HANMI FINANCIAL CORP
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012

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

(213) 382-2200

(Registrant s Telephone Number, Including Area Code)

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

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

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

None

(Title of Class)

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

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

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

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

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

Large Accelerated Filer	¨	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 June 30, 2012, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $320,085,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of March 1, 2013 was 31,584,193 shares.

Documents Incorporated By Reference Herein: Registrant s Definitive Proxy Statement for its 2013 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2012, is incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K).

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HANMI FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under *Item 1. Business*, *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements in this Annual Report on Form 10-K other than statements of historical fact are forward looking statements for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, 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, anticipates, believes, estimates, predicts, potential, or continue, or the negative of such terms and other comparable terminology. Althoug 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 attract new deposits and loans;

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

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

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

inability to access sufficient funding sources when needed;

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;

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- 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 and statements we file with the U.S. Securities and Exchange Commission.

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

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PART I

ITEM 1. BUSINESS

General

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. The Bank s full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. At December 31, 2012, the Bank maintained a branch network of 27 full-service branch offices in California and one loan production office (LPO) in Washington.

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

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

	Year Ended December 31,					
	2012		2011		2010	
	(In Thousands)					
Interest and Fees on Loans	$ 108,982	75.3%	$ 117,671	77.1%	$ 137,328	80.8%
Interest and Dividends on Investments	9,630	6.7%	10,518	6.9%	6,631	3.9%
Other Interest Income	1,188	0.8%	618	0.4%	553	0.3%
Service Charges on Deposit Accounts	12,146	8.4%	12,826	8.4%	14,049	8.3%
Other Non-Interest Income	12,666	8.8%	11,025	7.2%	11,357	6.7%
Total Revenues	**$ 144,612**	**100.0%**	**$ 152,658**	**100.0%**	**$ 169,918**	**100.0%**

Termination of Regulatory Enforcement Actions

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

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Following a target joint examination of the Bank by the DFI and the FRB, which commenced in February 2012, and based on the improved condition of the Bank noted at the examination, the Bank entered into a Memorandum of Understanding (MOU) with the DFI on May 1, 2012. Concurrently with the entry into the MOU, the DFI issued an order terminating the Order.

After our annual joint examination of the Bank by the DFI and the FRB, which commenced in August 2012, the DFI informed the Bank that the Bank s overall condition had improved and that the MOU had been terminated effective October 29, 2012. Furthermore, on December 4, 2012, the FRB informed Hanmi Financial and the Bank that the Written Agreement has been terminated. Accordingly, Hanmi Financial and the Bank are no longer subject to any of the requirements imposed by the MOU and the Written Agreement or any other enforcement action.

Market Area

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

Lending Activities

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

Real Estate Loans

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

Commercial Property

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

The Bank s commercial real estate loans are principally secured by investor-owned commercial buildings and owner-occupied commercial and industrial buildings. Generally, these types of loans are made for a period of up

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

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

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

Construction

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

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

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

the uncertain value of the project prior to completion;

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

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construction delays and cost overruns;

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

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

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

Residential Property

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

Commercial and Industrial Loans

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

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

In general, it is the intent of the Bank to take collateral whenever possible, regardless of the loan purpose(s). Collateral may include liens on inventory, accounts receivable, fixtures and equipment, leasehold improvements and real estate. When real estate is the primary collateral, the Bank obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. Typically, the Bank requires all principals of a business to be co-obligors on all loan instruments and all significant stockholders of corporations to execute a

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specific debt guaranty. All borrowers must demonstrate the ability to service and repay not only their obligations to the Bank debt, but also all outstanding business debt, without liquidating the collateral, based on historical earnings or reliable projections.

Commercial Term Loans

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

Commercial Lines of Credit

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

SBA Loans

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

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA loan, it has an obligation to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. The Bank retains the right to service the SBA loans, for which it receives servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2012, the Bank had $156.6 million of SBA loans in its portfolio, and was servicing $297.2 million of SBA loans sold to investors.

International Trade Finance

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

Consumer Loans

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

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

Off-Balance Sheet Commitments

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

Lending Procedures and Loan Limits

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

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of the such bank s stockholders equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2012, the Bank s authorized legal lending limits for loans to one borrower were $75.5 million for unsecured loans plus an additional $50.3 million for specific secured loans. However, the Bank has established internal loan limits that are lower than the legal lending limits.

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

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

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

The Bank analyzes its allowance for loan losses on a quarterly basis. As an integral part of the quarterly credit review process of the Bank, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The DFI and the FRB may require the Bank to recognize additions to the allowance for loan losses through a provision for credit losses based upon their assessment of the information available to them at the time of their examinations.

