (vi) improving the capital position of the Bank and, with respect to the Written Agreement, of Hanmi Financial; (vii) improving the Bank s earnings through a strategic plan and a budget for 2011; (viii) improving the Bank s liquidity position and funds management practices; and (ix) contingency funding. In addition, the Order and the Written Agreement place restrictions on the Bank s lending to borrowers who have adversely classified loans with the Bank and requires the Bank to charge off or collect certain problem loans. The Order and the Written Agreement also require the Bank to review and revise its allowance for loan and lease losses consistent with relevant supervisory guidance. The Bank is also prohibited from paying dividends, incurring, increasing or guaranteeing any debt, or making certain changes to its business without prior approval from the DFI, and Hanmi Financial and the Bank must obtain prior approval from the FRB prior to declaring and paying dividends.

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

	<b>Ratio of Tangible Stockholders</b>
<b>Date</b>	<b>Equity to Total Tangible Assets</b>
By July 31, 2010	Not Less Than 9.0 Percent
From December 31, 2010 and Until the Order is	

Terminated

Not Less Than 9.5 Percent

If the Bank was not able to maintain the capital ratios identified in the Order, it was required to notify the DFI, and Hanmi Financial and the Bank are required to notify the FRB if their respective capital ratios fall below those set forth in the capital plan approved by the FRB. On July 27, 2010, we completed a registered right and best



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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 1 REGULATORY MATTERS***(continued)*

efforts offering by which we raised \$116.8 million in net proceeds. As a result, we satisfied the \$100 million capital contribution requirement set forth in the Final Order. The Bank had tangible stockholders' equity to total tangible assets ratio of 8.59 percent at December 31, 2010. Accordingly, we notified the DFI and FRB of such event. On November 18, 2011, we completed an underwritten public offering of our common stock by which we raised \$77.1 million in net proceeds. As a result, we satisfied tangible stockholders' equity to total tangible assets ratio requirement of not less than 9.5 percent, set forth in the Final Order, as of December 31, 2011. As of December 31, 2011, the Bank had tangible stockholders' equity to total tangible assets ratio of 12.48 percent. Based on submissions to and consultations with our regulators, we believe that the Bank has taken the required corrective action and has complied with substantially all of the requirements of the Final Order and the written Agreement. For a further discussion of the Bank's capital condition and capital resources, see Note 19 Liquidity.

***Risk-Based Capital***

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

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 1 REGULATORY MATTERS**(continued)

The capital ratios of Hanmi Financial and the Bank were as follows as of December 31, 2011 and 2010:

	Actual Amount	Ratio	Minimum Regulatory Requirement Amount	Ratio	Minimum to Be Categorized as Well Capitalized Amount	Ratio
<i>(In Thousands)</i>						
<b>December 31, 2011</b>						
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 387,328	18.66%	\$ 166,082	8.00%	N/A	N/A
Hanmi Bank	\$ 364,041	17.57%	\$ 165,795	8.00%	\$ 207,243	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 360,500	17.36%	\$ 83,041	4.00%	N/A	N/A
Hanmi Bank	\$ 337,309	16.28%	\$ 82,897	4.00%	\$ 124,346	6.00%
Tier 1 Capital (to Average Assets):						
Hanmi Financial	\$ 360,500	13.34%	\$ 108,106	4.00%	N/A	N/A
Hanmi Bank	\$ 337,309	12.50%	\$ 107,924	4.00%	\$ 134,905	5.00%
<b>December 31, 2010</b>						
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 284,345	12.32%	\$ 184,570	8.00%	N/A	N/A
Hanmi Bank	\$ 281,380	12.22%	\$ 184,187	8.00%	\$ 230,234	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 232,676	10.09%	\$ 92,285	4.00%	N/A	N/A
Hanmi Bank	\$ 251,111	10.91%	\$ 92,094	4.00%	\$ 138,141	6.00%
Tier 1 Capital (to Average Assets):						
Hanmi Financial	\$ 232,676	7.90%	\$ 117,774	4.00%	N/A	N/A
Hanmi Bank	\$ 251,111	8.55%	\$ 117,494	4.00%	\$ 146,868	5.00%
<b>Reserve Requirement</b>						

The Bank is required to maintain a percentage of its deposits as reserves at the FRB. The daily average reserve balance required to be maintained with the FRB was \$1.5 million as of December 31, 2011 and 2010, respectively.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Summary of Operations**

Hanmi Financial Corporation ( Hanmi Financial, we, us or our ) was formed as a holding company of Hanmi Bank (the Bank ) and registered the Securities and Exchange Commission under the Securities Act of 1933 on March 17, 2001. Subsequent to its formation, each of the Bank 's shares was exchanged for one share of Hanmi Financial with an equal value. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

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The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

Valley area in Santa Clara County. The Bank's full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank's client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2011, the Bank maintained a branch network of 27 full-service branch offices in California and one loan production office in Washington.

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

***Basis of Presentation***

The accounting and reporting policies of Hanmi Financial and subsidiaries conform, in all material respects, to U.S. generally accepted accounting principles ( GAAP ) and general practices within the banking industry. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

The Financial Accounting Standards Board's ( FASB ) Accounting Standards Codification ( ASC ) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

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

***Principles of Consolidation***

The consolidated financial statements include the accounts of Hanmi Financial and our wholly owned subsidiaries, the Bank, Chun-Ha and All World. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where estimates are made consist of the allowance for loan losses, other-than-temporary impairment, investment securities valuations and income taxes. Actual results could differ from those estimates.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

***Reclassifications***

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

***Risks and Uncertainties***

FASB ASC 275, *Risks and Uncertainties*, requires reporting entities to disclose information about the nature of their operations and vulnerabilities due to certain concentrations. Based on our industry and current capital situation, our primary risks and uncertainties consist of capital, credit and liquidity risk.

Our operations and regulatory capital needs require us to enhance our capital in the near term and may require us to raise additional capital in the future. Our ability to raise additional capital will depend on conditions in the capital markets at the time, which are outside of our control and our financial performance. For further disclosure on our capital position, see *Note 1 Regulatory Matters*.

A significant source of credit risk arises from the possibility that we could sustain losses to borrowers, guarantors, and related parties due to the failure of our customers to perform in accordance with the terms of their loans. Such failure could have an adverse impact on our financial performance as it could lead to additional provisions in our allowance for loan losses. For further disclosure on our credit risk and credit quality indicators, see *Note 5 Loans*. Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. For further disclosure on our liquidity position and our available sources of liquidity, see *Note 20 Liquidity*.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash, due from banks and overnight federal funds sold, all of which have original or purchased maturities of less than 90 days.

***Restricted Cash***

Effective June 30, 2011, the Bank was required to enter into a Reserve Account Agreement ( Agreement ) with SBA to sell loans into secondary market. Under the Agreement, the Bank is required to maintain a reserve account at a well-capitalized FDIC insured depository financial institution for the amount equal to cover the percentage, currently at 2.44 percent, of guaranteed and sold portion to the secondary market. As of December 31, 2011, \$1.8 million was deposited in compliance with the Agreement at such financial institution.

***Securities***

Securities are classified into three categories and accounted for as follows:

1.

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Securities that we have the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost;

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

2. Securities that are bought and held principally for the purpose of selling them in the near future are classified as trading securities and reported at fair value. Unrealized gains and losses are recognized in earnings; and
3. Securities not classified as held-to-maturity or trading securities are classified as available for sale and reported at fair value. Unrealized gains and losses are reported as a separate component of stockholders' equity as accumulated other comprehensive income, net of income taxes.

Accreted discounts and amortized premiums on investment securities are included in interest income using the effective interest method over the remaining period to the call date or contractual maturity and, in the case of mortgage-backed securities and securities with call features, adjusted for anticipated prepayments. Unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific-identification method.

We are obligated to assess, at each reporting date, whether there is an other-than-temporary-impairment ( OTTI ) to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. The determination of OTTI is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for OTTI. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. Our impairment assessment also takes into consideration factor that we do not intend to sell the security and it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis of the security. If the decline in fair value is judged to be other than temporary, the security is written down to fair value which becomes the new cost basis and an impairment loss is recognized.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not we will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not we will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value. Management does not believe that there is any investment securities that are deemed other-than-temporarily impaired as of December 31, 2011.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

We also have a minority investment of less than five percent in a publicly traded company, Pacific International Bancorp ( PIB ). As of December 31, 2011, the investment was carried at fair value and included in securities available for sale on the Consolidated Balance Sheets. As of December 31, 2011 and 2010, its carrying value was \$595,000 and \$774,000, respectively. We monitor the investment for impairment and make appropriate reductions in carrying value when necessary.

***Loans Receivable***

We originate loans for investment, with such designation made at the time of origination. Loans receivable that we have the intent and ability to hold for the foreseeable future, or until maturity, are stated at their outstanding principal, reduced by an allowance for loan losses and net of deferred loan fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Non-refundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the effective interest method. Discounts or premiums on purchased loans are accreted or amortized to interest income using the effective interest method over the remaining period to contractual maturity adjusted for anticipated prepayments.

Interest on loans is credited to income as earned and is accrued only if deemed collectible. Direct loan origination costs are offset by loan origination fees with the net amount deferred and recognized over the contractual lives of the loans in interest income as a yield adjustment using the effective interest method. Discounts or premiums associated with purchased loans are accreted or amortized to interest income using the interest method over the contractual lives of the loans, adjusted for prepayments. Accretion of discounts and deferred loan fees is discontinued when loans are placed on non-accrual status.

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. 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.

***Loans Held for Sale***

Loans originated, or transferred from loans receivable, and intended for sale in the secondary market are carried at the lower of aggregate cost or fair market value. Fair market value, if lower than cost, is determined based on valuations obtained from market participants or the value of underlying collateral, calculated individually. A valuation allowance is established if the market value of such loans is lower than their cost and net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Origination fees on



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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans.

***Allowance for Loan Losses***

Management believes the allowance for loan losses is adequate to provide for probable losses inherent in the loan portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on previous loan loss experience; volume, growth and composition of the loan portfolio; the value of collateral; and current economic conditions. Our lending is concentrated in commercial, consumer, construction and real estate loans in the greater Los Angeles/Orange County area. Although management believes the level of the allowance is adequate to absorb probable losses inherent in the loan portfolio, a decline in the local economy may result in increasing losses that cannot reasonably be predicted at this date.

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 determined through analysis involving quantitative calculations based on historic loss rates for general reserves and individual impairment calculations for specific allocations to impaired loans as well as qualitative adjustments.

Risk factor calculations were previously based on 12-quarters of historic loss analysis with 1.5 to 1 weighting given to the most recent six quarters. In the first quarter of 2010, the historic loss window was reduced to eight quarters with 1.5 to 1 weighting given to the most recent four quarters. The shorter window places greater emphasis on losses taken by the Bank within the past year, as recent loss history is more relevant to the Bank's risks given the rapid changes to asset quality within the current economic conditions. The Bank's implementation made in our risk factor calculation regarding change in look-back periods for historical loss data did not have a significant impact on our financial condition or results of operations.

As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis; however, as with risk-rated loans, risk factor calculations are based on 8-quarters of historic loss analysis with 1.5 to 1 weighting given to the most recent four quarters.

To determine general reserve requirements, existing loans are divided into 11 general loan pools of risk-rated loans (Commercial Real Estate, Construction, Commercial Term-Unsecured, Commercial Term-T/D Secured, Commercial Line of Credit, SBA-Unsecured, SBA-T/D Secured, International, Consumer Installment, Consumer Line of Credit, and Miscellaneous loans) as well as 3 homogenous loan pools (Residential Mortgage, Auto, and Credit Card). For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade (pass, special mention, substandard, and doubtful) to determine risk factors for potential loss inherent in the current outstanding loan portfolio.

During the first quarter of 2010, to enhance reserve calculations to better reflect the Bank's current loss profile, the two loan pools of commercial real estate and commercial term T/D secured were subdivided according to the 21 collateral codes used by the Bank to identify commercial property types (Apartment, Auto, Car Wash, Casino, Church, Condominium, Gas Station, Golf Course, Industrial, Land, Manufacturing, Medical, Mixed

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

Used, Motel, Office, Retail, School, Supermarket, Warehouse, Wholesale, and Others). This further segregation allows the Bank to more specifically allocate reserves within the commercial real estate portfolio according to risks defined by historic loss as well as current loan concentrations of the different collateral types.

For purposes of determining the allowance for credit losses, the loan portfolio is subdivided into three portfolio segments: Real Estate, Commercial and Industrial, and Consumer. The portfolio segment of Real Estate contains the allowance loan pools of Commercial Real Estate, Construction, and Residential Mortgage. The portfolio segment of Commercial and Industrial contains the loan pools of Commercial Term Unsecured, Commercial Term T/D Secured, Commercial Line of Credit, SBA, International, and Miscellaneous. Lastly, the portfolio segment of Consumer contains the loan pools of Consumer Installment, Consumer Line of Credit, Auto, and Credit Card.

Real Estate loans, which are mostly dependent on rental income from non-owner occupied or investor properties, have been subject to increased losses. Prior to 2009, no historic losses were recorded for loans secured by commercial real estate. However, given the decrease in sales and increase in vacancies due to the current slowed economy, losses in loans secured by office and retail properties have been significant. Loans secured by vacant land have also had significant losses as valuations have decreased and further development has been limited. Similarly, Construction loans have been subject to losses due to unforeseen difficulties in completion of projects. As such, allocations to general reserves for those loan pools have been higher than that of loan pools with lower risk. Residential Mortgage loans constitute a limited concentration within the Bank's entire loan portfolio, and losses as well as supplementary reserves have been minimal.

