HANMI FINANCIAL CORP
Form 10-Q
May 10, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended March 31, 2013**

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

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

**Not Applicable**
**(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)**

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ¨ | Accelerated Filer | x |
| Non-Accelerated Filer | ¨ (Do Not Check if a Smaller Reporting Company) | Smaller Reporting Company | ¨ |

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

As of April 30, 2013, there were 31,588,767 outstanding shares of the Registrant s Common Stock.

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

**THREE MONTHS ENDED MARCH 31, 2013**

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## PART I FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS *(UNAUDITED)***

*(In Thousands, Except Share Data)*

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and Due From Banks | $ 69,642 | $ 92,350 |
| Interest-Bearing Deposits in Other Banks | 75,657 | 175,697 |
| Cash and Cash Equivalents | 145,299 | 268,047 |
| Restricted Cash | | 5,350 |
| Securities Available-for-Sale, at Fair Value (Amortized Cost of $413,132 as of March 31, 2013 and $443,712 as of December 31, 2012) | 419,903 | 451,060 |
| Loans Held for Sale, at the Lower of Cost or Fair Value | 6,043 | 8,306 |
| Loans Receivable, Net of Allowance for Loan Losses of $61,191 as of March 31, 2013 and $63,305 as of December 31, 2012 | 2,061,156 | 1,986,051 |
| Accrued Interest Receivable | 7,526 | 7,581 |
| Premises and Equipment, Net | 14,792 | 15,150 |
| Other Real Estate Owned, Net | 900 | 774 |
| Customers Liability on Acceptances | 2,170 | 1,336 |
| Servicing Assets | 6,004 | 5,542 |
| Other Intangible Assets, Net | 1,294 | 1,335 |
| Investment in Federal Home Loan Bank Stock, at Cost | 16,014 | 17,800 |
| Investment in Federal Reserve Bank Stock, at Cost | 12,222 | 12,222 |
| Income Tax Assets | 57,084 | 60,028 |
| Bank-Owned Life Insurance | 29,284 | 29,054 |
| Prepaid Expenses | 2,676 | 2,084 |
| Other Assets | 10,056 | 10,800 |
| **TOTAL ASSETS** | **$ 2,792,423** | **$ 2,882,520** |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest-Bearing | $ 709,650 | $ 720,931 |
| Interest-Bearing | 1,623,362 | 1,675,032 |
| Total Deposits | 2,333,012 | 2,395,963 |
| Accrued Interest Payable | 3,192 | 11,775 |
| Bank s Liability on Acceptances | 2,170 | 1,336 |
| Federal Home Loan Bank Advances | 2,840 | 2,935 |
| Junior Subordinated Debentures | 51,478 | 82,406 |
| Accrued Expenses and Other Liabilities | 10,626 | 9,741 |
| **TOTAL LIABILITIES** | **2,403,318** | **2,504,156** |

| | | |
|---|---|---|
| STOCKHOLDERS EQUITY: | | |
| Common Stock, $0.001 Par Value; Authorized 62,500,000 Shares; Issued 32,166,661 Shares (31,588,767 Shares Outstanding) and 32,074,434 shares (31,496,540 Shares Outstanding) as of March 31, 2013 and December 31, 2012 | 257 | 257 |
| Additional Paid-In Capital | 551,064 | 550,123 |
| Unearned Compensation | (44) | (57) |
| Accumulated Other Comprehensive Income-Unrealized Gain on Securities Available-for-Sale and Interest-Only Strip, Net of Income Taxes of $1,695 as of March 31, 2013 and $1,946 as of December 31, 2012 | 5,095 | 5,418 |
| Accumulated Deficit | (97,409) | (107,519) |
| Less Treasury Stock, at Cost; 577,894 Shares as of March 31, 2013 and December 31, 2012 | (69,858) | (69,858) |
| **TOTAL STOCKHOLDERS EQUITY** | **389,105** | **378,364** |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | **$ 2,792,423** | **$ 2,882,520** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS *(UNAUDITED)***

*(In Thousands, Except Per Share Data)*

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| INTEREST AND DIVIDEND INCOME: | | |
| Interest and Fees on Loans | $ 26,799 | $ 27,542 |
| Taxable Interest on Investment Securities | 2,116 | 2,098 |
| Tax-Exempt Interest on Investment Securities | 95 | 102 |
| Interest on Term Federal Funds Sold | | 325 |
| Interest on Federal Funds Sold | 6 | 128 |
| Interest on Interest-Bearing Deposits in Other Banks | 88 | 2 |
| Dividends on Federal Reserve Bank Stock | 183 | 68 |
| Dividends on Federal Home Loan Bank Stock | 108 | 29 |
| Total Interest and Dividend Income | 29,395 | 30,294 |
| INTEREST EXPENSE: | | |
| Interest on Deposits | 3,159 | 4,919 |
| Interest on Federal Home Loan Bank Advances | 38 | 43 |
| Interest on Junior Subordinated Debentures | 594 | 799 |
| Total Interest Expense | 3,791 | 5,761 |
| NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES | 25,604 | 24,533 |
| Provision for Credit Losses | | 2,000 |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 25,604 | 22,533 |
| NON-INTEREST INCOME: | | |
| Service Charges on Deposit Accounts | 3,048 | 3,168 |
| Insurance Commissions | 1,213 | 1,236 |
| Remittance Fees | 497 | 454 |
| Trade Finance Fees | 277 | 292 |
| Other Service Charges and Fees | 398 | 364 |
| Bank-Owned Life Insurance Income | 230 | 399 |
| Gain on Sales of SBA Loans Guaranteed Portion | 2,692 | |
| Net Loss on Sales of Other Loans | (97) | (2,393) |
| Net Gain on Sales of Investment Securities | 9 | 1 |
| Other Operating Income | 90 | 112 |
| Total Non-Interest Income | 8,357 | 3,633 |
| NON-INTEREST EXPENSE: | | |
| Salaries and Employee Benefits | 9,351 | 9,110 |
| Occupancy and Equipment | 2,556 | 2,595 |
| Deposit Insurance Premiums and Regulatory Assessments | 234 | 1,401 |
| Data Processing | 1,170 | 1,253 |
| Other Real Estate Owned Expense | 32 | (44) |
| Professional Fees | 2,156 | 749 |

| | | | | |
|---|---|---|---|---|
| Directors and Officers Liability Insurance | | 220 | | 297 |
| Supplies and Communications | | 495 | | 558 |
| Advertising and Promotion | | 672 | | 601 |
| Loan-Related Expense | | 146 | | 200 |
| Amortization of Other Intangible Assets | | 41 | | 71 |
| Other Operating Expenses | | 2,094 | | 1,955 |
| Total Non-Interest Expense | | 19,167 | | 18,746 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | | 14,794 | | 7,420 |
| Provision for Income Taxes | | 4,684 | | 79 |
| **NET INCOME** | **$** | **10,110** | **$** | **7,341** |
| EARNINGS PER SHARE: | | | | |
| Basic | $ | 0.32 | $ | 0.23 |
| Diluted | $ | 0.32 | $ | 0.23 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| Basic | | 31,538,980 | | 31,470,520 |
| Diluted | | 31,626,667 | | 31,489,569 |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(UNAUDITED)***

*(In Thousands)*

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| NET INCOME | $ 10,110 | $ 7,341 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | |
| Unrealized (Loss) Gain on Securities | | |
| Unrealized Holding (Loss) Gain Arising During Period | (568) | 674 |
| Less: Reclassification Adjustment for Gain Included in Net Income | (9) | |
| Unrealized Gain on Interest Rate Swap | | 1 |
| Unrealized Gain on Interest-only Strip of Servicing Assets | 3 | 2 |
| Income Tax Benefit Related to Items of Other Comprehensive Income | 251 | |
| Other Comprehensive (Loss) Income | (323) | 677 |
| **COMPREHENSIVE INCOME** | **$ 9,787** | **$ 8,018** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY *(UNAUDITED)***

*(In Thousands, Except Number of Shares)*

| | Common Stock - Number of Shares | | | Stockholders Equity | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross Shares Issued and Outstanding | Treasury Shares | Net Shares Issued and Outstanding | Common Stock | Additional Paid-in Capital | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Deficit) | Treasury Stock, at Cost | Total Stockholders Equity |
| **BALANCE AT JANUARY 1, 2012** | **32,066,987** | **(577,786)** | **31,489,201** | **$ 257** | **$ 549,744** | **$ (166)** | **$ 3,524** | **$ (197,893)** | **$ (69,858)** | **$ 285,608** |
| Share-Based Compensation Expense | | | | | 67 | 25 | | | | 92 |
| Comprehensive Income: | | | | | | | | | | |
| Net Income | | | | | | | | 7,341 | | 7,341 |
| Change in Unrealized Gain on Securities | | | | | | | | | | |
| Available-for-Sale and Interest-Only Strips, Net of Income Taxes | | | | | | | 677 | | | 677 |
| Total Comprehensive Income | | | | | | | | | | 8,018 |
| **BALANCE AT MARCH 31, 2012** | **32,066,987** | **(577,786)** | **31,489,201** | **$ 257** | **$ 549,811** | **$ (141)** | **$ 4,201** | **$ (190,552)** | **$ (69,858)** | **$ 293,718** |
| **BALANCE AT JANUARY 1, 2013** | **32,074,434** | **(577,894)** | **31,496,540** | **$ 257** | **$ 550,123** | **$ (57)** | **$ 5,418** | **$ (107,519)** | **$ (69,858)** | **$ 378,364** |
| Share-Based Compensation Expense | | | | | 84 | 13 | | | | 97 |
| Exercises of Stock Options | 1,679 | | 1,679 | | (298) | | | | | (298) |
| Exercises of Stock Warrants | 90,548 | | 90,548 | | 1,155 | | | | | 1,155 |
| Comprehensive Income: | | | | | | | | | | |
| Net Income | | | | | | | | 10,110 | | 10,110 |
| Change in Unrealized Gain on Securities | | | | | | | | | | |
| Available-for-Sale and Interest-Only Strips, Net of Income Taxes | | | | | | | (323) | | | (323) |
| Total Comprehensive Income | | | | | | | | | | 9,787 |
| **BALANCE AT MARCH 31, 2013** | **32,166,661** | **(577,894)** | **31,588,767** | **$ 257** | **$ 551,064** | **$ (44)** | **$ 5,095** | **$ (97,409)** | **$ (69,858)** | **$ 389,105** |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