Deposits

The Bank offers a traditional array of deposit products, including non-interest bearing checking accounts, interest bearing checking and savings accounts, negotiable order of withdrawal (NOW) accounts, money market accounts and certificates of deposit. These accounts, except for non-interest bearing checking accounts, earn interest at rates established by management based on competitive market factors and management s desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer s needs. This approach is designed to add value for the customer, increase products per household and produce higher service fee income.

Website

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

Employees

As of December 31, 2012, the Bank had 415 full-time employees and 17 part-time employees, and Chun-Ha and All World had 37 full-time employees and 1 part-time employee. Our employees are not represented by a union or covered by a collective bargaining agreement. We believe that our employee relations are satisfactory.

Insurance

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

Competition

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

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

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

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

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

Economic Legislative and Regulatory Developments

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

(i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;

(ii) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

(iii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

(iv) the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

(v) enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks;

(vi) the termination of investments by the U.S. Treasury under TARP;

(vii) the elimination and phase out of trust preferred securities from Tier 1 capital with certain exceptions;

(viii) a permanent increase of FDIC deposit insurance to $250,000;

(ix) authorization for financial institutions to pay interest on business checking accounts;

(x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution s deposit base, but instead, will be its average consolidated total assets less its average tangible equity and an increase in the minimum insurance ratio for the Deposit Insurance Fund (DIF) from 1.15 percent to 1.35 percent;

(xi) the elimination of remaining barriers to de novo interstate branching by federal- and state-chartered banks;

(xii) expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions;

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(xiii) the transfer of oversight of federally chartered thrift institutions to the Office of the Comptroller of the Currency and state chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

(xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including financial institutions, including (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria, (3) enhanced independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement; and

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

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

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

International Capital and Liquidity Initiatives

The international Basel Committee on Banking Supervision (the Basel Committee) is a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. In December 2009, the Basel Committee released two consultative documents proposing significant changes to bank capital, leverage and liquidity requirements in response to the economic downturn to enhance the Basel II framework which had not yet been fully implemented internationally and even less so in the United States. The Group of Twenty Finance Ministers and Central Bank Governors (commonly referred to as the G-20), including the United States, endorsed the reform package, referred to as Basel III, and proposed phase in timelines in November, 2010.

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Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a capital conservation buffer on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation s circumstances. These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee s intention to introduce higher capital requirements on securitization and trading activities at the end of 2011.

In June 2012, the Federal Reserve released proposed rules regarding implementation of the Basel III regulatory capital rules for United States banking regulators. The proposed rules address a significant number of outstanding issues and questions regarding how certain provisions of Basel III are proposed to be adopted in the United States. Key provisions of the proposed rules include the total phase-out from tier 1 capital of trust preferred securities for all banks, a capital conservation buffer of 2.50 percent above minimum capital ratios, inclusion of accumulated other comprehensive income in tier 1 common equity, inclusion in tier 1 capital of perpetual preferred stock and an effective floor for tier 1 common equity of 7.00 percent. Final rules are expected to be adopted in 2013. We are unable at this time to predict how the final rules will differ from the proposed rules and the effective date of the final rules. We will continue to monitor Basel III developments and remain committed to managing our capital levels in a prudent manner.

Supervision and Regulation

General

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

Hanmi Financial

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

- require periodic reports and such additional information as the FRB may require.
- require bank holding companies to maintain certain levels of capital.
- require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank.
- restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks.
- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary.
- take formal or informal enforcement action or issue other supervisory directives and assess civil money penalties for non-compliance under certain circumstances.

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

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

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

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

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

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

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

Regulatory Restrictions on Dividends; Source of Strength

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

The Federal Reserve s view is that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its

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source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve s regulations, or both. The source-of-strength doctrine, now codified in the federal banking statues pursuant to Dodd-Frank, most directly affects bank holding companies where a bank holding company s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank s federal regulator to take prompt corrective action including obtaining a guarantee by the bank holding company of a capital plan for undercapitalized bank subsidiaries. See Prompt Corrective Action Regulations below. Additionally, if a bank holding company has more than one bank subsidiary, the FDIA provides that each subsidiary bank may have cross-guaranty liability for any loss incurred by the FDIC in connection with the failure of another commonly-controlled bank.

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

Regulatory Restrictions on Activities

Subject to prior notice or FRB approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized, and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (CRA), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. Hanmi Financial elected financial holding company status and Chun-Ha and All World are considered financial subsidiaries of Hanmi Financial.