Commercial and Industrial loans, which are largely subject to changes in business cash flow, have had the most historic losses within the Bank's entire loan portfolio. The largest loan pool within the C & I sector is Commercial Term T/D Secured, which are mostly loans secured by owner-occupied business properties. Loans secured by car washes, gas stations, golf courses, and motels have had the most significant losses, as the hospitality and recreation industries have been negatively affected by the current economy. As such, allocations to general reserve for those loan pools have been increased. Also, Commercial Term Unsecured and SBA loans have had considerable losses and additional general reserves as decreased business cash flow due to the economic recession has jeopardized borrowers' repayment abilities.

Commercial Property loans included in the real estate segment consist mostly of loans to non-owner occupied investment properties. Commercial Term loans Secured by Real Estate (commercial term-T/D) included in the commercial and industrial segment are loans collateralized by owner occupied business property. The two loan pools have similar risk characteristics associated with underlying real estate property including segment collateral type, but different risk characteristics associated with the industry sector where the borrower operates. Commercial Property loans are mostly dependent on rental income from non-owner occupied or investor properties. However, commercial term-T/Ds are mostly loans secured by owner-occupied business property which are largely subject to changes in business cash flow as well as general real estate market conditions.

Consumer loans constitute a limited concentration within the Bank's loan portfolio and are mostly evaluated in bulk for general reserve requirements due to the relatively small volume per loan.

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**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(continued)

Non-performing assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned (OREO). Loans are generally placed on non-accrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Additionally, the Bank may place loans that are not 90 days past due on non-accrual status, if management reasonably believes the borrower will not be able to comply with the contractual loan repayment terms and collection of principal or interest is in question.

When loans are placed on non-accrual status, accrued but unpaid interest is reversed against the current year's income, and interest income on non-accrual loans is recorded on a cash basis. The Bank may treat payments as interest income or return of principal depending upon management's opinion of the ultimate risk of loss on the individual loan. Cash payments are treated as interest income where management believes the remaining principal balance is fully collectible.

Loan losses are charged off, and recoveries are credited, to the allowance account. Additions to the allowance account are charged to the provision for credit losses. The allowance for loan losses is maintained at a level considered adequate by management to absorb probable losses in the loan portfolio. The adequacy of the allowance is determined by management based upon an evaluation and review of the loan portfolio, consideration of historical loan loss experience, current economic conditions, changes in the composition of the loan portfolio, analysis of collateral values and other pertinent factors.

Loans are measured for impairment when it is probable that not all amounts, including principal and interest, will be collected in accordance with the contractual terms of the loan agreement. The amount of impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment to the allowance for loan losses. Accounting standards require that an impaired loan be measured based on:

the present value of the expected future cash flows, discounted at the loan's effective interest rate; or

the loan's observable fair value; or

the fair value of the collateral, if the loan is collateral-dependent.

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

In general, the Bank will charge off a loan and declare a loss when its collectability is questionable and when the Bank can no longer justify presenting the loan as an asset on its balance sheet. To determine if a loan should be charged off, all possible sources of repayment are analyzed, including the potential for future cash flow from income or liquidation of other assets, the value of any collateral, and the strength of co makers or guarantors. When these sources do not provide a reasonable probability that principal can be collected in full, the Bank will fully or partially charge off the loan.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

For a real estate loan, including commercial term loans secured by collateral, any impaired portion is considered as loss, if the loan is more than 90 days past due. In a case where the fair value of collateral is less than the loan balance and the borrower has no other assets or income to support repayment, the amount of the deficiency is considered as loss and charged off.

For a commercial and industrial loan other than those secured by real estate, if the borrower is in the process of a bankruptcy filing in which the Bank is an unsecured creditor or deemed virtually unsecured by lack of collateral equity or lien position and the borrower has no realizable equity in assets and prospects for recovery are negligible, the loan is considered as loss and charged off. Additionally, a commercial and industrial unsecured loan that is more than 120 days past due is considered as loss and charged off.

An unsecured consumer loan where a borrower files for bankruptcy, the loan is considered as loss within 60 days of receipt of notification of filing from the bankruptcy court. Other consumer loans are considered as loss if they are more than 90 days past due. Other events such as bankruptcy, fraud, or death, resulting charge offs being recorded in an earlier period.

***Impaired Loans***

Loans are identified and classified as impaired when it is probable that not all amounts, including principal and interest, will be collected in accordance with the contractual terms of the loan agreement. The Bank will consider the following loans as impaired: non-accrual loans or loans where principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; loans classified as Troubled Debt Restructuring ( TDR ) loans, or any loan classified as Substandard that the amount is over 5 percent of the Bank's Tier 1 Capital.

The Bank considers whether the borrower is experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business deterioration in realizable value. The Bank also considers the financial condition of a borrower who is in industries or countries experiencing economic or political instability.

When a loan is considered impaired, any future cash receipts on such loans will be treated as either interest income or return of principal depending upon management's opinion of the ultimate risk of loss on the individual loan. Cash payments are treated as interest income where management believes the remaining principal balance is fully collectible.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2011, 2010 AND 2009** *(Continued)***NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

For impaired loans where the impairment amount is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, any impairment that represents the change in present value attributable to the passage of time is recognized as bad-debt expense.

The amount of interest income recognized on impaired loans using a cash basis method is disclosed in *Note 5 Loans*.

***Troubled Debt Restructuring***

A loan is identified as a troubled debt restructure when a borrower is experiencing financial difficulties and for economic or legal reasons related to these difficulties the Bank grants a concession to the borrower in the restructuring that it would not otherwise consider. The Bank has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including principal and/or interest accrued at the original terms of the loan. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. All troubled debt restructurings are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

***Premises and Equipment***

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

Buildings and Improvements	10 to 30 years
Furniture and Equipment	3 to 7 Years
Leasehold Improvements	Term of Lease or Useful Life, Whichever is Shorter
Software	3 Years

***Impairment of Long-Lived Assets***

We account for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

***Other Real Estate Owned***

Assets acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation impairment is recorded through expense. Operating costs after acquisition are expensed.

***Servicing Assets***

Servicing assets are recorded at the lower of amortized cost or fair value in accordance with the provisions of FASB ASC 860, *Transfers and Servicing*. The fair values of servicing assets represent either the price paid if purchased, or the allocated carrying amounts based on relative values when retained in a sale. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees.

Upon sales of such loans, we receive a fee for servicing the loans. The servicing asset is recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, using a discount rate and a constant prepayment rate. The servicing asset is amortized in proportion to and over the period of estimated servicing income. Management periodically evaluates the servicing asset for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

Interest-only strips are recorded based on the present value of the excess of total servicing fee over the contractually specified servicing fee for the estimated life of the loan, calculated using the same assumptions as noted above. Such interest-only strips are accounted for at their estimated fair value, with unrealized gains or losses recorded as adjustments to accumulated other comprehensive income (loss).

***Other Intangible Assets***

Other intangible assets consists of a core deposit intangible ( CDI ) and acquired intangible assets arising from acquisitions, including non-compete agreements, trade names, carrier relationships and client/insured relationships. CDI represents the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions. We amortize the CDI balance using an accelerated method over eight years. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives.

As required by FASB ASC 350, we evaluated the useful lives assigned to other intangible assets and determined that no change was necessary and amortization expense was not adjusted for the year ended December 31, 2011. As required by FASB ASC 350, other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The other intangible assets recoverability analysis is consistent with our policy for assessing impairment of long-lived assets.

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**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(continued)

***Federal Home Loan Bank Stock***

The Bank is a member of the Federal Home Loan Bank of San Francisco ( FHLB ) and is required to own common stock in the FHLB based upon the Bank's balance of residential mortgage loans and outstanding FHLB advances. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

***Federal Reserve Bank Stock***

The Bank is a member of the Federal Reserve Bank of San Francisco ( FRB ) and is required to maintain stock in the FRB based on a specified ratio relative to the Bank's capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. FRB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

***Derivative Instruments***

We account for derivatives in accordance with the provisions of FASB ASC 815, *Derivatives and Hedging*. Under FASB ASC 815, all derivatives are recognized on the balance sheet at their fair values. On the date the derivative contract is entered into, we designate the derivative as a fair value hedge or a cash flow hedge. Fair value hedges include hedges of the fair value of a recognized asset, liability or a firm commitment. Cash flow hedges include hedges of the variability of cash flows to be received or paid related to a recognized asset, liability or a forecasted transaction. Changes in the fair value of derivatives designated as fair value hedges, along with the change in fair value on the hedged asset, liability or firm commitment that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of derivatives designated as cash flow hedges, to the extent effective as a hedge, are recorded in accumulated other comprehensive income (loss) and reclassified into earnings in the period during which the hedged item affects earnings.

We formally document all relationships between hedging instruments and hedged items. This documentation includes our risk management objective and strategy for undertaking various hedge transactions, as well as how hedge effectiveness and ineffectiveness will be measured. This process includes linking derivatives to specific assets and liabilities on the balance sheet. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge, the derivative will continue to be carried on the balance sheet at its fair value, with changes in its fair value recognized in current period earnings. For fair value hedges, the formerly hedged asset or liability will no longer be adjusted for changes in fair value and any previously recorded adjustments to the carrying value of the hedged asset or liability will be amortized in the same manner that the hedged item affects income. For cash flow



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**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

hedges, amounts previously recorded in accumulated other comprehensive income (loss) will be reclassified into income as earnings are impacted by the variability in the cash flows of the hedged item.

If the hedging instrument is terminated early, the derivative is removed from the balance sheet. Accounting for the adjustments to the hedged asset or liability or adjustments to accumulated other comprehensive income (loss) are the same as described above when a derivative no longer qualifies as an effective hedge.

If the hedged asset or liability is sold or extinguished, the derivative will continue to be carried on the balance sheet at its fair value, with changes in its fair value recognized in current period earnings. The hedged item, including previously recorded mark-to-market adjustments, is derecognized immediately as a component of the gain or loss upon disposition.

***Bank-Owned Life Insurance***

We have purchased single premium life insurance policies ( bank-owned life insurance ) on certain officers. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due, if any, that are probable at settlement.

***Affordable Housing Investments***

The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. The partnership interests are accounted for utilizing the equity method of accounting. The costs of the investments are being amortized on a straight-line method over the life of related tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken is subject to recapture with interest. Such investments are recorded in other assets in the accompanying Consolidated Balance Sheets.

***Junior Subordinated Debentures***

We have established three statutory business trusts that are wholly owned subsidiaries of Hanmi Financial: Hanmi Capital Trust I, Hanmi Capital Trust II and Hanmi Capital Trust III (collectively, the Trusts ). In three separate private placement transactions, the Trusts issued variable rate capital securities representing undivided preferred beneficial interests in the assets of the Trusts. Hanmi Financial is the owner of all the beneficial interests represented by the common securities of the Trusts.

FASB ASC 810, *Consolidation of Variable Interest Entities (Revised December 2003)* an *Interpretation of ARB No. 51*, requires that variable interest entities be consolidated by a company if that company is subject to a majority of expected losses from the variable interest entity s activities, or is entitled to receive a majority of the entity s expected residual returns, or both. The Trusts are not consolidated and junior subordinated debt represents liabilities of Hanmi Financial to the Trusts.

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**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(continued)

***Income Tax***

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

***Share-Based Compensation***

We adopted FASB ASC 718, *Compensation-Stock Compensation*, on January 1, 2006 using the modified prospective method. Under this method, awards that are granted, modified or settled after December 31, 2005 are measured and accounted for in accordance with FASB ASC 718. Also under this method, expense is recognized for services attributed to the current period for unvested awards that were granted prior to January 1, 2006, based upon the fair value determined at the grant date under SFAS No. 123, *Accounting for Stock-Based Compensation*.

FASB ASC 718 requires that cash flows resulting from the realization of excess tax benefits recognized on awards that were fully vested at the time of adoption of FASB ASC 718 be classified as a financing cash inflow and an operating cash outflow on the Consolidated Statements of Cash Flows. Before the adoption of FASB ASC 718, we presented all tax benefits realized from the exercise of stock options as an operating cash inflow.

In addition, FASB ASC 718 requires that any unearned compensation related to awards granted prior to the adoption of FASB ASC 718 be eliminated against the appropriate equity accounts. As a result, the presentation of stockholders' equity was revised to reflect the transfer of the balance previously reported in unearned compensation to additional paid-in capital.

***Earnings (Loss) Per Share***

Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution of securities that could share in the earnings. The computation of basic and diluted earnings (loss) per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.

***Treasury Stock***

We use the cost method of accounting for treasury stock. The cost method requires us to record the reacquisition cost of treasury stock as a deduction from stockholders' equity on the Consolidated Balance Sheets.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)*

*Recently Issued Accounting Standards*

**FASB ASU No. 2011-08, Testing Goodwill for Impairment (Topic 350)** ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Adoption of ASU 2011-08 is not expected to have a significant impact on our financial condition or result of operations.

**FASB ASU 2011-05, Presentation of Comprehensive Income (Topic 220)** ASU 2011-05 is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. These amendments apply to all entities that report items of other comprehensive income, in any period presented. Under the amendments to Topic 220, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in ASU 2011-05 are effective fiscal years, and interim periods within those years, beginning after December 15, 2011. Adoption of ASU 2011-05 is not expected to have a significant impact on our financial condition or result of operations.

**FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820)** ASU 2011-04 provides guidance on fair value measurement and disclosure requirements that the FASB deemed largely identical across U.S. GAAP and IFRS. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or allowed. ASU 2011-04 supersedes most of the guidance in ASC topic 820, but many of the changes are clarifications of existing guidance or wording changes to reflect IFRS 13. Amendments in ASU 2011-04 change the wording used to describe U.S. GAAP requirements for fair value and disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011, and early application is not permitted. Adoption of ASU 2011-04 is not expected to have a significant impact on our financial condition or result of operations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**

***Fair Value Measurements***

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

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

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

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

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

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**(continued)

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

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

*SBA Loans Held for Sale* Loans held for sale are carried at the lower of cost or fair value. As of December 31, 2011 and 2010, we had \$5.1 million and \$10.0 million of loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At December 31, 2011 and 2010, the entire balance of loans held for sale was recorded at its cost. We record loans held for sale on a nonrecurring basis with Level 2 inputs.