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

*(In Thousands)*

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income | $ 10,110 | $ 7,341 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Depreciation and Amortization of Premises and Equipment | 504 | 554 |
| Amortization of Premiums and Accretion of Discounts on Investment Securities, Net | 769 | 1,078 |
| Amortization of Other Intangible Assets | 41 | 71 |
| Amortization of Servicing Assets | 329 | 205 |
| Share-Based Compensation Expense | 97 | 92 |
| Provision for Credit Losses | | 2,000 |
| Net Gain on Sales of Investment Securities | (9) | (1) |
| Net (Gain) Loss on Sales of Loans | (2,595) | 1,736 |
| Loss on Investment in Affordable Housing Partnership | | 220 |
| Gain on Sales of Other Real Estate Owned | (5) | |
| Gain on Bank-Owned Life Insurance Settlement | | (163) |
| Valuation Impairment on Other Real Estate Owned | 7 | |
| Lower of Cost or Fair Value Adjustment for Loans Held for Sale | | 657 |
| Origination of Loans Held for Sale | (23,144) | (25,866) |
| Proceeds from Life Insurance | | 344 |
| Proceeds from Sales of SBA Loans Guaranteed Portion | 30,745 | |
| Changes in Fair Value of Stock Warrants | 91 | 170 |
| Decrease in Restricted Cash | 5,350 | |
| Decrease (Increase) in Accrued Interest Receivable | 55 | (140) |
| Increase in Servicing Assets | (791) | |
| Decrease (Increase) in Income Tax Assets | 2,876 | (2,428) |
| Increase in Cash Surrender Value of Bank-Owned Life Insurance | (230) | (236) |
| Increase in Prepaid Expenses | (592) | (1,606) |
| Increase in Other Assets | (87) | (4,957) |
| Decrease in Accrued Interest Payable | (8,583) | (430) |
| Increase in Other Liabilities | 2,582 | 247 |
| **Net Cash Provided (Used In) By Operating Activities** | **17,520** | **(21,112)** |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from Redemption of Federal Home Loan Bank and Federal Reserve Bank Stock | 1,786 | 1,093 |
| Proceeds from Matured or Called Securities Available-for-Sale | 20,820 | 40,873 |
| Proceeds from Sales of Securities Available-for-sale | 9,000 | 3,000 |
| Proceeds from Matured or Called Securities Held to Maturity | | 135 |
| Proceeds from Sales of Other Real Estate Owned | 281 | |
| Proceeds from Sales of Loans Held for Sale | 1,454 | 26,961 |
| Net Increase in Loans Receivable | (79,815) | (20,353) |
| Purchase of Loans Receivable | | (67,428) |
| Purchases of Term Federal Fund | | (5,000) |
| Purchases of Securities Available-for-Sale | | (18,113) |
| Purchases of Premises and Equipment | (146) | (223) |
| **Net Cash Used In Investing Activities** | **(46,620)** | **(39,055)** |

| | | |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Decrease) Increase in Deposits | (62,951) | 18,816 |
| Proceeds from Exercise of Stock Options | 21 | |
| Proceeds from Exercise of Stock Warrant | 305 | |
| Repayment of Long-Term Federal Home Loan Bank Advances | (95) | (90) |
| Redemption of Junior Subordinated Debenture | (30,928) | |
| **Net Cash (Used In) Provided By Financing Activities** | **(93,648)** | **18,726** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(122,748)** | **(41,441)** |
| Cash and Cash Equivalents at Beginning of Year | 268,047 | 201,683 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **$ 145,299** | **$ 160,242** |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | |
| Cash Paid During the Period for: | | |
| Interest Paid | $ 12,374 | $ 5,331 |
| Income Taxes Paid | $ 1,800 | $ 2,507 |
| Non-Cash Activities: | | |
| Transfer of Loans Receivable to Other Real Estate Owned | $ 513 | $ 1,080 |
| Transfer of Loans Receivable to Loans Held for Sale | $ 3,373 | $ 37,481 |
| Conversion of Stock Warrant into Common Stock | $ 850 | $ |
| Income Tax Benefit Related to Items of Other Comprehensive Income | $ 251 | $ |
| Change in Unrealized Gain or Loss in Accumulated Other Comprehensive Income | $ 568 | $ |

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)***

**THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

## NOTE 1 BASIS OF PRESENTATION

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

In management s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial Corporation and Subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended March 31, 2013, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Annual Report on Form 10-K ).

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

Descriptions of our significant accounting policies are included in *Note 2 Summary of Significant Accounting Policies* in our 2012 Annual Report on Form 10-K.

## NOTE 2 INVESTMENT SECURITIES

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

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **March 31, 2013:** | | | | |
| Mortgage-Backed Securities [1] | $ 146,889 | $ 3,008 | $ 503 | $ 149,394 |
| Collateralized Mortgage Obligations [1] | 90,972 | 2,081 | 185 | 92,868 |
| U.S. Government Agency Securities | 80,991 | 116 | 177 | 80,930 |
| Municipal Bonds-Tax Exempt | 12,185 | 526 | | 12,711 |
| Municipal Bonds-Taxable | 44,159 | 2,124 | 127 | 46,156 |
| Corporate Bonds | 20,473 | 200 | 301 | 20,372 |
| SBA Loan Pool Securities | 14,084 | | 166 | 13,918 |
| Other Securities | 3,025 | 58 | 53 | 3,030 |
| Equity Securities | 354 | 170 | | 524 |
| Total Securities Available-for-Sale | $ 413,132 | $ 8,283 | $ 1,512 | $ 419,903 |
| **December 31, 2012:** | | | | |
| Mortgage-Backed Securities [1] | $ 157,185 | $ 3,327 | $ 186 | $ 160,326 |
| Collateralized Mortgage Obligations [1] | 98,821 | 1,775 | 109 | 100,487 |

| | | | | |
|---|---|---|---|---|
| U.S. Government Agency Securities | 92,990 | 222 | 94 | 93,118 |
| Municipal Bonds-Tax Exempt | 12,209 | 603 | | 12,812 |
| Municipal Bonds-Taxable | 44,248 | 2,029 | 135 | 46,142 |
| Corporate Bonds | 20,470 | 176 | 246 | 20,400 |
| SBA Loan Pool Securities | 14,104 | 4 | 82 | 14,026 |
| Other Securities | 3,331 | 73 | 47 | 3,357 |
| Equity Securities | 354 | 78 | 40 | 392 |
| Total Securities Available-for-Sale | $ 443,712 | $ 8,287 | $ 939 | $ 451,060 |

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

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The amortized cost and estimated fair value of investment securities at March 31, 2013, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2042, 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 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (In Thousands) | |
| Within One Year | $ | $ |
| Over One Year Through Five Years | 28,245 | 28,281 |
| Over Five Years Through Ten Years | 101,508 | 102,738 |
| Over Ten Years | 45,164 | 46,098 |
| Mortgage-Backed Securities | 146,889 | 149,394 |
| Collateralized Mortgage Obligations | 90,972 | 92,868 |
| Equity Securities | 354 | 524 |
| Total | $ 413,132 | $ 419,903 |

In accordance with FASB ASC 320, *Investments Debt and Equity Securities*, which amended current other-than-temporary impairment ( OTTI ) guidance, we periodically evaluate our investments for OTTI. There was no OTTI charged during the first quarter of 2013.