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

Privacy Policies

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

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Capital Adequacy Requirements

At December 31, 2012, Hanmi Financial and the Bank s capital ratios exceeded the minimum percentage requirements to be deemed well capitalized for regulatory purposes. *See Notes to Consolidated Financial Statements, Note 1 Regulatory Matters.* The regulatory capital guidelines and the actual capital ratios for Hanmi Financial and the Bank as of December 31, 2012, were as follows:

	Regulatory Capital Guidelines		Actual	
	Adequately Capitalized	**Well Capitalized**	**Hanmi Financial**	**Hanmi Bank**
Total Risk-Based Capital Ratio	8.00%	10.00%	20.65%	19.85%
Tier 1 Risk-Based Capital Ratio	4.00%	6.00%	19.37%	18.58%
Tier 1 Leverage Rate	4.00%	5.00%	14.95%	14.33%

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

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

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

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

Qualifying capital is classified depending on the type of capital:

Tier I capital currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. The capital received from trust preferred offerings also qualifies as Tier I capital, subject to the new provisions of Dodd-Frank. Under Dodd-Frank, depository institution holding companies with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier 1 regulatory capital after the end of a 3-year phase-out period beginning 2013, and would need to replace any outstanding trust preferred securities issued prior to May 19, 2010 with qualifying Tier 1 regulatory capital during the phase-out period. For institutions with less than $15 billion in total consolidated assets, existing trust preferred capital will still qualify as Tier 1. Since the Company had less than $15 billion in assets at December 31, 2012, under the Dodd-Frank Act, it will be able to continue to include its existing trust preferred debt in Tier 1 capital.

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

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

Under the current capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized, a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10 percent, 6 percent and 5 percent, respectively. At December 31, 2012, the respective capital ratios of Hanmi Financial and the Bank exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes.

In addition to the requirements of Dodd-Frank and Basel III, the federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets. Federal banking regulators may set higher capital requirements when a bank s particular circumstances warrant and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized. In such cases, the institutions may no longer be deemed well capitalized and may therefore additionally be subject to restrictions on taking brokered deposits.

Hanmi Financial and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3 percent. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3 percent minimum, for a minimum of 4 percent to 5 percent. As of December 31, 2012, the Hanmi Financial s leverage capital ratio was 14.95 percent, and the Bank s leverage capital ratio was 14.33 percent, both ratios well exceeding regulatory minimums.

Imposition of Liability for Undercapitalized Subsidiaries

Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes

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undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution s holding company is entitled to a priority of payment in bankruptcy.

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

Acquisitions by Bank Holding Companies

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

Control Acquisitions

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

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

Sarbanes-Oxley Act

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

Securities Registration

Hanmi Financial s common stock is publicly held and listed on the NASDAQ Stock Market (NASDAQ). Hanmi Financial is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the SEC promulgated thereunder as well as listing requirements of NASDAQ. Dodd-Frank includes the following provisions

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that affect corporate governance and executive compensation at most United States publicly traded companies, including Hanmi Financial: (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the American Recovery and Reinvestment Act of 2009 for TARP CPP recipients, (3) enhanced independence requirements for compensation committee members, and (4) SEC authority to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement.

The Bank

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

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

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

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

- require affirmative action to correct any conditions resulting from any violation or practice;
- direct an increase in capital or establish specific minimum capital ratios;
- restrict the Bank s growth geographically, by products and services or by mergers and acquisitions;
- enter into informal non-public or formal public memoranda of understanding or written agreements;
- enjoin unsafe and unsound practices and issue cease and desist orders to take corrective action;

remove officers and directors and assess civil monetary penalties;

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

take possession and close and liquidate the Bank.

Brokered Deposits

Under the FDIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized could be restricted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. As of December 31, 2012, the Bank had no brokered deposits.

Community Reinvestment Act

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

Federal Home Loan Bank System

The Bank is a member and stockholder of the capital stock of the Federal Home Loan Bank of San Francisco. Among other benefits, each Federal Home Loan Bank (FHLB) serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement with an initial cap of $25 million (100 percent of membership asset value as defined), or (ii) an activity based stock requirement (based on percentage of outstanding advances). At December 31, 2012, the Bank was in compliance with the FHLB s stock ownership requirement, and our investment in FHLB capital stock totaled $17.8 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2012 were $275.1 million and $272.1 million, respectively.

Federal Reserve System

The FRB requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking and non-personal time deposits). At December 31, 2012, the Bank was in compliance with these requirements.

Prompt Corrective Action Regulations

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

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

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0 percent of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

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

FDIC Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF) up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to $250,000. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by Dodd-Frank. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates.

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

Our FDIC insurance expense totaled $4.2 million for 2012. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments related to outstanding FICO bonds to fund interest payments on bonds to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017. The FICO assessment rate, which is determined quarterly, was 0.00160% of insured deposits for the year ended December 31, 2012. The total FICO assessment in 2012 was $157,000.