*Nonperforming loans held for sale* We reclassify certain nonperforming loans when the decision to sell those loans is made. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract price which approximate the fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of December 31, 2011, we had \$17.5 million of nonperforming loans held for sale. We measure nonperforming loans held for sale at fair value on a nonrecurring basis with Level 3 inputs.

*Impaired Loans* FASB ASC 820 applies to loans measured for impairment using the practical expedient permitted by FASB ASC 310, *Receivables*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These loans are classified as Level 3 and subject to non-recurring fair value adjustments.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**(continued)

*Other Real Estate Owned* Other real estate owned is measured at fair value less selling costs. Fair value was determined based on third-party appraisals of fair value in an orderly sale. Selling costs were based on standard market factors. We classify other real estate owned as Level 3 and subject to non-recurring fair value adjustments.

*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.

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

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

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

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2011, 2010 AND 2009** *(Continued)***NOTE 3 FAIR VALUE MEASUREMENTS***(continued)*

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

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

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with ASC 825, Financial Instruments.

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

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the year ended December 31, 2011. There was a transfer of assets into Level 1 out of Level 3 of the fair value hierarchy for the year ended December 31, 2011. The transfer was due to a conversion of preferred shares of the issuer to common shares that were traded on the OTC Bulletin Board. The preferred shares were converted into common shares upon the approval of the company's stockholders which occurred on October 6, 2010. We recognize transfers of assets between levels at the end of each respective quarterly reporting period.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 3 FAIR VALUE MEASUREMENTS***(continued)*

As of December 31, 2011 and 2010, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics <i>(In Thousands)</i>	Level 3 Significant Unobservable Inputs	Balance
<b>As of December 31, 2011</b>				
<b>ASSETS:</b>				
Debt Securities Available for Sale:				
Residential Mortgage-Backed Securities	\$	\$ 113,005	\$	\$ 113,005
U.S. Government Agency Securities	72,548			72,548
Collateralized Mortgage Obligations		162,837		162,837
Municipal Bonds		3,482		3,482
Municipal Bonds-Tax Exempt		6,138		6,138
Corporate Bonds		19,836		19,836
Other Securities		3,335		3,335
<b>Total Debt Securities Available for Sale</b>	<b>\$ 72,548</b>	<b>\$ 308,633</b>	<b>\$</b>	<b>\$ 381,181</b>
Equity Securities Available for Sale:				
Financial Services Industry	\$ 681		\$	\$ 681
<b>Total Equity Securities Available for Sale</b>	<b>\$ 681</b>	<b>\$</b>	<b>\$</b>	<b>\$ 681</b>
<b>Total Securities Available for Sale</b>	<b>\$ 73,229</b>	<b>\$ 308,633</b>	<b>\$</b>	<b>\$ 381,862</b>
<b>LIABILITIES:</b>				
Stock Warrants	\$	\$	\$ 883	\$ 883
<b>As of December 31, 2010</b>				
<b>ASSETS:</b>				
Debt Securities Available for Sale:				
Residential Mortgage-Backed Securities	\$	\$ 109,842	\$	\$ 109,842
U.S. Government Agency Securities	113,334			113,334
Collateralized Mortgage Obligations		137,193		137,193
Municipal Bonds		21,028		21,028
Municipal Bonds-Tax Exempt		7,384		7,384
Corporate Bonds		20,205		20,205



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Other Securities			3,259		3,259
Total Debt Securities Available for Sale	\$ 113,334	\$	298,911	\$	\$ 412,245
Equity Securities Available for Sale:					
Financial Services Industry	\$ 873	\$		\$	\$ 873
Total Equity Securities Available for Sale	\$ 873	\$		\$	\$ 873
Total Securities Available for Sale	\$ 114,207	\$	298,911	\$	\$ 413,118
<b>LIABILITIES:</b>					
Stock Warrants	\$	\$		\$ 1,600	\$ 1,600

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**(continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Ending
	Beginning	Purchases,	Realized and	Realized	Unrealized	Balance as
	Balance as of	Purchases,	Unrealized	and	Gains or Losses	of
	January 1,	Issuances and	Gains or Losses	Unrealized	in Other	December 31,
	2011	Settlements	in Earnings	in Other	Comprehensive	2011
				Comprehensive	Income	
				Income		
					Transfers	
					In and/or Out	
					of Level	
					3	
<b>LIABILITIES:</b>						
Stock Warrants	\$ 1,600	\$	\$ 717	\$	\$	\$ 883
<i>Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis</i>						

As of December 31, 2011, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1	Level 2	Level 3
	Quoted Prices in	Significant	Significant
	Active	Observable	Unobservable
	Markets	Inputs With	Inputs
	for	No Active	
	Identical	Market	
	Assets	With	
		Identical	
		Characteristics	
<b>ASSETS:</b>			
Nonperforming Loans Held for Sale	\$	\$	\$ 17,525 <sup>(1)</sup>
Impaired Loans			121,689 <sup>(2)</sup>
Other Real Estate Owned			180 <sup>(3)</sup>

<sup>(1)</sup> Includes commercial property loans of \$11.1 million, commercial term loan of \$5.6 million, and SBA loans of \$870,500.

<sup>(2)</sup> Includes real estate loans of \$38.7 million, commercial and industrial loans of \$82.2 million, and consumer loans of \$746,000.

<sup>(3)</sup> *Includes properties from the foreclosure of real estate loans of \$180,000.*

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

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

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**(continued)

The estimated fair values of financial instruments were as follows:

	December 31, 2011		December 31, 2010	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	<i>(In Thousands)</i>			
<b>Financial Assets:</b>				
Cash and Cash Equivalents	\$ 201,683	\$ 201,683	\$ 249,720	\$ 249,720
Ristricted Cash	1,818	1,818		
Term Federal Funds	115,000	115,173		
Investment Securities Held to Maturity	59,742	59,363	845	847
Investment Securities Available for Sale	381,862	381,862	413,118	413,118
Loans Receivable, Net of Allowance for Loan Losses	1,849,020	1,802,511	2,084,447	2,025,368
Loans Held for Sale	22,587	22,587	36,620	36,620
Accrued Interest Receivable	7,829	7,829	8,048	8,048
Investment in Federal Home Loan Bank Stock	22,854	22,854	27,282	27,282
Investment in Federal Reserve Bank Stock	8,558	8,558	7,449	7,449
<b>Financial Liabilities:</b>				
Noninterest-Bearing Deposits	634,466	634,466	546,815	546,815
Interest-Bearing Deposits	1,710,444	1,710,878	1,919,906	1,927,314
Borrowings	85,709	83,853	237,626	233,077
Accrued Interest Payable	16,032	16,032	15,966	15,966
<b>Off-Balance Sheet Items:</b>				
Commitments to Extend Credit	158,748	194	178,424	130
Standby Letters of Credit	12,742	26	15,226	50

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

*Cash and Cash Equivalents* The carrying amounts approximate fair value due to the short-term nature of these instruments.

*Restricted Cash* The carrying amount of restricted cash approximates its fair value.

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

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

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*Loans Receivable, Net of Allowance for Loan Losses* Fair values were estimated for loans based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads, and reflects the offering rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product type using the Bank's loan pricing model for like-quality credits. The discount rates used in

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** (Continued)

**NOTE 3 FAIR VALUE MEASUREMENTS**(continued)

the Bank's model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans. No adjustments have been made for changes in credit within the loan portfolio. It is our opinion that the allowance for loan losses relating to performing and nonperforming loans results in a fair valuation of such loans. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize.

*Loans Held for Sale* Loans held for sale are carried at the lower of aggregate cost or fair market value which approximates its fair value.

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

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

*Noninterest-Bearing Deposits* The fair value of non-maturity deposits was the amount payable on demand at the reporting date. Non-maturity deposits include noninterest-bearing demand deposits, savings accounts and money market checking.

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

*Borrowings* Borrowings consist of FHLB advances, junior subordinated debentures and other borrowings. Discounted cash flows have been used to value borrowings.

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

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

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

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 4 INVESTMENT SECURITIES**

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<i>(In Thousands)</i>				
<b>December 31, 2011:</b>				
Municipal Bonds	\$ 9,815	\$ 98	\$ 46	\$ 9,867
Municipal Bonds-Tax Exempt	38,797	117	522	38,392
Mortgage-Backed Securities <sup>(1)</sup>	3,137	2	11	3,128
U.S. government Agency Securities	7,993	2	19	7,976
	\$ 59,742	\$ 219	\$ 598	\$ 59,363
<b>December 31, 2010:</b>				
Municipal Bonds	\$ 696	\$	\$	\$ 696
Mortgage-Backed Securities <sup>(1)</sup>	149	2		151
	\$ 845	\$ 2	\$	\$ 847

<sup>(1)</sup> Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities.

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<i>(In Thousands)</i>				
<b>December 31, 2011:</b>				
Mortgage-Backed Securities <sup>(1)</sup>	\$ 110,433	\$ 2,573	\$ 1	\$ 113,005
Collateralized Mortgage Obligations <sup>(1)</sup>	161,214	1,883	260	162,837
U.S. Government Agency Securities	72,385	168	5	72,548
Municipal Bonds	3,389	93		3,482
Municipal Bonds-Tax Exempt	5,901	237		6,138
Corporate Bonds	20,460		624	19,836
Other Securities	3,318	58	41	3,335
Equity Securities	647	85	51	681

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\$ 377,747      \$ 5,097      \$ 982      \$ 381,862

<b>December 31, 2010:</b>				
Mortgage-Backed Securities <sup>(1)</sup>	\$ 108,436	\$ 2,137	\$ 731	\$ 109,842
Collateralized Mortgage Obligations <sup>(1)</sup>	139,053	470	2,330	137,193
U.S. Government Agency Securities	114,066	98	830	113,334
Municipal Bonds	4,388	48	11	4,425
Municipal Bonds-Tax Exempt	18,032		1,429	16,603
Corporate Bonds	20,449	13	257	20,205
Asset-Backed Securities	7,115	269		7,384
Other Securities	3,305		46	3,259
Equity Securities	647	226		873
	<b>\$ 415,491</b>	<b>\$ 3,261</b>	<b>\$ 5,634</b>	<b>\$ 413,118</b>

<sup>(1)</sup> Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities.



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 4 INVESTMENT SECURITIES**(continued)

The amortized cost and estimated fair value of investment securities at December 31, 2011, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2041, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)			
Within One Year	\$	\$	\$	\$
Over One Year Through Five Years	58,600	58,064	697	698
Over Five Years Through Ten Years	40,686	41,016	25,950	25,859
Over Ten Years	6,167	6,259	29,958	29,678
Mortgage-Backed Securities	110,433	113,005	3,137	3,128
Collateralized Mortgage Obligations	161,214	162,837		
Equity Securities	647	681		
	<b>\$ 377,747</b>	<b>\$ 381,862</b>	<b>\$ 59,742</b>	<b>\$ 59,363</b>

In accordance with FASB ASC 320, *Investments - Debt and Equity Securities*, amended current other-than-temporary-impairment ( OTTI ) guidance, we periodically evaluate our investments for OTTI.

In 2010, we owned an investment security in mutual funds ( Special Series A Shares ) with an aggregate carrying value of \$925,000. During 2010, the issuer of the Special Series A Shares completed a comprehensive restructuring which resulted in the exchange of our Special Series A Shares into common shares of the issuer. Based on the closing price of the shares at September 30, 2010, we recorded an OTTI charge of \$790,000 to write down the value of the investment securities to their fair value.

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DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 4 INVESTMENT SECURITIES**(continued)

We perform periodic reviews for impairment in accordance with FASB ASC 320. Gross unrealized losses on investment securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2011 and 2010:

Investment Securities Available for Sale	Less than 12 Months			Holding Period 12 Months or More			Total		
	Gross Unrealized Losses	Estimated Fair Value	Number of Securities	Gross Unrealized Losses	Estimated Fair Value	Number of Securities	Gross Unrealized Losses	Estimated Fair Value	Number of Securities
<b>December 31, 2011:</b>									
Mortgage-Backed Securities	\$ 1	\$ 3,076	1	\$	\$		\$ 1	\$ 3,076	1
Collateralized Mortgage Obligation	260	36,751	16				260	36,751	16
U.S. Government Agency Securities	5	6,061	2				5	6,061	2
Other Securities	1	12	1	41	959	1	42	971	2
Corporate Bonds	41	4,445	2	582	15,391	4	623	19,836	6
Equity Securities	51	85	1				51	85	1
	\$ 359	\$ 50,430	23	\$ 623	\$ 16,350	5	\$ 982	\$ 66,780	28
<b>December 31, 2010:</b>									
Mortgage-Backed Securities	\$ 731	\$ 62,738	16	\$	\$		\$ 731	\$ 62,738	16
Collateralized Mortgage Obligation	2,330	99,993	20				2,330	99,993	20
Municipal Bonds	1,440	16,907	11				1,440	16,907	11
U.S. Government Agency Securities	830	69,266	14				830	69,266	14
Other Securities	3	1,997	2	43	957	1	46	2,954	3
Corporate Bonds	257	17,210	5				257	17,210	5
	\$ 5,591	\$ 268,111	68	\$ 43	\$ 957	1	\$ 5,634	\$ 269,068	69

The impairment losses described previously are not included in the table above. All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2011 and 2010 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of December 31, 2011. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The unrealized losses on investments in U.S. agencies securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2011, 2010 AND 2009** *(Continued)***NOTE 4 INVESTMENT SECURITIES***(continued)*

The unrealized losses on corporate bonds are not considered other-than-temporarily impaired as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as agreed and management believe this will continue in the future and the bonds will be repaid in full as scheduled.