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 March 31, 2013 and December 31, 2012:

| | Holding Period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less Than 12 Months | | | 12 Months or More | | | Total | | |
| Investment Securities Available-for-Sale | Gross Unrealized Loss | Estimated Fair Value | Number of Securities | Gross Unrealized Loss | Estimated Fair Value | Number of Securities | Gross Unrealized Loss | Estimated Fair Value | Number of Securities |
| | (In Thousands, Except Number of Securities) | | | | | | | | |
| **March 31, 2013:** | | | | | | | | | |
| Mortgage-Backed Securities | $ 503 | $ 35,523 | 12 | $ | $ | | $ 503 | $ 35,523 | 12 |
| Collateralized Mortgage Obligations | 185 | 18,076 | 7 | | | | 185 | 18,076 | 7 |
| U.S. Government Agency Securities | 177 | 35,799 | 12 | | | | 177 | 35,799 | 12 |
| Municipal Bonds-Taxable | 124 | 4,577 | 4 | 3 | 464 | 1 | 127 | 5,041 | 5 |
| Corporate Bonds | 116 | 4,871 | 1 | 185 | 10,801 | 3 | 301 | 15,672 | 4 |
| SBA Loan Pool Securities | 166 | 13,918 | 4 | | | | 166 | 13,918 | 4 |
| Other Securities | 1 | 25 | 2 | 52 | 947 | 1 | 53 | 972 | 3 |
| Total | $ 1,272 | $ 112,789 | 42 | $ 240 | $ 12,212 | 5 | $ 1,512 | $ 125,001 | 47 |
| **December 31, 2012:** | | | | | | | | | |
| Mortgage-Backed Securities | $ 186 | $ 28,354 | 10 | $ | $ | | $ 186 | $ 28,354 | 10 |
| Collateralized Mortgage Obligations | 109 | 14,344 | 5 | | | | 109 | 14,344 | 5 |
| U.S. Government Agency Securities | 94 | 26,894 | 9 | | | | 94 | 26,894 | 9 |
| Municipal Bonds-Taxable | 126 | 4,587 | 4 | 9 | 1,964 | 3 | 135 | 6,551 | 7 |
| Corporate Bonds | | | | 246 | 10,738 | 3 | 246 | 10,738 | 3 |
| SBA Loan Pool Securities | 82 | 11,004 | 3 | | | | 82 | 11,004 | 3 |
| Other Securities | 1 | 12 | 1 | 46 | 953 | 1 | 47 | 965 | 2 |
| Equity Securities | 40 | 96 | 1 | | | | 40 | 96 | 1 |
| Total | $ 638 | $ 85,291 | 33 | $ 301 | $ 13,655 | 7 | $ 939 | $ 98,946 | 40 |

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of March 31, 2013 and December 31, 2012 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 March 31, 2013. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment securities to be written 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.

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The Company does 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. In addition, the unrealized losses on municipal and 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 scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. 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 March 31, 2013 and December 31, 2012 are not other-than-temporarily impaired, and therefore, no impairment charges as of March 31, 2013 and December 31, 2012 are warranted.

Realized gains and losses on sales of investment securities, proceeds from sales of investment securities and the tax expense on sales of investment securities were as follows for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| | *(In Thousands)* | |
| Gross Realized Gains on Sales of Investment Securities | $ 9 | $ 1 |
| Gross Realized Losses on Sales of Investment Securities | | |
| **Net Realized Gains on Sales of Investment Securities** | **$ 9** | **$ 1** |
| Proceeds from Sales of Investment Securities | $ 9,000 | $ 3,000 |
| Tax Expense on Sales of Investment Securities | $ 4 | $ |

For the three months ended March 31, 2013, $577,000 of net unrealized loss arose during the period and was included in comprehensive income, and there was a $9,000 gain in earnings resulting from the redemption of investment securities that had previously been recorded as net unrealized gains of $34,000 in comprehensive income. For the three months ended March 31, 2012, $674,000 of net unrealized gains arose during the period and was included in comprehensive income, and there was a $1,000 gain in earnings resulting from the redemption of investment securities that had previously been recorded as net unrealized gains of $4,000.

Investment securities available-for-sale with carrying values of $16.5 million and $18.2 million as of March 31, 2013 and December 31, 2012, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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**NOTE 3 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 changes, strategic planning revisions, concentrations of credit, loan delinquencies and non-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, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and SBA loans. Consumer loans consist 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 loans 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 Southern California.

**Loans Receivable**

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Real Estate Loans: | | |
| Commercial Property | $ 831,019 | $ 787,094 |
| Residential Property | 94,735 | 101,778 |
| Total Real Estate Loans | 925,754 | 888,872 |
| Commercial and Industrial Loans: | | |
| Commercial Term (1) | 921,009 | 884,364 |
| Commercial Lines of Credit (2) | 49,608 | 56,121 |
| SBA Loans (3) | 158,687 | 148,306 |
| International Loans | 31,448 | 34,221 |
| Total Commercial and Industrial Loans | 1,160,752 | 1,123,012 |
| Consumer Loans | 35,180 | 36,676 |
| **Total Gross Loans** | **2,121,686** | **2,048,560** |
| Allowance for Loans Losses | (61,191) | (63,305) |
| Deferred Loan Fees | 661 | 796 |
| **Loans Receivable, Net** | **$ 2,061,156** | **$ 1,986,051** |

*(1) Includes owner-occupied property loans of $882.5 million and $774.2 million as of March 31, 2013 and December 31, 2012, respectively.*
*(2) Includes owner-occupied property loans of $1.3 million and $1.4 million as of March 31, 2013 and December 31, 2012, respectively.*
*(3) Includes owner-occupied property loans of $141.9 million and $128.4 million as of March 31, 2013 and December 31, 2012, respectively.*

Accrued interest on loans receivable was $5.5 million and $5.4 million at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013 and December 31, 2012, loans receivable totaling $614.8 million and $524.0 million, respectively, were pledged to secure advances from the FHLB and the FRB s federal discount window.

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The following table details the information on the sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the three months ended March 31, 2013 and 2012:

| | Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **March 31, 2013** | | | | |
| Balance at Beginning of Period | $ | $ 8,306 | $ | $ 8,306 |
| Origination of Loans Held For Sale | | 23,144 | | 23,144 |
| Reclassification from Loans Receivable to Loans Held for Sale | | 3,373 | | 3,373 |
| Sales of Loans Held for Sale | | (28,765) | | (28,765) |
| Principal Payoffs and Amortization | | (15) | | (15) |
| Balance at End of Period | **$** | **$ 6,043** | **$** | **$ 6,043** |
| **March 31, 2012** | | | | |
| Balance at Beginning of Period | $ 11,068 | $ 11,519 | $ | $ 22,587 |
| Origination of Loans Held For Sale | | 25,866 | | 25,866 |
| Reclassification from Loans Receivable to Loans Held for Sale | 17,076 | 20,405 | | 37,481 |
| Reclassification from Loans Receivable to Other Real Estate Owned | (360) | | | (360) |
| Sales of Loans Held for Sale | (16,794) | (11,903) | | (28,697) |
| Principal Payoffs and Amortization | (111) | (116) | | (227) |
| Valuation Adjustments | | (657) | | (657) |
| Balance at End of Period | **$ 10,879** | **$ 45,114** | **$** | **$ 55,993** |

For the three months ended March 31, 2013, a loan receivable of $3.4 million was reclassified as loans held for sale, and loans held for sale of $28.8 million were sold. For the three months ended March 31, 2012, loans receivable of $37.5 million were reclassified as loans held for sale, and loans held for sale of $28.7 million were sold.

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

Activity in the allowance for loan losses and allowance for off-balance sheet items was as follows for the periods indicated:

| | As of and for the Three Months Ended | | |
|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2012 |
| | | *(In Thousands)* | |
| **Allowance for Loan Losses:** | | | |
| Balance at Beginning of Period | $ 63,305 | $ 66,107 | $ 89,936 |
| Actual Charge-Offs | (3,024) | (3,966) | (12,321) |
| Recoveries on Loans Previously Charged Off | 714 | 757 | 1,037 |
| Net Loan Charge-Offs | (2,310) | (3,209) | (11,284) |
| Provision Charged to Operating Expense | 196 | 407 | 2,400 |
| **Balance at End of Period** | **$ 61,191** | **$ 63,305** | **$ 81,052** |
| Allowance for Off-Balance Sheet Items: | | | |
| Balance at Beginning of Period | $ 1,824 | $ 2,231 | $ 2,981 |

| | | | |
|---|---|---|---|
| Provision Charged to Operating Expense | (196) | (407) | (400) |
| **Balance at End of Period** | **$ 1,628** | **$ 1,824** | **$ 2,581** |