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

In November 2008, the FDIC approved the final ruling establishing the Transaction Account Guarantee Program (TAGP) as part of the Temporary Liquidity Guarantee Program (TLGP). Under this program, all non-interest bearing transaction accounts became fully guaranteed by the FDIC for the entire amount in the account. The TAGP expired as of December 31, 2012 and the FDIC will no longer provide separate, unlimited deposit insurance under that program.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC. The termination of deposit insurance for the Bank could have a material adverse effect on our financial condition and results of operations due to the fact that the Bank s liquidity position would likely be affected by deposit withdrawal activity.

Loans-to-One-Borrower

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

Extensions of Credit to Insiders and Transactions with Affiliates

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

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

Such loans and leases:

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

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

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B, as amended by Dodd-Frank, and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include

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parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank s affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

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

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

Dividends

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

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

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

The powers of the Board of Directors of the Bank to declare a cash dividend to its holding company is subject to California law as set forth in the Financial Code, which restricts the amount available for cash dividends to the lesser of a bank s retained earnings or net income for its last three fiscal years (less any distributions to stockholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the

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DFI, in an amount not exceeding the greatest of: 1) retained earnings of the bank; 2) the net income of the bank for its last fiscal year; or 3) the net income of the bank for its current fiscal year. Due to the Bank s retained deficit of $122.6 million as of December 31, 2012, the Bank is restricted under the Financial Code from making dividends to Hanmi Financial without the prior approval of the DFI. See *Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Dividends* for a further discussion of restrictions on the Bank s ability to pay dividends to Hanmi Financial.

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

Bank Secrecy Act and USA PATRIOT Act

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

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

Consumer Laws

The Bank must comply with numerous consumer protection statutes and implementing regulations, including the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Americans with Disabilities Act, statues and regulations regarding unfair, deceptive or abusive acts or practices, and various federal and state privacy protection laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including, but not limited to, enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Dodd-Frank provides for the creation of the Consumer Financial Protection Bureau as an independent entity within the Federal Reserve. This bureau is a new regulatory agency for United States banks. It will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower s ability to repay and prepayment penalties. The bureau s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Banks with less than $10 billion in assets, such as the Bank, will continue to be examined for consumer financial protection compliance by their primary federal banking agency.

Regulation of Subsidiaries

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

ITEM 1A. RISK FACTORS

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

Risks Relating to our Business

Unfavorable economic and market conditions could continue to adversely affect our industry. Declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Unfavorable economic developments beginning in 2008 have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. The impact on the Bank s credit quality has stabilized; however, there is a risk that economic conditions will deteriorate. Further economic deterioration could exacerbate the adverse effects of the difficult market conditions on us and others in the financial institutions industry. Particularly, we may face the following risks in connection with these events:

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

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

- Our liquidity could be negatively impacted by an inability to access the capital markets, unforeseen or extraordinary demands on cash, or regulatory restrictions.

Our Southern California business focus and economic conditions in Southern California could adversely affect our operations. The Bank s operations are located primarily in Los Angeles County and Orange

County in Southern California. Because of this geographic concentration, our results depend largely upon economic conditions in these areas. The continued deterioration in economic conditions in the Bank s market areas, continued high unemployment or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank s loan portfolio, the demand for its products and services and on its overall financial condition and results of operations.

Our concentration in loans collateralized by commercial real estate property located primarily in Southern California could have adverse effects on credit quality. As of December 31, 2012, the Bank s loan portfolio included commercial property, construction, and commercial and industrial loans, which were collateralized by commercial real estate properties located primarily in Southern California, totaling $1.8 billion, or 87.7 percent of total gross loans. Because of this concentration, a potential deterioration of the commercial real estate market in Southern California could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans. Among the factors that could contribute to such a potential decline are general economic conditions in Southern California, interest rates and local market construction and sales activity.

Our concentrations of loans in certain industries could have adverse effects on credit quality. As of December 31, 2012, the Bank s loan portfolio included loans to: (i) lessors of non-residential buildings totaling $451.5 million, or 22.0 percent of total gross loans; (ii) borrowers in the accommodation industry totaling $330.7 million, or 16.1 percent of total gross loans; and (iii) gas stations totaling $276.0 million, or 13.5 percent of total gross loans. Most of these loans are in Southern California. Because of these concentrations of loans in specific industries, a continued deterioration of the Southern California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional requirements imposed by the Dodd-Frank Act and other regulations could adversely affect us. The Dodd-Frank Act and related regulations subject us and other financial institutions to more restrictions, oversight, reporting obligations and costs. In addition, this increased regulation of the financial services industry restricts the ability of institutions within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

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

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

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

The FDIC s restoration plan and the related increased assessment rate could adversely affect our earnings. As required by the Dodd-Frank Act, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan (i) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund, and (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required. The Federal Deposit Insurance Act continues to require that the FDIC s Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2 percent of insured deposits by 2027.