Of the residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at December 31, 2011, all of them are issued and guaranteed by U.S. government sponsored entities. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and no concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired

FASB ASC 320 requires an entity to assess whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. We do not intend to sell these securities and it is not more likely than not that we will be required to sell the investments before the recovery of its amortized cost bases. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2011 and 2010 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2011 and 2010 are warranted.

Investment securities available for sale with carrying values of \$45.8 million and \$118.0 million as of December 31, 2011 and 2010, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<i>(In Thousands)</i>		
Gross Realized Gains on Sales of Investment Securities	\$ 2,674	\$ 228	\$ 2,327
Gross Realized Losses on Sales of Investment Securities	(1,039)	(106)	(494)
<b>Net Realized Gains on Sales of Investment Securities</b>	<b>\$ 1,635</b>	<b>\$ 122</b>	<b>\$ 1,833</b>
Proceeds from Sales of Investment Securities	\$ 155,468	\$ 31,832	\$ 93,685
Tax Expense on Sales of Investment Securities	\$ 687	\$ 52	\$ 771

There were \$1.6 million, and \$122,000 and \$1.8 million in net realized gains on sales of securities available for sale during the years ended December 31, 2011, 2010 and 2009, respectively. In 2011, \$6.5 million (\$3.8 million, net of income taxes) of net unrealized losses arose during the year and was included in comprehensive



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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 4 INVESTMENT SECURITIES***(continued)*

income and \$249,000 (\$145,000, net of income taxes) of previously net unrealized gains were realized in earnings. In 2010, \$3.6 million (\$2.1 million, net of income taxes) of net unrealized losses arose during the year and was included in comprehensive income and \$205,000 (\$119,000, net of income taxes) of previously net unrealized gains were realized in earnings. In 2009, \$515,000 (\$298,000, net of income taxes) of net unrealized gains arose during the year and was included in comprehensive income and \$220,000 (\$127,000, net of income taxes) of previously net unrealized gains were realized in earnings.

**NOTE 5 LOANS**

The Board of Directors and management review and approve the Bank's loan policy and procedures on a regular basis to reflect issues such as regulatory and organizational structure change, strategic planning revisions, concentrations of credit, planning revisions, loan delinquencies and no-performing loans, problem loans, and policy adjustments.

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

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

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DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 5 LOANS**(continued)**Loans Receivable**

Loans receivable consisted of the following:

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
<b>Real Estate Loans:</b>		
Commercial Property	\$ 663,023	\$ 729,222
Construction	33,976	60,995
Residential Property	52,921	62,645
<b>Total Real Estate Loans</b>	<b>749,920</b>	<b>852,862</b>
<b>Commercial and Industrial Loans <sup>(1)</sup></b>		
Commercial Term Loans	944,836	1,118,999
Commercial Lines of Credit	55,770	59,056
SBA Loans	116,192	105,688
International Loans	28,676	44,167
<b>Total Commercial and Industrial Loans</b>	<b>1,145,474</b>	<b>1,327,910</b>
Consumer Loans	43,346	50,300
<b>Total Gross Loans</b>	<b>1,938,740</b>	<b>2,231,072</b>
Allowance for Loans Losses	(89,936)	(146,059)
Deferred Loan Costs (Fees)	216	(566)
<b>Loans Receivable, Net</b>	<b>\$ 1,849,020</b>	<b>\$ 2,084,447</b>

<sup>(1)</sup> Commercial and industrial loans include owner-occupied property loans of \$776.3 million and \$894.8 million as of December 31, 2011 and December 31, 2010, respectively.

Accrued interest on loans receivable amounted to \$5.7 million and \$6.5 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, loans receivable totaling \$797.1 million and \$1.03 billion, respectively, were pledged to secure FHLB advances and the FRB's federal discount window.





**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)*

The following table details the information on origination and reclassification of loans receivable to loans held for sale by portfolio segment for the year ended December 31, 2011 and 2010.

	Real Estate	Commercial and Industrial	Consumer	Total
	<i>(In Thousands)</i>			
December 31, 2011:				
Beginning Balance	\$ 3,666	\$ 32,954	\$	\$ 36,620
Origination of Loans Held for Sale		60,238		60,238
Reclassification from Loans Receivable to Loans Held for sale	56,428	53,862		110,290
Sales of Loans Held for sale	(48,841)	(131,653)		(180,494)
Principal Payoffs and Amortization	(52)	(1,112)		(1,164)
Valuation Adjustments	(133)	(2,770)		(2,903)
Ending Balance	\$ 11,068	\$ 11,519	\$	\$ 22,587
December 31, 2010:				
Beginning Balance	\$	\$ 5,010	\$	\$ 5,010
Origination of Loans Held for Sale		20,228		20,228
Reclassification from Loans Receivable to Loans Held for sale	33,480	121,696		155,176
Sales of Loans Held for sale	(29,814)	(113,606)		(143,420)
Principal Payoffs and Amortization		(374)		(374)
Valuation Adjustments				
Ending Balance	\$ 3,666	\$ 32,954	\$	\$ 36,620

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

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

	2011		2010		2009	
	Allowance for Loan Losses	Allowance for Off- Balance Sheet Items	Allowance for Loan Losses	Allowance for Off- Balance Sheet Items	Allowance for Loan Losses	Allowance for Off- Balance Sheet Items
	<i>(In Thousands)</i>					
Balance at Beginning of Year	\$ 146,059	\$ 3,417	\$ 144,996	\$ 3,876	\$ 70,986	\$ 4,096

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Provision Charged to Operating Expense	12,536	(436)	122,955	(459)	196,607	(220)
Loans Charged Off	(78,652)		(131,823)		(125,380)	
Recoveries	9,993		9,931		2,783	
<b>Balance at End of Year</b>	<b>\$ 89,936</b>	<b>\$ 2,981</b>	<b>\$ 146,059</b>	<b>\$ 3,417</b>	<b>\$ 144,996</b>	<b>\$ 3,876</b>

The allowance for off-balance sheet items and provisions is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)*

customers, and the terms and expiration dates of the unfunded credit facilities. As of December 31, 2011 and 2010, the allowance for off-balance sheet items amounted to \$3.0 million and \$3.4 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in the provision for loan losses.

The following table details the information on the allowance for credit losses by portfolio segment for the year ended December 31, 2011 and 2010:

	Real Estate	Commercial and Industrial	Consumer <i>(In Thousands)</i>	Unallocated	Total
<b>December 31, 2011</b>					
<b>Allowance for Loan Losses:</b>					
Beginning Balance	\$ 32,766	\$ 108,986	\$ 2,079	\$ 2,228	\$ 146,059
Charge-Offs	18,539	59,498	615		78,652
Recoveries on Loans Previously Charged Off	2,794	7,093	106		9,993
Provision	2,616	9,424	673	(177)	12,536
<b>Ending Balance</b>	<b>\$ 19,637</b>	<b>\$ 66,005</b>	<b>\$ 2,243</b>	<b>\$ 2,051</b>	<b>\$ 89,936</b>
Ending Balance: Individually Evaluated for Impairment	\$ 3,618	\$ 19,738	\$ 26	\$	\$ 23,382
Ending Balance: Collectively Evaluated for Impairment	\$ 16,019	\$ 46,267	\$ 2,217	\$ 2,051	\$ 66,554
Loans Receivable:					
<b>Ending Balance</b>	<b>\$ 749,920</b>	<b>\$ 1,145,474</b>	<b>\$ 43,346</b>	<b>\$</b>	<b>\$ 1,938,740</b>
Ending Balance: Individually Evaluated for Impairment	\$ 38,699	\$ 82,244	\$ 746	\$	\$ 121,689
Ending Balance: Collectively Evaluated for Impairment	\$ 711,221	\$ 1,063,230	\$ 42,600	\$	\$ 1,817,051
<b>December 31, 2010</b>					
<b>Allowance for Loan Losses:</b>					
Beginning Balance	\$ 30,081	\$ 112,225	\$ 2,690	\$	\$ 144,996
Charge-Offs	31,514	99,037	1,272		131,823
Recoveries on Loans Previously Charged Off	3,131	6,623	177		9,931
Provision	31,068	89,175	484	2,228	122,955
<b>Ending Balance</b>	<b>\$ 32,766</b>	<b>\$ 108,986</b>	<b>\$ 2,079</b>	<b>\$ 2,228</b>	<b>\$ 146,059</b>
	\$ 3,342	\$ 25,713	\$ 393	\$	\$ 29,448

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Ending Balance: Individually Evaluated for Impairment					
Ending Balance: Collectively Evaluated for Impairment	\$ 29,424	\$ 83,273	\$ 1,686	\$ 2,228	\$ 116,611
<b>Loans Receivable:</b>					
<b>Ending Balance</b>	<b>\$ 852,861</b>	<b>\$ 1,327,911</b>	<b>\$ 50,300</b>	<b>\$</b>	<b>\$ 2,231,072</b>
Ending Balance: Individually Evaluated for Impairment	\$ 83,788	\$ 112,101	\$ 934	\$	\$ 196,823
Ending Balance: Collectively Evaluated for Impairment	\$ 769,073	\$ 1,215,810	\$ 49,366	\$	\$ 2,034,249

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 5 LOANS***(continued)*

***Credit Quality Indicators***

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

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

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

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

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

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

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

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

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 5 LOANS***(continued)*

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

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

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

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	Pass (Grade 0-4)	Criticized (Grade 5)	Classified (Grade 6-7)	Total Loans
	<i>(In Thousands)</i>			
<b>December 31, 2011:</b>				
Real Estate Loans:				
Commercial Property				
Retail	\$ 292,914	\$ 8,858	\$ 10,685	\$ 312,457
Land	4,351		3,418	7,769
Other	297,734	8,428	36,635	342,797
Construction		14,080	19,896	33,976
Residential Property	48,592		4,329	52,921
Commercial and Industrial Loans:				
Commercial Term Loans				
Unsecured	100,804	8,680	41,796	151,280
Secured by Real Estate	634,822	36,290	122,444	793,556
Commercial Lines of Credit	44,985	7,676	3,109	55,770
SBA Loans	96,983	1,496	17,713	116,192
International Loans	26,566		2,110	28,676
Consumer Loans	40,454	676	2,216	43,346
<b>Total</b>	<b>\$ 1,588,205</b>	<b>\$ 86,184</b>	<b>\$ 264,351</b>	<b>\$ 1,938,740</b>
<b>December 31, 2010:</b>				
Real Estate Loans:				
Commercial Property				
Retail	\$ 302,695	\$ 18,507	\$ 38,568	\$ 359,770
Land	3,845		37,353	41,198
Other	265,957	20,804	41,493	328,254
Construction	12,958	25,898	22,139	60,995
Residential Property	59,329		3,316	62,645
Commercial and Industrial Loans:				
Commercial Term Loans				
Unsecured	134,709	24,620	63,739	223,068
Secured by Real Estate	617,200	107,645	171,086	895,931
Commercial Lines of Credit	40,195	8,019	10,842	59,056
SBA Loans	68,993	731	35,964	105,688
International Loans	38,447	4,693	1,027	44,167
Consumer Loans	48,027	347	1,926	50,300
<b>Total</b>	<b>\$ 1,592,355</b>	<b>\$ 211,264</b>	<b>\$ 427,453</b>	<b>\$ 2,231,072</b>

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The following is an aging analysis of past due loans, disaggregated by class of loan, as of December 31, 2011 and 2010:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due <i>(In Thousands)</i>	Current	Total Loans	Accruing 90 Days or More Past Due
<b>December 31, 2011:</b>							
Real Estate Loans:							
Commercial Property							
Retail	\$ 485	\$	\$	\$ 485	\$ 311,972	\$ 312,457	\$
Land					7,769	7,769	
Other					342,797	342,797	
Construction			8,310	8,310	25,666	33,976	
Residential Property	277	1,613	2,221	4,111	48,810	52,921	
Commercial and Industrial Loans:							
Commercial Term Loans							
Unsecured	438	611	1,833	2,882	148,398	151,280	
Secured by Real Estate	3,162	6,496	1,202	10,860	782,696	793,556	
Commercial Lines of Credit			416	416	55,354	55,770	
SBA Loans	260	472	7,108	7,840	108,352	116,192	
International Loans					28,676	28,676	
Consumer Loans	126	7	154	287	43,059	43,346	
<b>Total</b>	<b>\$ 4,748</b>	<b>\$ 9,199</b>	<b>\$ 21,244</b>	<b>\$ 35,191</b>	<b>\$ 1,903,549</b>	<b>\$ 1,938,740</b>	<b>\$</b>
<b>December 31, 2010:</b>							
Real Estate Loans:							
Commercial Property							
Retail	\$	\$	\$ 7,857	\$ 7,857	\$ 351,913	\$ 359,770	\$
Land			25,725	25,725	15,473	41,198	
Other			7,212	7,212	321,042	328,254	
Construction	10,409		8,477	18,886	42,109	60,995	
Residential Property	522		1,240	1,762	60,883	62,645	
Commercial and Industrial Loans:							
Commercial Term Loans							
Unsecured	2,208	2,781	6,842	11,831	211,237	223,068	
Secured by Real Estate	5,111	3,720	10,530	19,361	876,570	895,931	
Commercial Lines of Credit	454		1,745	2,199	56,857	59,056	
SBA Loans	2,287	8,205	13,957	24,449	81,239	105,688	