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The following table details the information on the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012:

| | Real Estate | Commercial and Industrial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **March 31, 2013** | | | | | |
| **Allowance for Loan Losses:** | | | | | |
| Beginning Balance | $ 18,180 | $ 41,928 | $ 2,280 | $ 917 | $ 63,305 |
| Charge-Offs | (213) | (2,647) | (164) | | (3,024) |
| Recoveries on Loans Previously Charged Off | 8 | 657 | 49 | | 714 |
| Provision | (143) | (378) | (370) | 1,087 | 196 |
| Ending Balance | **$ 17,832** | **$ 39,560** | **$ 1,795** | **$ 2,004** | **$ 61,191** |
| Ending Balance: Individually Evaluated for Impairment | $ 95 | $ 4,388 | $ 401 | $ | $ 4,884 |
| Ending Balance: Collectively Evaluated for Impairment | $ 17,737 | $ 35,172 | $ 1,394 | $ 2,004 | $ 56,307 |
| **Loans Receivable:** | | | | | |
| Ending Balance | **$ 925,754** | **$ 1,160,752** | **$ 35,180** | **$** | **$ 2,121,686** |
| Ending Balance: Individually Evaluated for Impairment | $ 8,047 | $ 39,965 | $ 1,639 | $ | $ 49,651 |
| Ending Balance: Collectively Evaluated for Impairment | $ 917,707 | $ 1,120,787 | $ 33,541 | $ | $ 2,072,035 |
| **March 31, 2012** | | | | | |
| **Allowance for Loan Losses:** | | | | | |
| Beginning Balance | $ 19,637 | $ 66,005 | $ 2,243 | $ 2,051 | $ 89,936 |
| Charge-Offs | (2,842) | (9,115) | (364) | | (12,321) |
| Recoveries on Loans Previously Charged Off | | 1,013 | 24 | | 1,037 |
| Provision | 5,435 | (3,265) | 341 | (111) | 2,400 |
| Ending Balance | **$ 22,230** | **$ 54,638** | **$ 2,244** | **$ 1,940** | **$ 81,052** |
| Ending Balance: Individually Evaluated for Impairment | $ 536 | $ 16,686 | $ | $ | $ 17,222 |
| Ending Balance: Collectively Evaluated for Impairment | $ 21,694 | $ 37,952 | $ 2,244 | $ 1,940 | $ 63,830 |
| **Loans Receivable:** | | | | | |
| Ending Balance | **$ 834,056** | **$ 1,102,140** | **$ 40,782** | **$** | **$ 1,976,978** |
| Ending Balance: Individually Evaluated for Impairment | $ 16,395 | $ 50,960 | $ 402 | $ | $ 67,757 |
| Ending Balance: Collectively Evaluated for Impairment | $ 817,661 | $ 1,051,180 | $ 40,380 | $ | $ 1,909,221 |

**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 an appropriate grade (from (0) to (8)) for each and every loan in our loan portfolio. All loans are reviewed by a third-party loan reviewer on a semi-annual basis. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:

**Pass:** Pass loans, grades (0) to (4), are in compliance in all respects with the Bank s credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention (5), Substandard (6) or Doubtful (7). This category is the strongest 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 the Pass category, or grades (0) to (4):

Pass (0): Loans or commitments secured in full by cash or cash equivalents.

Pass (1): Loans or commitments requiring 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): Loans or commitments requiring 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 grade includes individuals with substantial net worth supported by liquid assets and strong income.

Pass (3): Loans or commitments to borrowers exhibiting a fully acceptable credit risk. These borrowers should have sound balance sheets 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 with 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.

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Pass (4): Loans or commitments to borrowers exhibiting either somewhat weaker balance sheets or positive, but inconsistent, cash flow coverage. These borrowers may exhibit somewhat greater credit risk, and as a result, the Bank may have secured its exposure 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:** A Special Mention credit, grade (5), has potential weaknesses that deserve management s close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.

**Substandard:** A Substandard credit, grade (6), 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:** A Doubtful credit, grade (7), 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:** A loan classified as Loss, grade (8), is considered uncollectible and of such little value that their continuance as active bank 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 asset even though partial recovery may be possible 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 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **March 31, 2013** | | | | |
| Real Estate Loans: | | | | |
| Commercial Property | | | | |
| Retail | $ 395,952 | $ 3,946 | $ 3,304 | $ 403,202 |
| Land | 5,677 | | 8,062 | 13,739 |
| Other | 401,291 | 12,070 | 717 | 414,078 |
| Residential Property | 92,735 | | 2,000 | 94,735 |
| Commercial and Industrial Loans: | | | | |
| Commercial Term | | | | |
| Unsecured | 80,022 | 624 | 17,854 | 98,500 |
| Secured By Real Estate | 760,095 | 15,838 | 46,576 | 822,509 |
| Commercial Lines of Credit | 46,908 | 849 | 1,851 | 49,608 |
| SBA Loans | 146,389 | 1,115 | 11,183 | 158,687 |
| International Loans | 30,018 | | 1,430 | 31,448 |
| Consumer Loans | 32,393 | 190 | 2,597 | 35,180 |
| **Total Gross Loans** | **$ 1,991,480** | **$ 34,632** | **$ 95,574** | **$ 2,121,686** |
| **December 31, 2012** | | | | |
| Real Estate Loans: | | | | |
| Commercial Property | | | | |
| Retail | $ 386,650 | $ 3,971 | $ 2,324 | $ 392,945 |
| Land | 5,491 | | 8,516 | 14,007 |
| Other | 366,518 | 12,132 | 1,492 | 380,142 |
| Residential Property | 99,250 | | 2,528 | 101,778 |
| Commercial and Industrial Loans: | | | | |
| Commercial Term | | | | |
| Unsecured | 87,370 | 663 | 22,139 | 110,172 |
| Secured By Real Estate | 710,723 | 13,038 | 50,431 | 774,192 |
| Commercial Lines of Credit | 53,391 | 863 | 1,867 | 56,121 |
| SBA Loans | 136,058 | 1,119 | 11,129 | 148,306 |
| International Loans | 34,221 | | | 34,221 |
| Consumer Loans | 33,707 | 201 | 2,768 | 36,676 |
| **Total Gross Loans** | **$ 1,913,379** | **$ 31,987** | **$ 103,194** | **$ 2,048,560** |

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The following is an aging analysis of past due loans, disaggregated by loan class, as of March 31, 2013 and December 31, 2012:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Accruing 90 Days or More Past Due |
|---|---|---|---|---|---|---|---|
| | | | | *(In Thousands)* | | | |
| **March 31, 2013** | | | | | | | |
| Real Estate Loans: | | | | | | | |
| Commercial Property | | | | | | | |
| Retail | $ 2,004 | $ | $ | $ 2,004 | $ 401,198 | $ 403,202 | $ |
| Land | | | | | 13,739 | 13,739 | |
| Other | | | | | 414,078 | 414,078 | |
| Construction | | | | | | | |
| Residential Property | 222 | | 819 | 1,041 | 93,694 | 94,735 | |
| Commercial and Industrial Loans: | | | | | | | |
| Commercial Term | | | | | | | |
| Unsecured | 1,005 | 724 | 1,470 | 3,199 | 95,301 | 98,500 | |
| Secured By Real Estate | | 122 | 926 | 1,048 | 821,461 | 822,509 | |
| Commercial Lines of Credit | 238 | | 604 | 842 | 48,766 | 49,608 | |
| SBA Loans | 4,158 | 1,205 | 4,006 | 9,369 | 149,318 | 158,687 | |
| International Loans | | | | | 31,448 | 31,448 | |
| Consumer Loans | 307 | 16 | 571 | 894 | 34,286 | 35,180 | |
| **Total Gross Loans** | **$ 7,934** | **$ 2,067** | **$ 8,396** | **$ 18,397** | **$ 2,103,289** | **$ 2,121,686** | **$** |
| **December 31, 2012** | | | | | | | |
| Real Estate Loans: | | | | | | | |
| Commercial Property | | | | | | | |
| Retail | $ | $ 111 | $ | $ 111 | $ 392,834 | $ 392,945 | $ |
| Land | | | 335 | 335 | 13,672 | 14,007 | |
| Other | | | | | 380,142 | 380,142 | |
| Construction | | | | | | | |
| Residential Property | | 588 | 311 | 899 | 100,879 | 101,778 | |
| Commercial and Industrial Loans: | | | | | | | |
| Commercial Term | | | | | | | |
| Unsecured | 918 | 1,103 | 1,279 | 3,300 | 106,872 | 110,172 | |
| Secured By Real Estate | 1,949 | | 926 | 2,875 | 771,317 | 774,192 | |
| Commercial Lines of Credit | | 188 | 416 | 604 | 55,517 | 56,121 | |
| SBA Loans | 3,759 | 1,039 | 2,800 | 7,598 | 140,708 | 148,306 | |
| International Loans | | | | | 34,221 | 34,221 | |
| Consumer Loans | 61 | 146 | 538 | 745 | 35,931 | 36,676 | |
| **Total Gross Loans** | **$ 6,687** | **$ 3,175** | **$ 6,605** | **$ 16,467** | **$ 2,032,093** | **$ 2,048,560** | **$** |

**Impaired Loans**

Loans are considered impaired when non-accrual and 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; or they are classified as Troubled Debt Restructuring (  TDR  ) loans to offer terms not typically granted by the Bank; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower  s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