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

The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us. On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III, which were approved in November 2010 by the G20 leadership. In June 2012, the Federal Reserve released proposed rules regarding implementation of the Basel III regulatory capital rules for United States banking institutions. The proposed rules address a significant number of outstanding issues and questions regarding how certain provisions of Basel III are proposed to be adopted in the United States. Key provisions of the proposed rules include the total phase-out from tier 1 capital of trust preferred securities for all banks, a capital conservation buffer of 2.50 percent above minimum capital ratios, inclusion of accumulated other comprehensive income in tier 1 common equity, inclusion in tier 1 capital of perpetual preferred stock, and an effective floor for tier 1 common equity of 7.00 percent. Final rules are expected to be adopted in 2013. There is no assurance that the proposed rules will be adopted in their current form, what changes may be made prior to adoption, or when the final rules will be effective.

We are subject to the risk that the global credit crisis, despite efforts by global governments to halt that crisis, may affect interest rates and the availability of financing in general, which could adversely affect our financing and our operating results. Global capital markets and economic conditions are still unstable and the resulting disruption has been particularly acute in the financial sector. During the past several years, several large European banks experienced financial difficulty and were either rescued by government assistance or by other large European banks. Several European governments have coordinated plans to attempt to shore up their financial sectors through loans, credit guarantees, capital infusions, promises of continued liquidity funding and interest rate cuts. Additionally, other governments of the world s largest economic countries also implemented interest rate cuts. There is no assurance that these and other plans and programs will be successful in halting the global credit crisis or in preventing other banks from failing. The failure of regulatory initiatives to help stabilize the financial markets and a worsening of financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to capital, liquidity, the financial condition of our borrowers, and credit or the value of our securities.

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

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

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

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

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

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

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

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

Changes in accounting standards may affect how we record and report our financial condition and results of operations. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

We are required to assess the recoverability of our deferred tax assets on an ongoing basis. Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or the entire amount. A valuation allowance on our deferred tax asset could have a material adverse impact on our capital and results of operations.

We may become subject to regulatory restrictions in the event that our capital levels decline. We cannot provide any assurance that our total risk-based capital ratio or other capital ratios will not decline in the future such that the Bank may be considered to be undercapitalized for regulatory purposes. If a state member bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the Federal Reserve Bank. Pursuant to Federal Deposit Insurance Corporation Improvement Act, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the Federal Reserve Bank of a capital restoration plan for the bank. Pursuant to Section 38 of the Federal Deposit Insurance Act and Federal Reserve Board Regulation H, the Federal Reserve Bank also has the discretion to impose certain other corrective actions.

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

We could be negatively impacted by downturns in the South Korean economy. Many of our customers are locally based Korean-Americans who also conduct business in South Korea. Although we conduct most of our business with locally-based customers and rely on domestically located assets to collateralize our loans and credit arrangements, we have historically had some exposure to the economy of South Korea. Management closely monitors our exposure to the South Korean economy, and to date, we have not experienced any significant loss attributable to our exposure to South Korea. Nevertheless, our efforts to minimize exposure to downturns in the South Korean economy may not be successful in the future, and a significant downturn in the South Korean economy could possibly have a material adverse effect on our financial condition and results of operations.

In addition, due to our customer base being largely made up of Korean-Americans, our deposit base could significantly decrease as a result of deterioration in the Korean economy. For example, some of our customers businesses may rely on funds from South Korea. Further, our customers may temporarily withdraw deposits in order to transfer funds and benefit from gains on foreign exchange and interest rates, and/or to support their relatives in South Korea during downturns in the Korean economy. A significant decrease in our deposits could also have a material adverse effect on our financial condition and results of operations.

Our board of directors is exploring and evaluating strategic alternatives. Our board of directors is exploring and evaluating potential strategic alternatives that may be available to us. We currently have no agreements or commitments to engage in any specific strategic transactions, and we cannot assure you that our

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exploration of strategic alternatives will result in any specific action or transaction. We do not intend to provide updates or make further comments regarding the evaluation of strategic alternatives, unless otherwise required by law.

Risks Relating to Ownership of Our Common Stock

The Bank is currently restricted from paying dividends to us and we are restricted from paying dividends to stockholders. The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank currently has a retained deficit of $122.6 million as of December 31, 2012 and suffered net losses in 2010, 2009 and 2008, largely caused by provision for credit losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, with or without Commissioner approval.

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

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity-related securities, and other factors identified above in Cautionary Note Regarding Forward-Looking Statements. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation and potential delisting from the NASDAQ.