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International Loans					44,167	44,167	
Consumer Loans	596	202	865	1,663	48,637	50,300	
Total	\$ 21,587	\$ 14,908	\$ 84,450	\$ 120,945	\$ 2,110,127	\$ 2,231,072	\$

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The following table provides information on impaired loans, disaggregated by class of loan, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded <i>(In Thousands)</i>	With an Allowance Recorded	Related Allowance	Average Recorded Investment
<b>December 31, 2011:</b>						
Real Estate Loans:						
Commercial Property						
Retail	\$ 1,260	\$ 1,260	\$ 1,100	\$ 160	\$ 126	\$ 105
Land	3,178	3,210		3,178	360	16,910
Other	14,773	14,823	1,131	13,642	3,004	14,850
Construction	14,120	14,120	14,120			14,353
Residential Property	5,368	5,408	3,208	2,160	128	5,399
Commercial and Industrial Loans:						
Commercial Term Loans						
Unsecured	16,035	16,559	244	15,791	10,793	15,685
Secured by Real Estate	53,159	54,156	14,990	38,169	7,062	51,977
Commercial Lines of Credit	1,431	1,554	715	716	716	1,590
SBA Loans	11,619	12,971	9,445	2,174	1,167	12,658
International Loans						
Consumer Loans	746	788	511	235	26	832
<b>Total</b>	<b>\$ 121,689</b>	<b>\$ 124,849</b>	<b>\$ 45,464</b>	<b>\$ 76,225</b>	<b>\$ 23,382</b>	<b>\$ 134,359</b>
<b>December 31, 2010:</b>						
Real Estate Loans:						
Commercial Property						
Retail	\$ 17,606	\$ 18,050	\$ 6,336	\$ 11,270	\$ 1,543	\$ 21,190
Land	35,207	35,295	5,482	29,725	1,485	40,858
Other	11,357	11,476	10,210	1,147	33	15,342
Construction	17,691	17,831	13,992	3,699	280	12,311
Residential Property	1,926	1,990	1,926			2,383
Commercial and Industrial Loans:						
Commercial Term Loans						
Unsecured	17,847	18,799	6,465	11,382	10,313	18,460
Secured by Real Estate	80,213	81,395	35,154	45,059	11,831	101,617
Commercial Lines of Credit	4,067	4,116	1,422	2,645	1,321	4,988
SBA Loans	17,715	18,544	7,112	10,603	2,122	23,213

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International Loans	127	141		127	127	397
Consumer Loans	934	951	393	541	393	639
Total	<b>\$ 204,690</b>	<b>\$ 208,588</b>	<b>\$ 88,492</b>	<b>\$ 116,198</b>	<b>\$ 29,448</b>	<b>\$ 241,398</b>

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For the year ended December 31, 2011 and 2010, we recognized interest income on one impaired commercial term loan secured by real estate of \$33,000 and \$402,000, respectively. Except for such loan, no interest income was recognized on impaired loans subsequent to classification as impaired in 2011 and 2010. No interest income was recognized on impaired loans subsequent to classification as impaired in 2009.

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

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Interest Income That Would Have Been Recognized Had Impaired Loans Performed in Accordance with Their Original Terms	\$ 9,192	\$ 20,848	\$ 17,471
Less: Interest Income Recognized on Impaired Loans <sup>(1)</sup>	(8,348)	(11,473)	(9,569)
<b>Interest Foregone on Impaired Loans</b>	<b>\$ 844</b>	<b>\$ 9,375</b>	<b>\$ 7,902</b>

<sup>(1)</sup> Includes interest income recognized on an accrual basis prior to classification as impaired. There were no commitments to lend additional funds to borrowers whose loans are included above.

**Non-Accrual loans**

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 a loan 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 loans may be restored to accrual status when principal and interest become current and full repayment is expected.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)*

The following table details non-accrual loans, disaggregated by class of loan, for the periods indicated:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Real Estate Loans:</b>		
Commercial Property		
Retail	\$ 2,458	\$ 19,952
Land	2,362	25,725
Construction	8,310	17,691
Residential Property	2,745	1,925
<b>Commercial and Industrial Loans:</b>		
Commercial Term Loans		
Unsecured	7,706	17,065
Secured by Real Estate	19,439	31,053
Commercial Lines of Credit	1,431	2,798
SBA Loans	7,766	25,054
International Loans		127
Consumer Loans	161	1,047
<b>Total</b>	<b>\$ 52,378</b>	<b>\$ 142,437</b>

The following table details non-performing assets for the periods indicated:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Non-Accrual Loans</b>	<b>\$ 52,378</b>	<b>\$ 142,437</b>
Loans 90 Days or More Past Due and Still Accruing		
<b>Total Non-Performing Loans</b>	<b>52,378</b>	<b>142,437</b>
Other Real Estate Owned	180	4,089
<b>Total Non-Performing Assets</b>	<b>\$ 52,558</b>	<b>\$ 146,526</b>

Loans on non-accrual status, excluding loans held for sale, totaled \$52.4 million as of December 31, 2011, compared to \$142.4 million as of December 31, 2010, representing a 63.2 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were \$35.2 million as of December 31, 2011, compared to \$120.9 million as of December 31, 2010, representing a 70.9 percent decrease.

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As of December 31, 2011, other real estate owned was a property, located in California, with a net carrying value of \$180,000. For the year ended December 31, 2011, nine properties, with a carrying value of \$4.2 million, were transferred from loans receivable to other real estate owned and sixteen properties, with a carrying value of \$6.9 million, were sold and a net loss of \$671,000 was recognized. As of December 31, 2010, other real estate owned consisted of eight properties, primarily located in California, with a combined net carrying value of \$4.1 million. For the year ended December 31, 2010, fourteen properties, with a carrying value of \$13.0 million, were transferred from loans receivable to other real estate owned and eighteen properties, with a carrying value of \$26.1 million, were sold and a net loss of \$196,000 was recognized.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 5 LOANS**(continued)**Troubled Debt Restructuring**

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which clarifies the guidance for evaluating whether a restructuring constitutes a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the purposes of measuring impairment of loans that are newly considered impaired, the guidance should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011.

As a result of the amendments in ASU 2011-02, we reassessed all restructurings that occurred on or after the beginning of the annual period and identified certain receivables as TDRs. Upon identifying those receivables as TDRs, we considered them impaired and applied the impairment measurement guidance prospectively for those receivables newly identified as impaired. Upon adoption, the recorded investment in receivables that were newly considered TDRs was \$7.8 million, and the allowance for loan losses associated with those receivables, on the basis of a current evaluation of loss, was \$2.0 million as of September 30, 2011.

The following table details trouble debt restructuring, disaggregated by type of concession and by type of loans as of December 31, 2011 and 2010.

	As of December 31, 2011									
	Non-Accrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
<b>Trouble Debt Restructuring:</b>										
Real Estate Loans:										
Commercial Property										
Retail	\$	\$	\$	\$ 1,260	\$ 1,260	\$	\$	\$	\$	\$
Other	900				900	1,480				1,480
Residential Property			138		138	2,167	572			2,739
Commercial and Industrial Loans:										
Commercial Term										
Unsecured	1,480	669	4,650	682	7,481	185		7,069	1,584	8,838
Secured by Real Estate	1,202	1,523	2,403	3,243	8,371	2,005		8,628	2,699	13,332
SBA	2,758	1,524	794		5,076	1,354	468			1,986
<b>Total</b>	<b>\$ 6,340</b>	<b>\$ 3,716</b>	<b>\$ 7,985</b>	<b>\$ 5,185</b>	<b>\$ 23,226</b>	<b>\$ 7,191</b>	<b>\$ 1,040</b>	<b>\$ 15,697</b>	<b>\$ 4,283</b>	<b>\$ 28,375</b>





**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)*

	Non-Accrual TDRs				As of December 31, 2010		Accrual TDRs			
	Deferral of Principal	of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
<b>Trouble Debt Restructuring:</b>										
Real Estate Loans:										
Commercial Property										
Retail	\$ 2,936	\$	\$ 1,515	\$	\$ 4,451	\$ 6,607	\$	\$	\$	\$ 6,607
Land								5,482		5,482
Other	5,881				5,881			2,486		2,486
Residential Property			160		160					
Commercial and Industrial Loans:										
Commercial Term										
Unsecured			160		160	1,153		1,195	1,159	3,507
Secured by Real Estate	12,055		1,082		13,137	6,073		22,626		28,699
SBA	1,089				1,089	554			60	614
<b>Total</b>	<b>\$ 21,961</b>	<b>\$</b>	<b>\$ 2,917</b>	<b>\$</b>	<b>\$ 24,878</b>	<b>\$ 14,387</b>	<b>\$</b>	<b>\$ 31,789</b>	<b>\$ 1,219</b>	<b>\$ 47,395</b>

The following table details troubled debt restructuring, disaggregated by class of loan, for the year ended December 31, 2011.

	Number of Loans	For The Year Ended December 31, 2011 <i>(In Thousands)</i>	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Troubled Debt Restructuring:</b>			
Real Estate Loans:			
Commercial Property			
Retail	2	\$ 1,260	\$ 1,260
Other	2	2,387	2,381
Residential Property	3	2,740	2,739
Commercial and Industrial Loans:			

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Commercial Term			
Unsecured	50	15,410	14,797
Secured by Real Estate	12	15,363	14,268
SBA	29	7,954	6,670
Total	<b>98</b>	<b>\$ 45,114</b>	<b>\$ 42,115</b>

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 5 LOANS***(continued)*

As of December 31, 2011 and 2010, total TDR loans receivable, excluding loans held for sale, was \$51.6 million and \$72.3 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. A loan designated as a TDR is considered impaired when, based on the financial condition of the borrower, the value of the underlying collateral and other relevant information, it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. TDR loans are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At December 31, 2011, TDR loans, excluding loans held for sale, totaled \$51.6 million were subjected to specific impairment analysis and a \$14.2 million reserve relating to these loans was included in the allowance for loan losses. At December 31, 2010, TDR loans, excluding loans held for sale, totaled \$72.2 million were subjected to specific impairment analysis and the related allowance for loan losses was \$10.2 million.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)*

The following table details troubled debt restructurings that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by class of loan, during the year ended December 31, 2011 and 2010.

	<b>For The Year Ended December 31, 2011 (In Thousands)</b>	
	<b>Number of Loans</b>	<b>Recorded Investment</b>
<b>Troubled Debt Restructuring That Subsequently Defaulted</b>		
Commercial and Industrial Loans:		
Commercial Term		
Unsecured <sup>(1)</sup>	6	2,368
SBA <sup>(2)</sup>	8	1,450
Total	<b>14</b>	<b>\$ 3,818</b>

<sup>(1)</sup> For the year ended December 31, 2011, loan modifications were made through \$2.3 million in reduction of principal and/or interest payments and \$22,000 in extensions of maturity.

<sup>(2)</sup> For the year ended December 31, 2011, loan modifications were made through \$1.3 million in payment deferrals and \$166,000 in reduction of principal and/or interest payments.

For the year ended December 31, 2011, TDR loans receivable of \$3.8 million, excluding loans held for sale, defaulted subsequent to classification as a TDR.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 5 LOANS***(continued)**Servicing Assets*

The changes in servicing assets were as follows for the periods indicated:

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
Balance at Beginning of Year	\$ 2,890	\$ 3,842
Additions	1,560	81
Amortization	(730)	(1,033)
<b>Balance at End of Year</b>	<b>\$ 3,720</b>	<b>\$ 2,890</b>

At December 31, 2011 and 2010, we serviced loans sold to unaffiliated parties in the amounts of \$218.5 million and \$191.1 million, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans being serviced were SBA loans.

**NOTE 6 PREMISES AND EQUIPMENT**

The following is a summary of the major components of premises and equipment:

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
Land	\$ 6,120	\$ 6,120
Building and Improvements	9,198	9,115
Furniture and Equipment	15,229	15,377
Leasehold Improvements	11,298	11,238
Software	862	862
	42,707	42,712
Accumulated Depreciation and Amortization	(26,104)	(25,113)
<b>Total Premises and Equipment, Net</b>	<b>\$ 16,603</b>	<b>\$ 17,599</b>

Depreciation and amortization expense totaled \$2.2 million, \$2.3 million and \$2.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 7 OTHER INTANGIBLE ASSETS**

Other intangible assets were as follows:

	Amortization Period	December 31, 2011			December 31, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>(In Thousands, Except for amortization period)</i>							
<b>Other Intangible Assets:</b>							
Core Deposit Intangible	8 years	\$ 13,137	\$ (13,103)	\$ 34	\$ 13,137	\$ (12,687)	\$ 450
Trade Names	20 years	970	(242)	728	970	(194)	776
Client/Insured Relationships	10 years	770	(385)	385	770	(308)	462
Non-Compete Agreements	5 years	600	(600)		600	(480)	120
Carrier Relationships	15 years	580	(194)	386	580	(155)	425
<b>Total Other Intangible Assets</b>		<b>\$ 16,057</b>	<b>\$ (14,524)</b>	<b>\$ 1,533</b>	<b>\$ 16,057</b>	<b>\$ (13,824)</b>	<b>\$ 2,233</b>

The weighted-average amortization period for other intangible assets is 9.0 years. The total amortization expense for other intangible assets was \$700,000, \$1.1 million and \$1.6 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Estimated future amortization expense related to other intangible assets for each of the next five years is as follows:

Year Ending	Amount
December 31,	<i>(In Thousands)</i>
2012	\$ 198
2013	164
2014	164
2015	164
2016	164
Total	\$ 854

As of December 31, 2011 and 2010, management is not aware of any circumstances that would indicate impairment of other intangible assets. There were no impairment charges related to other intangible asset recorded through earnings in 2011 or 2010.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 8 DEPOSITS**

At December 31, 2011, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	Time Deposits of \$100,000 or More	Other Time Deposits <i>(In Thousands)</i>	Total
2012	\$ 746,537	\$ 303,390	\$ 1,049,927
2013	73,813	18,734	92,547
2014	1,815	10,316	12,131
2015		659	659
2016 and Thereafter		662	662
Total	\$ 822,165	\$ 333,761	\$ 1,155,926

A summary of interest expense on deposits was as follows for the periods indicated:

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Savings	\$ 2,757	\$ 3,439	\$ 2,328
Money Market Checking and NOW Accounts	3,461	4,936	9,786
Time Deposits of \$100,000 or More	13,855	19,529	34,807
Other Time Deposits	3,885	6,504	29,325
<b>Total Interest Expense on Deposits</b>	<b>\$ 23,958</b>	<b>\$ 34,408</b>	<b>\$ 76,246</b>

Accrued interest payable on deposits totaled \$6.2 million and \$9.1 million at December 31, 2011 and 2010, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2011 and 2010 were \$2.4 million and \$2.6 million, respectively.