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, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. 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, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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

| | Recorded Investment | Unpaid Principal Balance | With No Related Allowance Recorded | With an Allowance Recorded | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| | | | | *(In Thousands)* | | | |
| **March 31, 2013** | | | | | | | |
| Real Estate Loans: | | | | | | | |
| Commercial Property | | | | | | | |
| Retail | $ 2,785 | $ 2,838 | $ 1,835 | $ 950 | $ 42 | $ 2,796 | $ 26 |
| Land | 1,687 | 1,937 | 1,687 | | | 1,712 | 40 |
| Other | 526 | 526 | | 526 | 53 | 527 | 4 |
| Construction | | | | | | | |
| Residential Property | 3,049 | 3,104 | 3,049 | | | 3,059 | 27 |
| Commercial and Industrial Loans: | | | | | | | |
| Commercial Term | | | | | | | |
| Unsecured | 13,064 | 14,006 | 4,206 | 8,858 | 3,328 | 13,254 | 186 |
| Secured By Real Estate | 17,449 | 18,592 | 15,575 | 1,874 | 425 | 17,513 | 313 |
| Commercial Lines of Credit | 1,505 | 1,702 | 1,505 | | | 1,512 | 15 |
| SBA Loans | 6,517 | 10,101 | 4,766 | 1,750 | 578 | 6,473 | 273 |
| International Loans | 1,430 | 1,430 | 859 | 572 | 57 | 1,498 | |
| Consumer Loans | 1,639 | 1,710 | 391 | 1,248 | 401 | 1,643 | 12 |
| **Total Gross Loans** | **$ 49,651** | **$ 55,946** | **$ 33,873** | **$ 15,778** | **$ 4,884** | **$ 49,987** | **$ 896** |
| **December 31, 2012** | | | | | | | |
| Real Estate Loans: | | | | | | | |
| Commercial Property | | | | | | | |
| Retail | $ 2,930 | $ 3,024 | $ 2,930 | $ | $ | $ 2,357 | $ 136 |
| Land | 2,097 | 2,307 | 2,097 | | | 2,140 | 179 |
| Other | 527 | 527 | | 527 | 67 | 835 | 43 |
| Construction | | | | | | 6,012 | 207 |
| Residential Property | 3,265 | 3,308 | 1,866 | 1,399 | 94 | 3,268 | 164 |
| Commercial and Industrial Loans: | | | | | | | |
| Commercial Term | | | | | | | |
| Unsecured | 14,532 | 15,515 | 6,826 | 7,706 | 2,144 | 14,160 | 821 |
| Secured By Real Estate | 22,050 | 23,221 | 9,520 | 12,530 | 2,319 | 21,894 | 1,723 |
| Commercial Lines of Credit | 1,521 | 1,704 | 848 | 673 | 230 | 1,688 | 64 |
| SBA Loans | 6,170 | 10,244 | 4,294 | 1,876 | 762 | 7,173 | 1,131 |
| International Loans | | | | | | | |
| Consumer Loans | 1,652 | 1,711 | 449 | 1,203 | 615 | 1,205 | 73 |
| **Total Gross Loans** | **$ 54,744** | **$ 61,561** | **$ 28,830** | **$ 25,914** | **$ 6,231** | **$ 60,732** | **$ 4,541** |

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

| | Three Months Ended, March 31, 2013 | Three Months Ended, March 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Interest Income That Would Have Been Recognized Had Impaired Loans Performed in Accordance With Their Original Terms | $ 1,068 | $ 1,428 |

| | | |
|---|---|---|
| Less: Interest Income Recognized on Impaired Loans | (896) | (1,106) |
| Interest Foregone on Impaired Loans | **$ 172** | **$ 322** |

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 collectability 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 payments become current and full repayment is expected.

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The following table details non-accrual loans, disaggregated by loan class, for the periods indicated:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Real Estate Loans: | | |
| Commercial Property | | |
| Retail | $ 950 | $ 1,079 |
| Land | 1,687 | 2,097 |
| Other | | |
| Construction | | |
| Residential Property | 1,638 | 1,270 |
| Commercial and Industrial Loans: | | |
| Commercial Term | | |
| Unsecured | 7,253 | 8,311 |
| Secured By Real Estate | 6,353 | 8,679 |
| Commercial Lines of Credit | 1,505 | 1,521 |
| SBA Loans | 11,852 | 12,563 |
| International Loans | | |
| Consumer Loans | 1,655 | 1,759 |
| **Total Non-Accrual Loans** | **$ 32,893** | **$ 37,279** |

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Non-Accrual Loans | $ 32,893 | $ 37,279 |
| Loans 90 Days or More Past Due and Still Accruing | | |
| Total Non-Performing Loans | 32,893 | 37,279 |
| Other Real Estate Owned | 900 | 774 |
| Total Non-Performing Assets | **$ 33,793** | **$ 38,053** |

Loans on non-accrual status, excluding loans held for sale, totaled $32.9 million as of March 31, 2013, compared to $37.3 million as of December 31, 2012, representing an 11.8 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were $18.4 million as of March 31, 2013, compared to $16.5 million as of December 31, 2012, representing an 11.7 percent increase.

As of March 31, 2013, other real estate owned ( OREO ) consisted of two properties in Virginia and California. For the three months ended March 31, 2013, one property was transferred from loans receivable to other real estate owned at fair value less aggregate selling costs of $513,000, and a valuation adjustment of $126,000 was recorded. As of December 31, 2012, there were two properties located in Illinois and Virginia with a combined carrying value of $774,000 and no valuation adjustment.

**Troubled Debt Restructuring**

In April 2011, the FASB issued ASU 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.

During the three months ended March 31, 2013, we restructured monthly payments on 4 loans, with a net carrying value of $1.6 million as of March 31, 2013, through temporary payment structure modifications or re-amortization. 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 are probable.

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The following table details troubled debt restructurings, disaggregated by concession type and by loan type, as of March 31, 2013 and December 31, 2012:

| | 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** |
| | | | | | *(In Thousands)* | | | | | |
| **March 31, 2013** | | | | | | | | | | |
| Real Estate Loans: | | | | | | | | | | |
| Commercial Property | | | | | | | | | | |
| Retail | $ | $ | $ | $ 950 | $ 950 | $ 350 | $ | $ | $ 175 | $ 525 |
| Other | | | | | | 526 | | | | 526 |
| Residential Property | 819 | | | | 819 | | | | | |
| Commercial and Industrial Loans: | | | | | | | | | | |
| Commercial Term | | | | | | | | | | |
| Unsecured | | 576 | 4,029 | 998 | 5,603 | 922 | | 794 | 2,776 | 4,492 |
| Secured By Real Estate | 2,263 | 1,085 | 298 | | 3,646 | 2,139 | | 512 | 4,527 | 7,178 |
| Commercial Lines of Credit | 663 | | 188 | 238 | 1,089 | | | | | |
| SBA Loans | 2,865 | 1,237 | 781 | | 4,883 | 453 | | 80 | | 533 |
| International Loans | | | | | | | | 1,430 | | 1,430 |
| Total | **$ 6,610** | **$ 2,898** | **$ 5,296** | **$ 2,186** | **$ 16,990** | **$ 4,390** | **$** | **$ 2,816** | **$ 7,478** | **$ 14,684** |
| **December 31, 2012** | | | | | | | | | | |
| Real Estate Loans: | | | | | | | | | | |
| Commercial Property | | | | | | | | | | |
| Retail | $ | $ | $ | $ 1,080 | $ 1,080 | $ 357 | $ | $ | $ 175 | $ 532 |
| Other | | | | | | 527 | | | | 527 |
| Residential Property | 827 | | | | 827 | | 572 | | | 572 |
| Commercial and Industrial Loans: | | | | | | | | | | |
| Commercial Term | | | | | | | | | | |
| Unsecured | | 658 | 4,558 | 1,413 | 6,629 | 976 | | 1,090 | 3,260 | 5,326 |
| Secured By Real Estate | 2,317 | 1,343 | 318 | | 3,978 | 4,444 | | 448 | 4,547 | 9,439 |
| Commercial Lines of Credit | 673 | | 188 | 244 | 1,105 | | | | | |
| SBA Loans | 2,831 | 1,287 | 1,032 | | 5,150 | 484 | | 100 | | 584 |
| Total | **$ 6,648** | **$ 3,288** | **$ 6,096** | **$ 2,737** | **$ 18,769** | **$ 6,788** | **$ 572** | **$ 1,638** | **$ 7,982** | **$ 16,980** |

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The following table details troubled debt restructuring, disaggregated by loan class, for the three months ended March 31, 2013 and 2012:

| | March 31, 2013 | | | March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | | | (In Thousands) | | | |
| Real Estate Loans: | | | | | | |
| Commercial Property | | | | | | |
| Retail [(1)] | | $ | $ | 1 | $ 102 | $ 102 |
| Other [(2)] | | | | 2 | 509 | 504 |
| Commercial and Industrial Loans: | | | | | | |
| Commercial Term | | | | | | |
| Unsecured [(3)] | 1 | 197 | 198 | 20 | 3,615 | 3,537 |
| Secured By Real Estate [(4)] | | | | 2 | 1,813 | 1,801 |
| SBA Loans [(5)] | 1 | 8 | 7 | 6 | 472 | 455 |
| International Loans [(6)] | 2 | 1,584 | 1,430 | | | |
| **Total** | **4** | **$ 1,789** | **$ 1,635** | **31** | **$ 6,511** | **$ 6,399** |

*(1) Includes a modification of $102,000 through an extension of maturity for the three months ended March 31, 2012.*
*(2) Includes modifications of $504,000 through extensions of maturity for the three months ended March 31, 2012.*
*(3) Includes a modification of $198,000 through an extension of maturity for the three months ended March 31, 2013, and modifications of $1.6 million through reductions of principal or accrued interest and $1.9 million through extensions of maturity for the three months ended March 31, 2012.*
*(4) Includes modifications of $1.3 million through a reduction of principal or accrued interest and $501,000 through an extension of maturity for the three months ended March 31, 2012.*
*(5) Includes a modification of $7,000 through a payment deferral for the three months ended March 31, 2013, and modifications of 133,000 through payment deferrals and $322,000 through reductions of principal or accrued interest for the three months ended March 31, 2012.*
*(6) Includes modifications of $1.4 million through reductions of principal or accrued interest for the three months ended March 31, 2013.*