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

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

In addition, we have adopted a stock option plan that provides for the granting of stock options to our directors, executive officers and other employees. As of December 31, 2012, 21,550 shares of our common stock were issuable under options granted in connection with our stock option plans and stock warrants issued in connection with the registered rights and best efforts offerings. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

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

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

Holders of our junior subordinated debentures have rights that are senior to those of our stockholders. As of December 31, 2012, we had outstanding $82.4 million of trust preferred securities issued by our subsidiary trusts. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. The junior subordinated debentures underlying the trust preferred securities are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

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

The following table sets forth information about our offices as of December 31, 2012:

Office	Address	City/State	Owned/ Leased
Corporate Headquarters [(1)]	3660 Wilshire Boulevard, Penthouse Suite A	Los Angeles, CA	Leased
Branches:			
Beverly Hills Branch	9300 Wilshire Boulevard, Suite 101	Beverly Hills, CA	Leased
Cerritos Artesia Branch	11754 East Artesia Boulevard	Artesia, CA	Leased
Cerritos South Branch	11900 South Street, Suite 109	Cerritos, CA	Leased
Downtown Los Angeles Branch	950 South Los Angeles Street	Los Angeles, CA	Leased
Diamond Bar Branch	1101 Brea Canyon Road, Suite A-1	Diamond Bar, CA	Leased
Fashion District Branch	726 East 12th Street, Suite 211	Los Angeles, CA	Leased
Fullerton Beach Branch [(3)]	5245 Beach Boulevard	Buena Park, CA	Leased
Garden Grove Brookhurst Branch	9820 Garden Grove Boulevard	Garden Grove, CA	Owned
Garden Grove Magnolia Branch	9122 Garden Grove Boulevard	Garden Grove, CA	Owned
Gardena Branch	2001 West Redondo Beach Boulevard	Gardena, CA	Leased
Irvine Branch	14474 Culver Drive, Suite D	Irvine, CA	Leased
Koreatown Galleria Branch	3250 West Olympic Boulevard, Suite 200	Los Angeles, CA	Leased
Koreatown Plaza Branch	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
Northridge Branch	10180 Reseda Boulevard	Northridge, CA	Leased
Olympic Branch [(2)]	3737 West Olympic Boulevard	Los Angeles, CA	Owned
Olympic Kingsley Branch	3099 West Olympic Boulevard	Los Angeles, CA	Owned
Rancho Cucamonga Branch	9759 Baseline Road	Rancho Cucamonga, CA	Leased
Rowland Heights Branch	18720 East Colima Road	Rowland Heights, CA	Leased
San Diego Branch	4637 Convoy Street, Suite 101	San Diego, CA	Leased
San Francisco Branch	1469 Webster Street	San Francisco, CA	Leased
Silicon Valley Branch	2765 El Camino Real	Santa Clara, CA	Leased
Torrance Crenshaw Branch	2370 Crenshaw Boulevard, Suite H	Torrance, CA	Leased
Torrance Del Amo Mall Branch	21838 Hawthorne Boulevard	Torrance, CA	Leased
Van Nuys Branch	14427 Sherman Way	Van Nuys, CA	Leased
Vermont Branch [(3)]	933 South Vermont Avenue	Los Angeles, CA	Owned
Western Branch	120 South Western Avenue	Los Angeles, CA	Leased
Wilshire Hobart Branch	3660 Wilshire Boulevard, Suite 103	Los Angeles, CA	Leased
Departments:			
Commercial Loan Department [(1)]	3660 Wilshire Boulevard, Suite 1050	Los Angeles, CA	Leased
Consumer Lending Center [(1)]	3660 Wilshire Boulevard, Suite 116	Los Angeles, CA	Leased
Private Banking Department [(1)]	3737 West Olympic Boulevard	Los Angeles, CA	Leased
International Finance Department [(1)]	933 South Vermont Avenue, 2nd Floor	Los Angeles, CA	Leased
SBA Loan Center [(1)]	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
LPOs and Subsidiaries:			
Northwest Region LPO [(1)]	500 108th Avenue NE, Suite 1760	Bellevue, WA	Leased
Chun-Ha/All World [(1)]	12912 Brookhurst Street, Suite 480	Garden Grove, CA	Leased
Chun-Ha [(1)]	3660 Wilshire Boulevard, Suite 528	Los Angeles, CA	Leased

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

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

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

As of December 31, 2012, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $15.2 million. Our lease expense was $5.5 million for the year ended December 31, 2012. Hanmi Financial and its subsidiaries consider their present facilities to be sufficient for their current operations.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

	High	Low	Cash Dividend
2012:			
Fourth Quarter	$ 13.62	$ 11.77	$
Third Quarter	$ 13.33	$ 10.38	$
Second Quarter	$ 10.68	$ 9.17	$
First Quarter	$ 10.59	$ 7.72	$
2011:			
Fourth Quarter	$ 8.56	$ 6.48	$
Third Quarter	$ 10.00	$ 6.40	$
Second Quarter	$ 11.44	$ 6.64	$
First Quarter	$ 11.44	$ 8.80	$

Holders

Hanmi Financial had 229 registered stockholders of record as of February 1, 2013.