Pursuant to the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased to \$250,000 and all non-interest-bearing transaction accounts are insured. As of December 31, 2011, time deposits of more than \$250,000 were \$341.3 million.

**NOTE 9 FHLB ADVANCES AND OTHER BORROWINGS**

FHLB advances and other borrowings consisted of the following:

December 31,



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	2011	2010
	<i>(In Thousands)</i>	
FHLB Advances	\$ 3,303	\$ 153,650
Note Issued to U.S. Treasury		1,570
<b>Total FHLB Advances and Other Borrowings</b>	<b>\$ 3,303</b>	<b>\$ 155,220</b>

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 9 FHLB ADVANCES AND OTHER BORROWINGS***(continued)*

FHLB advances represent collateralized obligations with the FHLB. The following is a summary of contractual maturities pertaining to FHLB advances:

Year of Maturity	December 31, 2011 Amount <i>(In Thousands)</i>	Weighted- Average Interest Rate
2012	\$	
2013		
2014	3,303	5.27%
2015		
	<b>\$ 3,303</b>	<b>5.27%</b>

The following is financial data pertaining to FHLB advances:

	2011	Year Ended December 31, 2010	2009
	<i>(In Thousands)</i>		
Weighted-Average Interest Rate at End of Year	5.27%	0.87%	0.88%
Weighted-Average Interest Rate During the Year	1.00%	0.88%	1.32%
Average Balance of FHLB Advances	\$ 66,191	\$ 158,531	\$ 257,529
Maximum Amount Outstanding at Any Month-End	\$ 153,622	\$ 153,951	\$ 411,156

We have pledged investment securities available for sale and loans receivable with carrying values of \$40.4 million and \$518.7 million, respectively, as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is \$402.2 million, of which \$398.9 million remained available as of December 31, 2011. At December 31, 2011, we had \$124.7 million available for use through the Fed Discount Window, as we pledged loans with a carrying value of \$278.4 million, and there were no borrowings.

At December 31, 2011, advances from the FHLB were \$3.3 million, a decrease of \$150.3 million, or 97.9 percent, from the December 31, 2010 balance of \$153.7 million. At December 31, 2011, there was no FHLB advance with a remaining maturity of less than one year.

For the years ended December 31, 2011, 2010 and 2009, interest expense on FHLB advances and other borrowings totaled \$662,000, \$1.4 million and \$3.4 million, respectively, and the weighted-average interest rates were 1.00 percent, 0.88 percent and 1.32 percent, respectively.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 10 JUNIOR SUBORDINATED DEBENTURES**

During the first half of 2004, we issued three junior subordinated notes to finance the purchase of Pacific Union Bank. The outstanding subordinated debentures related to these offerings totaled \$82.4 million at December 31, 2011 and 2010 as follows:

Description	Issuance <sup>(1)</sup>	Trust Preferred Securities Outstanding <i>(In Thousands)</i>	Interest Rate as of December 31, 2011	Adjustable	Interest Rate Basis	Junior Subordinated Debt Owed to Trusts <sup>(2)</sup>	Final Maturity Date
Hanmi Capital Trust I	1/8/2004	\$ 30,000	3.30%	Adjustable quarterly	LIBOR + 2.90% 3 month	\$ 30,928	1/15/2034
Hanmi Capital Trust II	3/15/2004	\$ 30,000	3.44%	Adjustable quarterly	LIBOR + 2.90% 3 month	\$ 30,928	3/15/2034
Hanmi Capital Trust III	4/28/2004	\$ 20,000	3.33%	Adjustable quarterly	LIBOR + 2.63%	\$ 20,619	4/30/2034

<sup>(1)</sup> Each issue of junior subordinated debentures may be redeemed in whole or in part by us after five years from the first interest payment date.

<sup>(2)</sup> Junior subordinated debt includes the funding cost of \$69,000

Each of the trusts is a capital or statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our junior subordinated debentures. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payments of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by us. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of our present and future senior indebtedness. We have fully and unconditionally guaranteed each trust's obligations under the trust securities issued by such trust to the extent not paid or made by each trust, provided that such trust has funds available for such obligations.

Under the provisions of each issue of the junior subordinated debentures, we have the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on either issue of the junior subordinated debentures are deferred, the distributions on the applicable trust preferred securities will also be deferred. However, the interest due would continue to accrue during any such interest payment deferral period.

In October 2008, we committed to the FRB that no interest payments on the junior subordinated debentures would be made without the prior written consent of the FRB. Therefore, in order to preserve its capital position, Hanmi Financial's Board of Directors has elected to defer quarterly interest payments on its outstanding junior subordinated debentures until further notice, beginning with the interest payment that was due on January 15, 2009. In addition, we are prohibited from making interest payments on our outstanding junior subordinated debentures under the terms of our recently issued regulatory enforcement actions without the prior written consent of the FRB and DFI. Accrued interest payable on junior subordinated debentures amounted to \$9.8 million and \$6.9 million at December 31, 2011 and December 31, 2010, respectively. Upon the termination of regulatory enforcement actions, management intends to pay interest in arrears on junior subordinated debentures to bring them current.



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 10 JUNIOR SUBORDINATED DEBENTURES***(continued)*

The trust preferred securities issued by the trusts are included in our Tier 1 capital for regulatory purposes, subject to quantitative and qualitative limits. Under the rules issued by FRB, restricted core capital elements (including trust preferred securities and qualifying perpetual preferred stock) can be no more than 25 percent of core capital, net of goodwill and associated deferred tax liability. The amount of such excess trust preferred securities are includable in Tier 2 capital.

Each of the trusts issuing the trust preferred securities holds junior subordinated debentures we issued with a 30-year maturity. The final rules provide that in the last five years before the junior subordinated debentures mature, the associated trust preferred securities will be excluded from Tier 1 capital and included in Tier 2 capital, subject (together with subordinated debt and certain other investments) to an aggregate limit of 50 percent of Tier 1 capital. In addition, under the regulations, the trust preferred securities during this five-year period would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the debentures.

For the years ended December 31, 2011, 2010 and 2009, interest expense on the junior subordinated debentures totaled \$2.9 million, \$2.8 million and \$3.3 million, respectively, and the weighted-average interest rates were 3.54 percent, 3.41 percent and 3.97 percent, respectively.

**NOTE 11 INCOME TAXES**

In June 2006, the FASB issued FASB ASC 740, *Income Taxes*. FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attributes of income tax positions taken or expected to be taken on a tax return. Under FASB ASC 740, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained.

We adopted the provisions of FASB ASC 740 on January 1, 2007, and there was no material effect on the consolidated financial statements as of the date of the adoption. Because of the implementation, there was no cumulative effect related to adopting FASB ASC 740. However, certain amounts were reclassified on the Consolidated Balance Sheets in order to comply with the requirements of FASB ASC 740.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2011	December 31, 2010 <i>(In Thousands)</i>	2009
Unrecognized Tax Benefits at Beginning of Year	\$ 955	\$ 1,819	\$ 1,437
Gross Increases for Tax Positions of Prior Years	683	198	589
Gross Decreases for Tax Positions of Prior Years			(167)
Increase in Tax Positions for Current Year			80
Decrease due to FTB Audit result		(526)	
Transfer to current state tax reserve		(336)	
Lapse in Statute of Limitations	(147)	(200)	(120)
<b>Unrecognized Tax Benefits at End of Year</b>	<b>\$ 1,491</b>	<b>\$ 955</b>	<b>\$ 1,819</b>



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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 11 INCOME TAXES***(continued)*

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was \$1.5 million, \$955,000 and \$1.8 million as of December 31, 2011, December 31, 2010 and December 31, 2009, respectively.

For the year ended December 31, 2011, unrecognized tax benefits increased by \$536,000 in connection with the tax position taken on expense related to non-qualified stock option and prior business acquisition costs. For the year ended December 31, 2010, unrecognized tax benefit decreased by \$864,000 mainly due to the audit result from the Franchise Tax Board ( FTB ) and the recognition of state tax benefits for the year. In 2011, we accrued interest of \$231,000 for uncertain tax benefits. In 2010, accrued interest of \$136,000 was reversed due to the audit result from the FTB for the tax year 2005 to 2007. In 2009, we accrued interest of \$108,000 for uncertain tax benefits. As of December 31, 2011, 2010 and 2009, the total amount of accrued interest related to uncertain tax positions, net of federal tax benefit, was \$319,000, \$88,000 and \$225,000, respectively. We account for interest and penalties related to uncertain tax positions as part of our provision for federal and state income taxes. Accrued interest and penalties are included within the related tax liability line on the Consolidated Balance Sheets.

Unrecognized tax benefits primarily include state exposures from California Enterprise Zone interest deductions and income tax treatment for prior business acquisition costs, dividend income from Federal Reserve Bank stock and expense related to non-qualified stock options. We believe that it is reasonably possible that certain remaining unrecognized tax positions, each of which are individually insignificant, may be recognized by the end of 2014 because of a lapse of the statute of limitations. We anticipate an insignificant net change in the unrecognized tax benefits due to the additional interest accrual and the lapse of the statute of limitations during 2012. We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next 12 months.

In April 2010, we received the Notice of Proposed Assessment from the California Franchise Tax Board for the tax year 2005 to 2007 and adjusted the unrecognized tax benefit amount accordingly. Hanmi Financial Corporation and its subsidiaries' federal and state income tax returns are open to audit under the statute of limitations by various federal and state tax authorities for the years ended December 31, 2004 through 2010. We are currently under audit from the Internal Revenue Service for the year ended December 31, 2009. Management does not anticipate any material changes in our financial statements due to the result of this audit.

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A summary of the provision (benefit) for income taxes was as follows:

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
<b>Current Expense:</b>			
Federal	\$ 704	\$ (3,224)	\$ (56,829)
State	29	(349)	(312)
	733	(3,573)	(57,141)
<b>Deferred Expense:</b>			
Federal		3,561	18,343
State			7,673
		3,561	26,016
<b>Provision (Benefit) for Income Taxes</b>	<b>\$ 733</b>	<b>\$ (12)</b>	<b>\$ (31,125)</b>

Deferred tax assets and liabilities were as follows:

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
<b>Deferred Tax Assets:</b>		
Credit Loss Provision	\$ 42,712	\$ 69,532
Depreciation	1,240	1,203
Net Operating Loss Carryforward	50,255	39,994
Unrealized Loss on Securities Available for Sale, Interest-Only Strips		988
Tax Credit	5,803	4,059
State Taxes	91	90
Other	3,517	4,259
<b>Total Deferred Tax Assets</b>	<b>103,618</b>	<b>120,125</b>
<b>Deferred Tax Liabilities:</b>		
Mark to Market	(14,820)	(21,696)
Purchase Accounting	(3,119)	(3,747)



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Unrealized Gain on Securities Available for Sale, Interest-Only Strips	(1,752)	
Other	(1,658)	(2,003)
<b>Total Deferred Tax Liabilities</b>	<b>(21,349)</b>	<b>(27,446)</b>
Valuation Allowance	(82,269)	(92,679)
<b>Net Deferred Tax Assets</b>	<b>\$</b>	<b>\$</b>

The tax benefit of deductible temporary differences and tax carry forwards are recorded as an asset to the extent that management assesses the utilization of such temporary differences and carry forwards to be more likely than not. As of any period end, the amount of the deferred tax asset that is considered realizable could be reduced if estimates of future taxable income are reduced. In conducting the analysis of the recoverability of our

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deferred tax assets, we determined that maintaining a valuation allowance of \$82.3 million and recording a net deferred tax assets balance of zero was appropriate given our historical losses.

As of December 31, 2011, the Company had net operating loss carryforwards of \$55.9 million and \$283 million for federal and state income tax purposes, respectively, which are available to offset future taxable income, if any, through 2031.

Section 382 of the Internal Revenue Code imposes restrictions on the use of a corporation's NOLs, as well as certain recognized built-in losses and other carryforwards, after an ownership change occurs. A Section 382 ownership change occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. We believe that such an ownership change may have occurred as a result of an underwritten public offering of common stock on November 18, 2011.

A reconciliation between the federal statutory income tax rate and the effective tax rate was as follows:

	Year Ended December 31,		
	2011	2010	2009
Federal Statutory Income Tax Rate	35.0%	35.0%	35.0%
State Taxes, Net of Federal Tax Benefits	0.0%	-0.1%	-3.4%
Tax-Exempt Municipal Securities	-0.3%	0.1%	0.5%
Tax Credit - Federal	-3.0%	1.5%	0.7%
Other	-0.7%	1.6%	0.3%
Valuation Allowance	-28.5%	-38.0%	-12.8%
<b>Effective Tax Rate</b>	<b>2.5%</b>	<b>-0.1%</b>	<b>-20.3%</b>

At December 31, 2011, there was net current taxes receivable of \$9.1 million which we can claim in the future. During 2010, we received a Federal tax refund of \$50.0 million related to net operating loss carryback.