As of March 31, 2013 and December 31, 2012, total TDRs, excluding loans held for sale, were $31.7 million and $35.7 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. All TDRs are impaired and 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 March 31, 2013 and December 31, 2012, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and $3.7 million and $3.6 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

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The following table details troubled debt restructurings that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for the three months ended March 31, 2013 and 2012:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2013 | | March 31, 2012 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| | *(In Thousands)* | | | |
| Real Estate Loans: | | | | |
| Commercial Property | | | | |
| Retail | | $ | 1 | $ 102 |
| Other | | | 1 | 279 |
| Residential Property | | | 1 | 865 |
| Commercial and Industrial Loans: | | | | |
| Commercial Term | | | | |
| Unsecured | 7 | 730 | 10 | 3,401 |
| Secured By Real Estate | 1 | 1,306 | | |
| Commercial Lines of Credit | 1 | 188 | | |
| SBA Loans | 1 | 32 | 10 | 848 |
| Total | **10** | **$ 2,256** | **23** | **$ 5,495** |

**Servicing Assets**

The changes in servicing assets were as follows for the three months ended March 31, 2013 and 2012:

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at Beginning of Period | $ 5,542 | $ 3,720 |
| Additions | 791 | |
| Amortization | (329) | (205) |
| **Balance at End of Period** | **$ 6,004** | **$ 3,515** |

At March 31, 2013 and 2012, we serviced loans sold to unaffiliated parties in the amounts of $316.2 million and $211.1 million, respectively. These represented loans that have been sold 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 4 INCOME TAXES**

The Company s effective tax rate was 31.66% and 1.07% with income tax expenses of $4.7 million and $79,000 for the three months ended March 31, 2013 and 2012, respectively. Income tax expense of $4.7 million for the first quarter of 2013 includes favorable discrete items of $779,000, related mainly to adjustments of stock options and state tax attributes. Due to a full valuation allowance against the Company s entire net deferred tax asset, 1.07% of its effective tax rate for the three months ended March 31, 2012 resulted from 2012 state income taxes. Management concluded that deferred tax assets were more-likely-than-not to be realized, and therefore, maintaining a valuation allowance was no longer required as of March 31, 2013.

As of March 31, 2013, the Company was subject to examination by various federal and state tax authorities for the years ended December 31, 2004 through 2011. The Company was subjected to audits by the Internal Revenue Service for the 2009 tax year, by the California FTB for the 2008 and 2009 tax years, and by the Texas Comptroller of Public Accounts for the 2008 tax year. Management does not anticipate any material changes in our financial statements due to the results of those audits.

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## NOTE 5 STOCKHOLDERS EQUITY

### Stock Warrants

As part of the agreement dated as of July 27, 2010 with Cappello Capital Corp., the placement agent in connection with our best efforts offering and the financial advisor in connection with our completed rights offering, we issued warrants to purchase 250,000 shares of our 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 was 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 was based on the contract term of five years. The dividend yield of zero was based on the fact that we had no intention to pay cash dividends for the term at the grant date. The risk free rate of 2.07 percent used for the warrant was equal to the zero coupon rate in effect at the time of the grant.

Upon re-measuring the fair value of the stock warrants at March 31, 2013, the fair value decreased by $51,000, which we have included in other operating expenses for the three months ended March 31, 2013. We used a weighted average expected stock volatility of 36.99 percent and a remaining contractual life of 2.3 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 0.47 percent used for the warrant is equal to the zero coupon rate in effect at the end of the measurement period.

## NOTE 6 REGULATORY MATTERS

### Risk-Based Capital

Federal bank regulatory agencies require bank holding companies and banks to maintain 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, federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent.

In order for banks to be considered well capitalized, federal bank regulatory agencies require them to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 5.0 percent.

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The capital ratios of Hanmi Financial and the Bank were as follows as of March 31, 2013 and 2012:

| | Actual | | Minimum Regulatory Requirement | | Minimum to Be Categorized as Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (In Thousands) | | | |
| **March 31, 2013** | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Hanmi Financial | $ 439,587 | 19.45% | $ 180,839 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 421,661 | 18.69% | $ 180,515 | 8.00% | $ 225,644 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| Hanmi Financial | $ 410,825 | 18.17% | $ 90,419 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 393,015 | 17.42% | $ 90,257 | 4.00% | $ 135,386 | 6.00% |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Hanmi Financial | $ 410,825 | 14.68% | $ 111,968 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 393,015 | 14.07% | $ 111,758 | 4.00% | $ 139,698 | 5.00% |
| **March 31, 2012** | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Hanmi Financial | $ 394,973 | 18.74% | $ 168,569 | 8.00% | N/A | N/A |
| Hanmi Bank | $ 373,171 | 17.74% | $ 168,325 | 8.00% | $ 210,406 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| Hanmi Financial | $ 367,927 | 17.46% | $ 84,284 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 346,154 | 16.45% | $ 84,162 | 4.00% | $ 126,243 | 6.00% |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Hanmi Financial | $ 367,927 | 13.44% | $ 109,456 | 4.00% | N/A | N/A |
| Hanmi Bank | $ 346,154 | 12.67% | $ 109,247 | 4.00% | $ 136,559 | 5.00% |

**Federal Reserve Notices of Proposed Rulemaking**

On June 7, 2012, the Board of Governors of the Federal Reserve System approved for publication in the Federal Register three related notices of proposed rulemaking (collectively, the Notices ) relating to the implementation of revised capital rules to reflect the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 as well as the Basel III international capital standards. Among other things, if adopted as proposed, the Notices would establish a new capital standard consisting of common equity Tier 1 capital; increase the capital ratios required for certain existing capital categories and add a requirement for a capital conservation buffer (failure to meet these standards would result in limitations on capital distributions as well as executive bonuses); and add more conservative standards for including securities in regulatory capital, which would phase-out trust preferred securities as a component of Tier 1 capital. In addition, the Notices contemplate the deduction of certain assets from regulatory capital and revisions to the methodologies for determining risk weighted assets, including applying a more risk-sensitive treatment to residential mortgage exposures and to past due or non-accrual loans. The Notices provide for various phase-in periods over the next several years. Hanmi Financial and the Bank will be subject to many provisions in the Notices, but until final regulations are issued pursuant to the Notices, Hanmi Financial cannot predict the actual effect of the Notices.

**NOTE 7 FAIR VALUE MEASUREMENTS**

**Fair Value Measurements**

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy and expands disclosures about fair value measurements. Fair value is defined 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. The three-level fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

| | |
|---|---|
| Level 2 | Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. |
| Level 3 | Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability. |

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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.

We record investment securities available-for-sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, other real estate owned, and 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.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument below:

*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. If quoted prices are not available, fair values are measured using 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, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve, prepayment speeds, and default rates. 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 SBA loan pool 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 held as of each reporting date. The broker-dealers use prices obtained from nationally recognized pricing services to value our fixed income securities. The fair value of the municipal bonds is determined based on a proprietary model maintained by the broker-dealers. We review the prices obtained for reasonableness based on our understanding of the marketplace, and also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 investment securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available, which necessitates the use of significant unobservable inputs.

As of March 31, 2013, we had a zero coupon tax credit municipal bond of $774,000 compared to $779,000 as of December 31, 2012. This bond was recorded at estimated fair value using a discounted cash flow method, and was measured on a recurring basis with Level 3 inputs. Key assumptions used in measuring the fair value of the tax credit bond as of March 31, 2013 were discount rate and cash flows. The discount rate was derived from the term structure of Bank Qualified ( BQ ) A- rated municipal bonds, as the tax credit bond s guarantee had the similar credit strength. The contractual future cash flows were the tax credits to be received for a remaining life of two years. If the discount rate is adjusted down to the term structure of BQ BBB- rating municipal bonds, the tax credit bond s value would decline by 1.6 percent. We do not anticipate a significant deterioration of the tax credit bond s credit quality. Management reviews the discount rate on an ongoing basis based on current market rates.

*SBA Loans Held for Sale* Small Business Administration ( SBA ) loans held for sale are carried at the lower of cost or fair value. As of March 31, 2013 and December 31, 2012, we had $3.7 million and $7.8 million of SBA 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 March 31, 2013 and December 31, 2012, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

*Non-Performing Loans Held for Sale* We reclassify certain non-performing loans as held for sale when we decide to sell those loans. The fair value of non-performing loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Non-performing loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of March 31, 2013 and December 31, 2012, we had $2.3 million and $484,000 of non-performing loans held for sale, respectively, which are measured on a nonrecurring basis with Level 2 inputs.

*Stock Warrants* 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 was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing modeling and was measured on a recurring basis with Level 3 inputs.