Dividends

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

The ability of Hanmi Financial to pay dividends to its stockholders is also directly dependent on the ability of the Bank to pay dividends to us. Section 642 of the California Financial Code provides that neither a California state-chartered bank nor a majority-owned subsidiary of a bank can pay dividends to its stockholders in an amount which exceeds the lesser of (a) the retained earnings of the bank or (b) the net income of the bank for its last three fiscal years, in each case less the amount of any previous distributions made during such period. FRB Regulation H Section 208.5 provides that the Bank must obtain FRB approval to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank s net income during the current calendar year and the retained net income of the prior two calendar years.

As a result of the net loss incurred by the Bank in prior years, the Bank is currently not able to pay dividends to Hanmi Financial under Section 642. Financial Code Section 643 provides, alternatively, that, notwithstanding the foregoing restriction set forth in Section 642, dividends in an amount not exceeding the greatest of (a) the retained earnings of the bank; (b) the net income of the bank for its last fiscal year or (c) the net income of the

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bank for its current fiscal year may be declared with the prior approval of the California Commissioner of Financial Institutions. The Bank had an accumulated deficit of $122.6 million as of December 31, 2012 and is not able to pay dividends under Section 643.

The junior subordinated debentures underlying our trust preferred securities are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We deferred distributions on our $82.4 million of outstanding junior subordinated debentures (and related trust preferred securities) with the interest payment that was due on January 15, 2009. Upon termination of the regulatory enforcement actions by the FRB on December 4, 2012 and the DFI on October 29, 2012, Hanmi Financial paid accrued interest of $4.6 million on December 15, 2012 for the Trust II and, subsequent to December 31, 2012, has paid accrued interest of $5.2 million and $3.1 million in January 2013 for the Trust I and III, respectively.

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Performance Graph

The following graph shows a comparison of stockholder return on Hanmi Financial s common stock with the cumulative total returns for: 1) the Nasdaq Composite® (U.S.) Index; 2) the Standard and Poor s (S&P) 500 Financials Index; and 3) the SNL Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance. The performance graph shall not be deemed incorporated by reference to any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Hanmi Financial Corporation	$ 100.00	$ 23.90	$ 13.92	$ 13.34	$ 10.73	$ 19.71
NASDAQ Composite	$ 100.00	$ 59.46	$ 85.55	$ 100.02	$ 98.22	$ 113.85
S&P 500 Financials	$ 100.00	$ 61.51	$ 75.94	$ 85.65	$ 85.65	$ 97.13
SNL Bank $1B-$5B Index	$ 100.00	$ 82.94	$ 59.45	$ 67.39	$ 61.46	$ 75.78

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2012, there were no purchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates. As of December 31, 2012, there was no current plan authorizing purchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.* The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2012 is derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In Thousands, Except for Per Share Data)				
SUMMARY STATEMENTS OF OPERATIONS:					
Interest and Dividend Income	$ 119,800	$ 128,807	$ 144,512	$ 184,147	$ 238,183
Interest Expense	18,745	27,630	38,638	82,918	103,782
Net Interest Income Before Provision for Credit Losses	101,055	101,177	105,874	101,229	134,401
Provision for Credit Losses	6,000	12,100	122,496	196,387	75,676
Non-Interest Income	24,812	23,851	25,406	32,110	32,854
Non-Interest Expense	76,861	84,048	96,805	90,354	195,027
Income (Loss) Before Provision (Benefit) for Income Taxes	43,006	28,880	(88,021)	(153,402)	(103,448)
Provision (Benefit) for Income Taxes	(47,368)	733	(12)	(31,125)	(1,355)
NET INCOME (LOSS)	**$ 90,374**	**$ 28,147**	**$ (88,009)**	**$ (122,277)**	**$ (102,093)**
SUMMARY BALANCE SHEETS:					
Cash and Cash Equivalents	$ 268,047	$ 201,683	$ 249,720	$ 154,110	$ 215,947
Total Investment Securities	451,060	441,604	413,963	133,289	197,117
Net Loans [(1)]	1,986,051	1,871,607	2,121,067	2,674,064	3,291,125
Total Assets	2,882,520	2,744,824	2,907,148	3,162,706	3,875,816
Total Deposits	2,395,963	2,344,910	2,466,721	2,749,327	3,070,080
Total Liabilities	2,504,156	2,459,216	2,733,892	3,012,962	3,611,901
Total Stockholders Equity	378,364	285,608	173,256	149,744	263,915
Tangible Equity	377,029	284,075	171,023	146,362	258,965
Average Net Loans [(1)]	1,917,453	1,995,313	2,368,369	3,044,395	3,276,142
Average Investment Securities	412,554	446,198	215,280	188,325	271,802
Average Interest-Earning Assets	2,686,425	2,752,696	2,981,878	3,611,009	3,653,720
Average Total Assets	2,792,352	2,787,707	2,998,507	3,717,179	3,866,856
Average Deposits	2,349,082	2,404,655	2,587,686	3,109,322	2,913,171
Average Borrowings	85,760	153,148	243,690	341,514	591,930
Average Interest-Bearing Liabilities	1,758,135	1,957,077	2,268,954	2,909,014	2,874,470
Average Stockholders Equity	328,016	200,517	137,968	225,708	323,462
Average Tangible Equity	326,589	198,626	135,171	221,537	264,490
PER SHARE DATA:					
Earnings (Loss) Per Share Basic [(2)]	$ 2.87	$ 1.38	$ (7.46)	$ (20.56)	$ (17.84)
Earnings (Loss) Per Share Diluted [(2)]	$ 2.87	$ 1.38	$ (7.46)	$ (20.56)	$ (17.84)
Book Value Per Share [(3)]	$ 12.01	$ 9.07	$ 9.20	$ 23.44	$ 46.00
Tangible Book Value Per Share [(4)]	$ 11.97	$ 9.02	$ 9.04	$ 22.88	$ 45.12
Cash Dividends Per Share	$	$	$	$	$ 0.72
Common Shares Outstanding	31,496,540	31,489,201	18,899,799	6,397,799	5,738,194