**NOTE 12 SHARE-BASED COMPENSATION**

At December 31, 2011, we had two incentive plans, the Year 2000 Stock Option Plan (the 2000 Plan) and, the 2007 Equity Compensation Plan (the 2007 Plan) and with the 2000 Plan, the Plans), which replaced the Year 2000 Stock Option Plan. The 2007 Plan provides for grants of non-qualified and incentive stock options, restricted stock, stock appreciation rights and performance shares to non-employee directors, officers, employees and consultants of Hanmi Financial and its subsidiaries. The 2000 plan provided for the grant of non-qualified and incentive stock options. Although no future stock options may be granted under the 2000 plan, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2000 Plan.

Under the 2007 Plan, we may grant equity incentive awards for up to 375,000 shares of common stock. As of December 31, 2011, 183,920 shares were still available for issuance under the 2007 Plan.



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

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Share-Based Compensation Expense	\$ 608	\$ 1,012	\$ 906
Related Tax Benefits	\$ 256	\$ 426	\$ 381

As of December 31, 2011, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	<i>(In Thousands)</i>	
Stock Option Awards	\$ 154	2.4 years
Restricted Stock Awards	166	2.2 years
<b>Total Unrecognized Share-Based Compensation Expense</b>	<b>\$ 320</b>	<b>2.3 years</b>

**2007 Equity Compensation Plan and 2000 Stock Option Plan***Stock Options*

All stock options granted under the 2007 Plan have an exercise price equal to the fair market value of the underlying common stock on the date of grant. Stock options granted under the 2007 Plan generally vest based on 5 years of continuous service and expire 10 years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan). New shares of common stock are issued or treasury shares are utilized upon the exercise of stock options.

The weighted-average estimated fair value per share of options granted under the Plans was as follows:

	Year Ended December 31,		
	2011	2010	2009
Weighted-Average Estimated Fair Value Per Share of Options Granted	\$ 6.23	\$	\$ 5.12

The weighted-average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

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	Year Ended December 31,		
	2011	2010	2009
<b>Weighted-Average Assumptions:</b>			
Dividend Yield			
Expected Volatility	103.76%		51.28%
Expected Term	3.2 years		5.0 years
Risk-Free Interest Rate	1.04%		1.89%

Expected volatility was determined based on the historical weekly volatility of our stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 12 SHARE-BASED COMPENSATION***(continued)*

previous option grants. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

The following information under the Plans is presented for the periods indicated:

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Grant Date Fair Value of Options Granted	\$ 156	\$	\$ 173
Fair Value of Options Vested	\$ 1,272	\$ 538	\$ 993
Total Intrinsic Value of Options Exercised <sup>(1)</sup>	\$	\$ 14	\$
Cash Received from Options Exercised	\$	\$ 22	\$
Weighted-Average Estimated Fair Value Per Share of Options Granted	\$ 6.23	\$	\$ 5.12

<sup>(1)</sup> *Intrinsic value represents the difference between the closing stock price on the exercise date and the exercise price, multiplied by the number of options.* The following is a summary of stock option transactions under the Plans for the periods indicated:

	2011		Year Ended December 31, 2010		2009	
	Number of Shares	Weighted- Average Exercise Price Per Share	Number of Shares	Weighted- Average Exercise Price Per Share	Number of Shares	Weighted- Average Exercise Price Per Share
Options Outstanding at Beginning of Year	133,361	\$ 95.45	147,545	\$ 94.26	165,433	\$ 112.40
Options Granted	25,000	\$ 9.88		\$	33,750	\$ 11.12
Options Exercised		\$	(2,000)	\$ 10.80		\$
Options Forfeited	(425)	\$ 64.89	(1,025)	\$ 136.96	(19,264)	\$ 95.44
Options Expired	(14,611)	\$ 39.09	(11,158)	\$ 91.04	(32,375)	\$ 99.60
<b>Options Outstanding at End of Year</b>	<b>143,325</b>	<b>\$ 81.27</b>	<b>133,361</b>	<b>\$ 95.45</b>	<b>147,545</b>	<b>\$ 94.26</b>
Options Exercisable at End of Year	107,475	\$ 104.25	99,586	\$ 111.52	92,995	\$ 113.68

The following is a summary of transactions for non-vested stock options under the Plans for the periods indicated:

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	Year Ended December 31,					
	2011		2010		2009	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-Vested Options Outstanding at Beginning of Year	33,775	\$ 17.68	54,550	\$ 21.65	68,153	\$ 38.32
Options Granted	25,000	\$ 9.88		\$	33,750	\$ 5.12
Options Vested	(22,500)	\$ 56.54	(19,750)	\$ 27.28	(28,089)	\$ 35.36
Options Forfeited	(425)	\$ 64.89	(1,025)	\$ 44.00	(19,264)	\$ 31.68
<b>Non-Vested Options Outstanding at End of Year</b>	<b>35,850</b>	<b>\$ 25.20</b>	<b>33,775</b>	<b>\$ 17.68</b>	<b>54,550</b>	<b>\$ 21.65</b>

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DECEMBER 31, 2011, 2010 AND 2009 (Continued)

**NOTE 12 SHARE-BASED COMPENSATION**(continued)

As of December 31, 2011, stock options outstanding under the Plans were as follows:

Exercise Price Range	Number of Shares	Options Outstanding			Options Exercisable			
		Intrinsic Value <sup>(1)</sup>	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life	Intrinsic Value <sup>(1)</sup>	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life	
\$8.00 to \$49.99	61,125	\$	\$ 15.43	7.9 years	25,875	\$	\$ 22.43	7.5 years
\$50.00 to \$99.99	3,750		\$ 76.16	5.9 years	3,750		\$ 76.16	5.9 years
\$100.00 to \$149.99	65,825		\$ 126.19	3.3 years	65,225		\$ 126.11	3.3 years
\$150.00 to \$173.04	12,625		\$ 167.38	4.8 years	12,625		\$ 167.38	4.8 years
	<b>143,325</b>	<b>\$</b>	<b>\$ 81.27</b>	<b>5.5 years</b>	<b>107,475</b>	<b>\$</b>	<b>\$ 104.25</b>	<b>4.6 years</b>

<sup>(1)</sup> Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was \$7.40 as of December 31, 2011, and the exercise price, multiplied by the number of options.

**Restricted Stock Awards**

Restricted stock awards under the 2007 Plan become fully vested after three to five years of continued employment from the date of grant. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock are treated as cancelled shares.

The table below provides information for restricted stock awards under the 2007 Plan for the periods indicated:

	2011		Year Ended December 31, 2010		2009	
	Number of Shares	Weighted- Average Grant Date Fair Value Per Share	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 Year						
Beginning of Year	18,200	\$ 14.61	22,925	\$ 15.21	2,525	\$ 91.36
Restricted Stock Granted	10,000	\$ 9.88		\$	25,625	\$ 11.28
Restricted Stock Forfeited		\$		\$	(4,750)	\$ 27.52



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Restricted Stock Vested	(8,475)	\$	15.41	(4,725)	\$	17.52	(475)	\$	84.72
<b>Restricted Stock at End of Year</b>	<b>19,725</b>	<b>\$</b>	<b>11.87</b>	<b>18,200</b>	<b>\$</b>	<b>14.61</b>	<b>22,925</b>	<b>\$</b>	<b>15.21</b>

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 13 STOCKHOLDERS EQUITY**

***Stock Warrants***

As part of the agreement with the placement agency company executed on July 27, 2010, we issued warrants to purchase 250,000 shares of common stock for services performed. The warrants have an exercise price of \$9.60 per share. According to the agreement, the warrants vested on October 14, 2010 and are exercisable until its expiration on October 14, 2015. The Company followed the guidance of FASB ASC Topic 815-40, *Derivatives and Hedging Contracts in Entity's Own Stock* (ASC 815-40), which establishes a framework for determining whether certain freestanding and embedded instruments are indexed to a company's own stock for purposes of evaluation of the accounting for such instruments under existing accounting literature. Under GAAP, the issuer is required to measure the fair value of the equity instruments in the transaction as of earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The fair value of the warrants at the date of issuance totaling \$2.0 million was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing model. The expected stock volatility is based on historical volatility of our common stock over the expected term of the warrants. We used a weighted average expected stock volatility of 111.46 percent. The expected life assumption is based on the contract term of five years. The dividend yield of zero is based on the fact that we have no present intention to pay cash dividends. The risk free rate of 2.07 percent used for the warrant is equal to the zero coupon rate in effect at the time of the grant.

At December 31, 2011, the fair value of the stock warrants decreased by \$717,000, which we have included in other operating expenses for the year ended December 31, 2011. We used a weighted average expected stock volatility of 103.76 percent and an expected life assumption of five years based on the contract terms. We also used a dividend yield of zero as we have no present intention to pay cash dividends. The risk free rate of 1.04 percent, equal to the zero coupon rate, used for the warrant in effect at the end of the measurement period.

**NOTE 14 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 (loss) 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 was 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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The following table is a reconciliation of the components used to derive basic and diluted EPS for the periods indicated:

	Income (Loss) (Numerator)	Weighted- Average Shares (Denominator)	Per Share Amount
<i>(In Thousands, Except Per Share Amounts)</i>			
<b>Year Ended December 31, 2011:</b>			
Basic EPS	\$ 28,147	20,403,549	\$ 1.38
Effect of Dilutive Securities	\$	19,435	\$ 0.00
Diluted EPS	\$ 28,147	20,422,984	\$ 1.38
<b>Year Ended December 31, 2010:</b>			
Basic EPS	\$ (88,009)	11,790,278	\$ (7.46)
Effect of Dilutive Securities	\$		\$
Diluted EPS	\$ (88,009)	11,790,278	\$ (7.46)
<b>Year Ended December 31, 2009:</b>			
Basic EPS	\$ (122,277)	5,946,295	\$ (20.56)
Effect of Dilutive Securities	\$		\$
Diluted EPS	\$ (122,277)	5,946,295	\$ (20.56)

For the year ended December 31, 2011, there were 409,875 options, warrants and unvested restricted stock outstanding, that were included in computation of diluted EPS. For the years ended December 31, 2010 and 2009, there were 401,561 and 170,470 options, warrants and unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because of a net loss or their exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

**NOTE 15 EMPLOYEE BENEFITS****401(k) Plan**

We have a Section 401(k) plan for the benefit of substantially all of our employees. We match 75 percent of participant contributions to the 401(k) plan up to 8 percent of each 401(k) plan participant's annual compensation. For the years ended December 31, 2011, 2010 and 2009, contributions to the 401(k) plan were \$1.0 million, \$992,000 and \$1.1 million, respectively.

**Bank-Owned Life Insurance**

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In 2001 and 2004, we purchased single premium life insurance policies called bank-owned life insurance covering certain officers. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier.

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Effective November 1, 2006, the Board of Directors approved the Hanmi Financial Corporation Deferred Compensation Plan (the "DCP"). The DCP is a non-qualified deferred compensation program for directors and certain key employees whereby they may defer a portion of annual compensation for payment upon retirement of the amount deferred plus a guaranteed return. The DCP is unfunded. As of December 31, 2011 and 2010, the liability for the deferred compensation plan and interest thereon was \$6,000 and \$78,000, respectively.

**NOTE 16 COMMITMENTS AND CONTINGENCIES***Lease Commitments*

We lease our premises under non-cancelable operating leases. At December 31, 2011, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

Year Ending December 31,	Amount <i>(In Thousands)</i>
2012	\$ 4,132
2013	3,536
2014	2,154
2015	1,773
2016	1,624
Thereafter	4,020
<b>Total</b>	<b>\$ 17,239</b>

For the years ended December 31, 2011, 2010 and 2009, rental expenses recorded under such leases amounted to \$5.4 million, \$5.7 million and \$5.6 million, respectively.

*Litigation*

In the normal course of business, we are involved in various legal claims. Management has reviewed all legal claims against us with in-house or outside legal counsel and has taken into consideration the views of such counsel as to the outcome of the claims. In management's opinion, the final disposition of all such claims will not have a material adverse effect on our financial position or results of operations.

**NOTE 17 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 on 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

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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

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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, was based on management's credit evaluation of the counterparty.

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:

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
Commitments to Extend Credit	\$ 158,748	\$ 178,424
Standby Letters of Credit	12,742	15,226
Commercial Letters of Credit	9,298	11,899
Unused Credit Card Lines	15,937	24,649
<b>Total Undisbursed Loan Commitments</b>	<b>\$ 196,725</b>	<b>\$ 230,198</b>

**NOTE 18 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 19 LIQUIDITY*****Hanmi Financial***

Currently, management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through December 31, 2012. On August 29, 2008, we elected to suspend payment of quarterly dividends on our common stock in order to preserve our capital position. In addition, Hanmi Financial has elected to defer quarterly interest payments on its outstanding junior subordinated debentures until further notice, beginning with the interest payment that was due on January 15, 2009. As of December 31, 2011, Hanmi Financial's liquid assets, including amounts deposited with the Bank, totaled \$31.7 million, up from \$7.7 million as of December 31, 2010.

***Hanmi Bank***

Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originated through its branch platform. Total deposits decreased by \$121.8 million, or 4.9 percent, from \$2.47 billion as of December 31, 2010 to \$2.34 billion as of December 31, 2011, primarily due to a \$296.5 million decrease in time deposits of \$100,000 or





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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011, 2010 AND 2009** *(Continued)*

**NOTE 19 LIQUIDITY***(continued)*

more, partially offset by an increase of \$87.7 million on demand deposit. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of December 31, 2011 and 2010, in compliance with its regulatory restrictions, the Bank had no broker deposits, and had FHLB advances of \$3.3 million that decreased from \$153.7 million in 2010.