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**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the three months ended March 31, 2013. As of March 31, 2013 and December 31, 2012, assets and liabilities measured at fair value on a recurring basis are as follows:

| | Level 1 Quoted Prices in Active Markets for Identical Assets | Level 2 Significant Observable Inputs with No Active Market with Identical Characteristics | Level 3 Significant Unobservable Inputs | Balance |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **As of March 31, 2013** | | | | |
| **ASSETS:** | | | | |
| Debt Securities Available-for-Sale: | | | | |
| Mortgage-Backed Securities | $ | $ 149,394 | $ | $ 149,394 |
| Collateralized Mortgage Obligations | | 92,868 | | 92,868 |
| U.S. government Agency Securities | 80,930 | | | 80,930 |
| Municipal Bonds-Tax Exempt | | 11,937 | 774 | 12,711 |
| Municipal Bonds-Taxable | | 46,156 | | 46,156 |
| Corporate Bonds | | 20,372 | | 20,372 |
| SBA Loan Pools Securities | | 13,918 | | 13,918 |
| Other Securities | | 3,030 | | 3,030 |
| Total Debt Securities Available-for-Sale | 80,930 | 337,675 | 774 | 419,379 |
| Equity Securities Available-for-Sale: | | | | |
| Financial Services Industry | 524 | | | 524 |
| Total Equity Securities Available-for-Sale | 524 | | | 524 |
| Total Securities Available-for-Sale | $ 81,454 | $ 337,675 | $ 774 | $ 419,903 |
| **LIABILITIES:** | | | | |
| Stock Warrants | $ | $ | $ 147 | $ 147 |
| **December 31, 2012:** | | | | |
| **ASSETS:** | | | | |
| Debt Securities Available-for-Sale: | | | | |
| Mortgage-Backed Securities | $ | $ 160,326 | $ | $ 160,326 |
| Collateralized Mortgage Obligations | | 100,487 | | 100,487 |
| U.S. Government Agency Securities | 93,118 | | | 93,118 |
| Municipal Bonds-Tax Exempt | | 12,033 | 779 | 12,812 |
| Municipal Bonds-Taxable | | 46,142 | | 46,142 |
| Corporate Bonds | | 20,400 | | 20,400 |
| SBA Loan Pools Securities | | 14,026 | | 14,026 |
| Other Securities | | 3,357 | | 3,357 |
| Total Debt Securities Available-for-Sale | 93,118 | 356,771 | 779 | 450,668 |
| Equity Securities Available-for-Sale: | | | | |
| Financial Services Industry | 392 | | | 392 |

| | | | | |
|---|---|---|---|---|
| Total Equity Securities Available-for-Sale | 392 | | | 392 |
| Total Securities Available-for-Sale | $ 93,510 | $ 356,771 | $ 779 | $ 451,060 |
| **LIABILITIES:** | | | | |
| Stock Warrants | $ | $ | $ 906 | $ 906 |

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The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013:

| | Beginning Balance as of January 1, 2013 | Purchases Issuances and Settlement | Realized Gains or Losses In Earnings | Unrealized Gains or Losses in Other Comprehensive Income | Ending Balance as of March 31, 2013 |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **ASSETS:** | | | | | |
| Municipal Bonds-Tax Exempt [(1)] | $ 779 | $ | $ | $ (5) | $ 774 |
| **LIABILITIES:** | | | | | |
| Stock Warrants [(2)] | $ 906 | $ (708) | $ (51) | $ | $ 147 |

*(1) Reflects a zero coupon tax credit municipal bond. As the Company was not able to obtain a price from independent external pricing service providers, the discounted cash flow method was used to determine its fair value. The bond carried a par value of $700,000 and an amortized value of $698,000 with a remaining life of two years at March 31, 2013.*

*(2) Reflects warrants for our common stock issued in connection with services Cappello Capital Corp. 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 an exercise price of $9.60 per share of our common stock and expire on October 14, 2015. See Note 8 Stockholders Equity for more details.*

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

As of March 31, 2013 and December 31, 2012, assets and liabilities measured at fair value on a non-recurring basis are as follows:

| | Level 1 Quoted Prices in Active Markets for Identical Assets | Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics | Level 3 Significant Unobservable Inputs | Loss During The Three Months Ended March 31, 2013 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **As of March 31, 2013** | | | | |
| **ASSETS:** | | | | |
| Non-Performing Loans Held for Sale [(1)] | $ | $ 2,306 | $ | $ |
| Impaired Loans [(2)] | | 25,326 | 544 | 572 |
| Other Real Estate Owned [(3)] | | 900 | | 7 |

| | Level 1 Quoted Prices in Active Markets for Identical Assets | Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics | Level 3 Significant Unobservable Inputs | Loss During The Twelve Months Ended December 31, 2012 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |

| | | | | |
|---|---|---|---|---|
| **As of December 31, 2012:** | | | | |
| **ASSETS:** | | | | |
| Non-Performing Loans Held for Sale [4] | $ | $ 484 | $ | $ 3,747 |
| Impaired Loans [5] | | 27,844 | 8,888 | 580 |
| Other Real Estate Owned [6] | | 774 | | 301 |

*(1) Includes commercial term loans of $1.8 million and SBA loans of $484,000*

*(2) Includes real estate loans of $4.0 million, commercial and industrial loans of $21.0 million, and consumer loans of $900,000*

*(3) Includes properties from the foreclosure of a residential property loan of $513,000 and a SBA loan of $387,000*

*(4) Includes a SBA loan of $484,000*

*(5) Includes real estate loans of $8.7 million, commercial and industrial loans of $27.0 million, and consumer loans of $1.0 million*

*(6) Includes properties from the foreclosure of real estate loans of $774,000*

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.

The estimated fair values of financial instruments were as follows:

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying or Contract Amount | Estimated Fair Value | Carrying or Contract Amount | Estimated Fair Value |
| | (In Thousands) | | | |
| **Financial Assets:** | | | | |
| Cash and Cash Equivalents | $ 145,299 | $ 145,299 | $ 268,047 | $ 268,047 |
| Restricted Cash | | | 5,350 | 5,350 |
| Investment Securities Available-for-Sale | 419,903 | 419,903 | 451,060 | 451,060 |
| Loans Receivable, Net of Allowance for Loan Losses | 2,061,156 | 2,057,301 | 1,986,051 | 1,981,669 |
| Loans Held for Sale | 6,043 | 6,043 | 8,306 | 8,306 |
| Accrued Interest Receivable | 7,526 | 7,526 | 7,581 | 7,581 |
| Investment in Federal Home Loan Bank Stock | 16,014 | 16,014 | 17,800 | 17,800 |
| Investment in Federal Reserve Bank | 12,222 | 12,222 | 12,222 | 12,222 |
| **Financial Liabilities:** | | | | |
| Noninterest-Bearing Deposits | 709,650 | 709,650 | 720,931 | 720,931 |
| Interest-Bearing Deposits | 1,623,362 | 1,628,360 | 1,675,032 | 1,680,211 |
| Borrowings | 54,318 | 54,374 | 85,341 | 85,414 |
| Accrued Interest Payable | 3,192 | 3,192 | 11,775 | 11,775 |
| **Off-Balance Sheet Items:** | | | | |
| Commitments to Extend Credit | 158,744 | 142 | 182,746 | 146 |
| Standby Letters of Credit | 10,493 | 25 | 10,588 | 24 |

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 of cash and cash equivalents approximate fair value due to the short-term nature of these instruments (Level 1).

*Restricted Cash* The carrying amount of restricted cash approximates its fair value (Level 1).

*Investment Securities* The fair value of investment securities, consisting of investment securities available-for-sale, is generally obtained from market bids for similar or identical securities, from independent securities brokers or dealers, or from other model-based valuation techniques described above (Level 1, 2 and 3).

*Loans Receivable, Net of Allowance for Loan Losses* The fair value for loans receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the offering rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product type using the Bank s loan pricing model for like-quality credits. The discount rates used in the Bank s model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans. No adjustments have been made for changes in credit within the loan portfolio. It is our opinion that the allowance for loan losses relating to performing and nonperforming loans results in a fair valuation of such loans. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize (Level 3).

*Loans Held for Sale* Loans held for sale are carried at the lower of aggregate cost or fair market value, as determined based upon quotes, bids or sales contract prices, or as may be assessed based upon the fair value of the collateral which is obtained from recent real estate appraisals (Level 2). Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustment is typically significant and results in Level 3 classification of the inputs for determining fair value.

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*Accrued Interest Receivable* The carrying amount of accrued interest receivable approximates its fair value (Level 1).

*Investment in Federal Home Loan Bank and Federal Reserve Bank Stock* The carrying amounts of investment in Federal Home Loan Bank ( FHLB ) and Federal Reserve Bank ( FRB ) stock approximate fair value as such stock may be resold to the issuer at carrying value (Level 1).

*Non-Interest-Bearing Deposits* The fair value of non-interest-bearing deposits is the amount payable on demand at the reporting date (Level 2).

*Interest-Bearing Deposits* The fair value of interest-bearing deposits, such as savings accounts, money market checking, and certificates of deposit, is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).

*Borrowings* Borrowings consist of FHLB advances, junior subordinated debentures and other borrowings. Discounted cash flows based on current market rates for borrowings with similar remaining maturities are used to estimate the fair value of borrowings (Level 3).

*Accrued Interest Payable* The carrying amount of accrued interest payable approximates its fair value (Level 1).