The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 15 percent of its total assets. As of December 31, 2011, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$402.2 million and \$398.9 million, respectively. The Bank's FHLB borrowings as of December 31, 2011 totaled \$3.3 million, representing 0.12 percent of total assets. As of March 9, 2012, the Bank's FHLB borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$410.9 million and \$407.7 million, respectively. The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had \$336.1 million unpledged marketable securities that are available for sale at December 31, 2011. Also, the Bank had an available borrowing source of \$124.7 million from the Federal Reserve Discount Window (the "Fed Discount Window"), to which the Bank pledged loans with a carrying value of \$278.4 million, and had no borrowings as of December 31, 2011. The Bank is currently in the secondary program of the Borrower in Custody Program of the Fed Discount Window, which allows the Bank to request very short-term credit (typically overnight) at a rate that is above the primary credit rate within a specified period. In October 2011, South Street Securities LLC extended a line of credit to the Bank for reverse repurchase agreements up to a maximum of \$100.0 million.

Current market conditions have limited the Bank's liquidity sources principally to interest-bearing deposits, unpledged marketable securities, and secured funding outlets such as the FHLB and Fed Discount Window. There can be no assurance that actions by the FHLB or Federal Reserve Bank would not reduce the Bank's borrowing capacity or that the Bank would be able to continue to replace deposits at competitive rates. As of December 31, 2011, in compliance with its regulatory restrictions, the Bank does not have any brokered deposits and would consult in advance with its regulators if it were to consider accepting brokered deposits in the future.

The Bank has Contingency Funding Plans (CFPs) designed to ensure that liquidity sources are sufficient to meet its ongoing obligations and commitments, particularly in the event of a liquidity contraction. The CFPs are designed to examine and quantify its liquidity under various stress scenarios. Furthermore, the CFPs provide a framework for management and other critical personnel to follow in the event of a liquidity contraction or in anticipation of such an event. The CFPs address authority for activation and decision making, liquidity options and the responsibilities of key departments in the event of a liquidity contraction.

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 19 LIQUIDITY***(continued)*

Current market conditions have limited the Bank's liquidity sources principally to interest-bearing deposits, unpledged marketable securities, and secured funding outlets such as the FHLB and Fed Discount Window. There can be no assurance that actions by the FHLB or Federal Reserve Bank would not reduce the Bank's borrowing capacity or that the Bank would be able to continue to replace deposits at competitive rates. As of December 31, 2011, in compliance with its regulatory restrictions, the Bank does not have any brokered deposits and would consult in advance with its regulators if it were to consider accepting brokered deposits in the future.

The Bank believes that it nonetheless has adequate liquidity resources to fund its obligations with its interest-bearing deposits, unpledged marketable securities, and secured credit lines with the FHLB and Fed Discount Window.

**NOTE 20 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY****BALANCE SHEETS**

	December 31,	
	2011	2010
	<i>(In Thousands)</i>	
<b>ASSETS</b>		
Cash	\$ 31,706	\$ 7,716
Securities Available for Sale	595	774
Investment in Consolidated Subsidiaries	344,129	251,808
Investment in Trust Preferred Securities	2,475	2,475
Other Assets		1,654
<b>TOTAL ASSETS</b>	<b>\$ 378,905</b>	<b>\$ 264,427</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Junior Subordinated Debentures	\$ 82,406	\$ 82,406
Other Liabilities	10,891	8,765
Stockholders' Equity	285,608	173,256
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 378,905</b>	<b>\$ 264,427</b>

**STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2011	2010	2009
	<i>(In Thousands)</i>		
Equity in Earnings (Losses) of Subsidiaries	\$ 35,654	\$ (82,705)	\$ (118,340)
Other Expenses, Net	(7,507)	(5,339)	(6,057)
Income Tax Benefit		35	2,120

<b>NET INCOME (LOSS)</b>	<b>\$ 28,147</b>	<b>\$ (88,009)</b>	<b>\$ (122,277)</b>
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**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 20 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY***(continued)***STATEMENTS OF CASH FLOWS**

	2011	Year Ended December 31, 2010 <i>(In Thousands)</i>	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss)	\$ 28,147	\$ (88,009)	\$ (122,277)
Adjustments to Reconcile Net Income (Loss) to Net Cash (Used In) Provided By Operating Activities:			
(Income) Losses from Subsidiaries	(35,654)	82,705	118,340
Share-Based Compensation Expense	608	1,013	906
Changes in Fair Value of Stock Warrants	(717)	(362)	
(Increase) Decrease in Other Assets	1,833	(116)	200
Increase in Other Liabilities	2,664	2,706	3,311
<b>Net Cash (Used In) Provided By Operating Activities</b>	<b>(3,119)</b>	<b>(2,063)</b>	<b>480</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments to Hanmi Bank	(50,000)	(110,000)	(6,000)
<b>Net Cash Used In Investing Activities</b>	<b>(50,000)</b>	<b>(110,000)</b>	<b>(6,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from Exercise of Stock Options and Stock Warrants		22	
Net Proceeds from Issuance of Common Stock in Offering	77,109	116,271	6,839
<b>Net Cash Provided By Financing Activities</b>	<b>77,109</b>	<b>116,293</b>	<b>6,839</b>
<b>NET INCREASE IN CASH</b>	<b>23,990</b>	<b>4,230</b>	<b>1,319</b>
Cash at Beginning of Year	7,716	3,486	2,167
<b>CASH AT END OF YEAR</b>	<b>\$ 31,706</b>	<b>\$ 7,716</b>	<b>\$ 3,486</b>

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2011, 2010 AND 2009 *(Continued)***NOTE 21 QUARTERLY FINANCIAL DATA (UNAUDITED)**

Summarized quarterly financial data follows:

	March 31	June 30	Quarter Ended September 30	December 31
	<i>(In Thousands; Except Per Share Amounts)</i>			
<b>2011:</b>				
Interest and Dividend Income	\$ 33,875	\$ 32,618	\$ 31,674	\$ 30,640
Interest Expense	7,766	7,143	6,515	6,206
Net Interest Income Before Provision for Credit Losses	26,109	25,475	25,159	24,434
Provision for Credit Losses			8,100	4,000
Non-Interest Income	5,508	6,017	5,978	6,348
Non-Interest Expense	21,061	22,886	18,852	21,249
Income Before Provision for Income Taxes	10,556	8,606	4,185	5,533
Provision (Benefit) for Income Taxes	119	605	(18)	27
<b>NET INCOME</b>	<b>\$ 10,437</b>	<b>\$ 8,001</b>	<b>\$ 4,203</b>	<b>\$ 5,506</b>
<b>EARNINGS (LOSS) PER SHARE:</b>				
Basic	\$ 0.55	\$ 0.42	\$ 0.22	\$ 0.22
Diluted	\$ 0.55	\$ 0.42	\$ 0.22	\$ 0.22
<b>2010:</b>				
Interest and Dividend Income	\$ 38,053	\$ 36,171	\$ 35,675	\$ 34,613
Interest Expense	10,719	9,875	9,402	8,642
Net Interest Income Before Provision for Credit Losses	27,334	26,296	26,273	25,971
Provision for Credit Losses	57,996	37,500	22,000	5,000
Non-Interest Income	7,005	6,677	5,671	6,053
Non-Interest Expense	26,224	24,766	24,079	21,735
Income (Loss) Before Provision (Benefit) for Income Taxes	(49,881)	(29,293)	(14,135)	5,289
Provision (Benefit) for Income Taxes	(395)	(36)	442	(23)
<b>NET INCOME (LOSS)</b>	<b>\$ (49,486)</b>	<b>\$ (29,257)</b>	<b>\$ (14,577)</b>	<b>\$ 5,312</b>
<b>EARNINGS (LOSS) PER SHARE:</b>				
Basic	\$ (7.76)	\$ (4.59)	\$ (0.95)	\$ 0.28
Diluted	\$ (7.76)	\$ (4.59)	\$ (0.95)	\$ 0.28

**NOTE 22 SUBSEQUENT EVENTS**

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Management has evaluated subsequent events through the date of issuance of the financial data included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-K or would be required to be recognized in the Consolidated Financial Statements as of December 31, 2011.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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**

By: /s/ Jay S. Yoo  
Jay S. Yoo  
*President and Chief Executive Officer*

Date: March 14, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 14, 2012.

/s/ Jay S. Yoo  
Jay S. Yoo

*President and Chief Executive Officer*

*(Principal Executive Officer)*

/s/ Joseph K. Rho  
Joseph K. Rho

*Chairman of the Board*

/s/ John A. Hall  
John A. Hall

*Director*

/s/ Joon Hyung Lee  
Joon Hyung Lee

*Director*

/s/ Lonny D. Robinson  
Lonny D. Robinson

*Executive Vice President and Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

/s/ I Joon Ahn  
I Joon Ahn

*Director*

/s/ William J. Stolte  
William J. Stolte

*Director*

/s/ Paul (Seon-Hong) Kim  
Paul (Seon-Hong) Kim

*Director*

**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Document</b>
3.1	Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.2	Certificate of Second Amendment of Certificate of Incorporation of Hanmi Financial Corporation, dated June, 23, 2004 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated May 28, 2009 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated July 28, 2010 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
3.5	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on December 19, 2011).
3.6	Amended and Restated Bylaws of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3 filed with the SEC on February 4, 2010).
3.7	Certificate of Amendment to Bylaws of Hanmi Financial Corporation, dated November 21, 2007 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3 filed with the SEC on February 4, 2010).
4	Specimen stock certificate representing Hanmi Financial Corporation Common Stock
4.1	Hanmi Financial Corporation Warrant for the Purchase of Shares of Common Stock, issued to Cappello Capital Corp., dated October 14, 2010 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on October 14, 2010).
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 (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).
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) (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).
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 (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).
10.4	Hanmi Capital Trust I Form of Common Securities Certificate (included as Exhibit B to Exhibit 10.1) (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).
10.5	Hanmi Capital Trust I Form of Preferred Securities Certificate (included as Exhibit C to Exhibit 10.1) (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).
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 (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).



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****EXHIBIT INDEX** *(Continued)*

<b>Exhibit Number</b>	<b>Document</b>
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) (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).
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 (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).
10.9	Hanmi Capital Trust II Form of Common Securities Certificate (included as Exhibit B to Exhibit 10.6) (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).
10.10	Hanmi Capital Trust II Form of Preferred Securities Certificate (included as Exhibit C to Exhibit 10.6) (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).
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, (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).
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) (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).
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 (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).
10.14	Hanmi Capital Trust III Form of Common Securities Certificate (included as Exhibit B to Exhibit 10.11) (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).
10.15	Hanmi Capital Trust III Form of Preferred Securities Certificate (included as Exhibit C to Exhibit 10.11) (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).
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 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed with the SEC on August 11, 2008).
10.17	Hanmi Financial Corporation 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on June 26, 2007).
10.18	Hanmi Financial Corporation Year 2000 Stock Option Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-8 filed with the SEC on August 18, 2000).
10.19	Form of Notice of Stock Option Grant and Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009).
10.20	Hanmi Financial Corporation Amended and Restated 2007 Employee Stock Incentive Plan Restricted Stock Agreement (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009).
10.21	Form of Notice of Grant and Restricted Stock Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009).



**Table of Contents****HANMI FINANCIAL CORPORATION AND SUBSIDIARIES****EXHIBIT INDEX** *(Continued)*

<b>Exhibit Number</b>	<b>Document</b>
10.22	Securities Purchase Agreement, dated June 12, 2009, by and between Hanmi Financial Corporation and Leading Investments & Securities Co., Ltd. (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on June 15, 2009).
10.23	Registration Rights Agreement, dated June 12, 2009, by and between Hanmi Financial Corporation and Leading Investments & Securities Co., Ltd. (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on June 15, 2009).
10.24	First Amendment to the Securities Purchase Agreement, dated July 31, 2009, by and between Hanmi Financial Corporation and Leading Investment & Securities Co., Ltd. (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on August 3, 2009).
10.25	Amended and Restated Term Sheet, dated September 14, 2009, by and among Hanmi Financial Corporation, Leading Investment & Securities Co., Ltd., and IWL Partners LLC (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on September 15, 2009).
10.26	Second Amendment to the Securities Purchase Agreement, dated September 28, 2009, by and between Hanmi Financial Corporation and Leading Investment & Securities Co., Ltd. (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on October 2, 2009).
10.27	First Amendment to the Amended and Restated Term Sheet, dated September 28, 2009, by and between Hanmi Financial Corporation, Leading Investment & Securities Co., Ltd., and IWL Partners, LLC (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on October 2, 2009).
10.28	Final Order, dated November 2, 2009, issued to Hanmi Bank by the California Department of Financial Institutions (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on November 5, 2011)
10.29	Written Agreement, dated November 2, 2009, by and between Hanmi Financial Corporation and Hanmi Bank, on one hand, and the Federal Reserve Bank of San Francisco, on the other hand (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on November 5, 2011)
10.30	Summary of 2010 Executive Retention Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the SEC on August 9, 2010).
10.31	Form of Indemnification Agreement (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
10.32	Separation Agreement, dated October 7, 2011, by and between Hanmi and Mr. Brian Cho (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K filed with the SEC on October 11, 2011)
10.33	Offer Letter, dated September 12, 2011, by and between Hanmi and Mr. Lonny D. Robinson (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on November 7, 2011)
23	Consent of KPMG LLP
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
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**EXHIBIT INDEX** *(Continued)*

<b>Exhibit Number</b>	<b>Document</b>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

*Constitutes a management contract or compensatory plan or arrangement.*

\* *Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised pursuant to Rule 406T of Regulation S-T that the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise not subject to liability under these sections. The financial information contained in the XBRL-related documents is unaudited or unreviewed.*