*Stock Warrants* The fair value of stock warrants is determined by the Black-Scholes option pricing model. The expected stock volatility is based on historical volatility of our common stock over 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 (Level 3).

*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 (Level 3).

## NOTE 8 SHARE-BASED COMPENSATION

### Share-Based Compensation Expense

For the three months ended March 31, 2013 and 2012, share-based compensation expense was $98,000 and $51,000, respectively, and the related tax benefits on non-qualified stock options were $12,000 and $4,000, respectively.

### Unrecognized Share-Based Compensation Expense

As of March 31, 2013, unrecognized share-based compensation expense was as follows:

| | Unrecognized Expense | Average Expected Recognition Period |
|---|---|---|
| | *(In Thousands)* | |
| Stock Option Awards | $ 849 | 2.7 years |
| Restricted Stock Awards | 44 | 1.0 years |
| **Total Unrecognized Share-Based Compensation Expense** | **$ 893** | 2.6 years |

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The table below provides stock option information for the three months ended March 31, 2013:

| | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value of In-the-Money Options |
|---|---|---|---|---|
| | *(Dollars in Thousands, Except Per Share Data)* | | | |
| Options Outstanding at Beginning of Period | 342,950 | $ 37.44 | 8.0 years | $ 359(1) |
| Options Exercised | (1,679) | $ 12.54 | 9.7 years | |
| Options Forfeited | (5,251) | $ 12.54 | 9.7 years | |
| Options Expired | (700) | $ 120.96 | 1.7 years | |
| **Options Outstanding at End of Period** | **335,320** | **$ 37.78** | **7.7 years** | **$ 721(2)** |
| Options Exercisable at End of Period | 163,632 | $ 64.38 | 5.9 years | $ 364(2) |

*(1) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $13.59 as of December 31, 2012, over the exercise price, multiplied by the number of options.*

*(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $16.00 as of March 28, 2013, over the exercise price, multiplied by the number of options.*

There were 1,679 stock options exercised during the three months ended March 31, 2013 compared to none during the three months ended March 31, 2012.

**Restricted Stock Awards**

Restricted stock awards under the 2007 Plan generally 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 stock awards when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock awards are treated as cancelled shares.

The table below provides information for restricted stock awards for the three months ended March 31, 2013:

| | Number of Shares | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|
| Restricted Stock at Beginning of Period | 10,500 | $ 10.83 |
| Restricted Stock Vested | (2,500) | $ 10.40 |
| **Restricted Stock at End of Period** | **8,000** | **$ 10.97** |

**NOTE 9 EARNINGS PER SHARE**

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

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | *(Numerator)* Net Income | *(Denominator)* Weighted-Average Shares | Per Share Amount | *(Numerator)* Net Income | *(Denominator)* Weighted-Average Shares | Per Share Amount |
| | *(Dollars in Thousands, Except Per Share Data)* | | | | | |
| **Three Months Ended March 31:** | | | | | | |
| Basic EPS | $ 10,110 | 31,538,980 | $ 0.32 | $ 7,341 | 31,470,520 | $ 0.23 |
| Effect of Dilutive Securities - Options, Warrants and Unvested Restricted Stock | | 87,687 | | | 19,049 | |
| Diluted EPS | $ 10,110 | 31,626,667 | $ 0.32 | $ 7,341 | 31,489,569 | $ 0.23 |

For the three months ended March 31, 2013 and 2012, there were 76,625 and 373,650 options, warrants and shares of unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

## NOTE 10 OFF-BALANCE SHEET COMMITMENTS

The Bank is 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 similar to the risk involved with on-balance sheet items recognized in the Consolidated Balance Sheets.

The Bank s exposure to credit losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, was based on management s credit evaluation of the counterparty.

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Commitments to Extend Credit | $ 158,744 | $ 182,746 |
| Standby Letters of Credit | 10,493 | 10,588 |
| Commercial Letters of Credit | 4,817 | 6,092 |
| Unused Credit Card Lines | 13,647 | 13,459 |
| **Total Undisbursed Loan Commitments** | **$ 187,701** | **$ 212,885** |

## NOTE 11 LIQUIDITY

### Hanmi Financial

Management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through March 31, 2014. Hanmi Financial redeemed $30.9 million of trust preferred securities ( TPS ) on March 15, 2013, and fully paid off the remaining $51.5 million of TPS by the end of April 2013.

**Hanmi Bank**

The principal objective of our liquidity management program is to maintain the Bank s ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. 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 originating from its branch platform. The Bank s wholesale funds historically consisted of FHLB advances and brokered deposits. As of March 31, 2013, the Bank had no brokered deposits, and had FHLB advances of $2.8 million compared to $2.9 million as of December 31, 2012.

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We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. 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 March 31, 2013, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $367.4 million and $364.5 million, respectively, compared to $275.1 million and $272.2 million, respectively, as of December 31, 2012. The Bank s FHLB borrowings as of March 31, 2013 and December 31, 2012 totaled $2.8 million and $2.9 million, respectively, which represented 0.10 percent of total assets as of both dates.

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 an available borrowing source of $104.4 million from the Federal Reserve Discount Window (the Fed Discount Window ), to which the Bank pledged loans with a carrying value of $147.4 million, and had no borrowings as of March 31, 2013. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for reverse repurchase agreements up to a maximum of $100.0 million.

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.

**NOTE 12 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 13 ACCUMULATED OTHER COMPREHENSIVE INCOME**

Activity in accumulated other comprehensive income (loss) for the three months periods ended March 31, 2013 and 2012 was as follows:

| | Unrealized Gains and Losses on Available-for-Sale Securities | Unrealized Gains and Losses on Interest Rate Swap | Unrealized Gains and Losses on Interest-Only Strip | Tax (Expense) Benefit | Total |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **For the Three Months Ended March 31, 2013** | | | | | |
| Balance at Beginning of Period | $ 7,348 | $ | $ 16 | $ (1,946) | $ 5,418 |
| Other Comprehensive Income before Reclassification | (568) | | 3 | 251 | (314) |
| Reclassification from Accumulated Other Comprehensive Income | (9) | | | | (9) |
| Period Change | (577) | | 3 | 251 | (323) |
| **Balance at End of Period** | **$ 6,771** | **$** | **$ 19** | **$ (1,695)** | **$ 5,095** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **For the Three Months Ended March 31, 2012** | | | | | | | | |
| Balance at Beginning of Period | $ 4,115 | $ | (9) | $ | 20 | $ | (602) | $ 3,524 |
| Other Comprehensive Income before Reclassification | 675 | | 1 | | 2 | | | 678 |
| Reclassification from Accumulated Other Comprehensive Income | (1) | | | | | | | (1) |
| Period Change | 674 | | 1 | | 2 | | | 677 |
| **Balance at End of Period** | **$ 4,789** | **$** | **(8)** | **$** | **22** | **$** | **(602)** | **$ 4,201** |

For the three months ended March 31, 2013, there was a $9,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption of the available-for-sale securities. The $9,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under non-interest income. The securities were previously recorded as unrealized gains of $34,000 in accumulated other comprehensive income. For the three months ended March 31, 2012, there was a $1,000 reclassification from accumulated other comprehensive income to gain in earnings, which resulted from the redemption of an available-for-sale security. The $1,000 reclassification adjustment out of accumulated other comprehensive income was included in gain on sale of investment securities under non-interest income. The securitiy was previously recorded as an unrealized gain of $4,000 in accumulated other comprehensive income.

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**NOTE 14 SUBSEQUENT EVENTS**

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 Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of March 31, 2013.

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

The following is management s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three months ended March 31, 2013. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Annual Report on Form 10-K ) and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (this Report ).

**FORWARD-LOOKING STATEMENTS**

Some of the statements under *Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Report 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 Report 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, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plan 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. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes predicts, potential, or continue, or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following:

- failure to maintain adequate levels of capital to support our operations;
- a significant number of customers failing to perform under their loans or 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;
- 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;
- 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, including as a result of the Dodd-Frank Act; and
- other risks described herein and in the other reports we file with the Securities and Exchange Commission;

For a discussion of some of the other factors that might cause such a difference, see the discussion contained in this Report under the heading Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Also 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 in our 2012 Annual Report on Form 10-K, as well as other factors we identify from time to time in our periodic reports, including our Quarterly Reports on Form 10-Q, filed pursuant to the Exchange Act. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date, on which such statements were made, except as required by law.

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## CRITICAL ACCOUNTING POLICIES

We have established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to Consolidated Financial Statements in our 2012 Annual Report on Form 10-K. Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our 2012 Annual Report on Form 10-K. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial s Board of Directors.

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**SELECTED FINANCIAL DATA**

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

| | As of and For the Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| | *(In Thousands, Except Per Share Data)* | |
| **AVERAGE BALANCES:** | | |
| Average Gross Loans, Net [1] | $ 2,073,514 | $ 1,985,071 |
| Average Investment Securities | 443,073 | 426,384 |
| Average Interest-Earning Assets | 2,693,424 | 2,676,643 |
| Average Total Assets | 2,829,927 | 2,742,006 |
| Average Deposits | 2,348,799 | 2,337,302 |
| Average Borrowings | 79,110 | 85,665 |
| Average Interest-Bearing Liabilities | 1,727,272 | 1,777,208 |