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

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

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

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

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
SELECTED PERFORMANCE RATIOS:					
Return on Average Assets (5)	3.24%	1.01%	-2.94%	-3.29%	-2.64%
Return on Average Stockholders Equity (6)	27.55%	14.04%	-63.79%	-54.17%	-31.56%
Return on Average Tangible Equity (7)	27.67%	14.17%	-65.11%	-55.19%	-38.60%
Net Interest Spread (8)	3.40%	3.27%	3.15%	2.28%	2.95%
Net Interest Margin (9)	3.77%	3.68%	3.55%	2.84%	3.72%
Efficiency Ratio (10)	61.07%	67.22%	73.74%	67.76%	116.60%
Dividend Payout Ratio (11)					-4.05%
Average Stockholders Equity to Average Total Assets	11.75%	7.19%	4.60%	6.07%	8.36%
SELECTED CAPITAL RATIOS:					
Total Capital to Total Risk-Weighted Assets:					
Hanmi Financial	20.65%	18.66%	12.32%	9.12%	10.79%
Hanmi Bank	19.85%	17.57%	12.22%	9.07%	10.70%
Tier 1 Capital to Total Risk-Weighted Assets:					
Hanmi Financial	19.37%	17.36%	10.09%	6.76%	9.52%
Hanmi Bank	18.58%	16.28%	10.91%	7.77%	9.44%
Tier 1 Capital to Average Total Assets:					
Hanmi Financial	14.95%	13.34%	7.90%	5.82%	8.93%
Hanmi Bank	14.33%	12.50%	8.55%	6.69%	8.85%
SELECTED ASSET QUALITY RATIOS:					
Non-Performing Loans to Total Gross Loans (12)	1.82%	2.70%	6.38%	7.78%	3.67%
Non-Performing Assets to Total Assets (13)	1.32%	1.91%	5.04%	7.76%	3.17%
Net Loan Charge-Offs to Average Total Gross Loans	1.70%	3.25%	4.79%	3.88%	1.38%
Allowance for Loan Losses to Total Gross Loans	3.09%	4.64%	6.55%	5.15%	2.13%
Allowance for Loan Losses to Non-Performing Loans	169.81%	171.71%	102.54%	66.19%	58.23%

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

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

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

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

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

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

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

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

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

Non-GAAP Financial Measures

Return on Average Tangible Equity

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

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

	As of December 31,				
	2012	2011	2010	2009	2008
	(In Thousands)				
Average Stockholders Equity	$ 328,016	$ 200,517	$ 137,968	$ 225,708	$ 323,462
Less Average Goodwill and Average Other Intangible Assets	(1,427)	(1,891)	(2,797)	(4,171)	(58,972)
Average Tangible Equity	**$ 326,589**	**$ 198,626**	**$ 135,171**	**$ 221,537**	**$ 264,490**
Return on Average Stockholders Equity	27.55%	14.04%	-63.79%	-54.17%	-31.56%
Effect of Average Goodwill and Average Other Intangible Assets	0.12%	0.13%	-1.32%	-1.02%	-7.04%
Return on Average Tangible Equity	**27.67%**	**14.17%**	**-65.11%**	**-55.19%**	**-38.60%**

Tangible Book Value Per Share

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

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

	As of December 31,				
	2012	2011	2010	2009	2008
	(In Thousands, Except Per Share Data)				
Total Stockholders Equity	$ 378,364	$ 285,608	$ 173,256	$ 149,744	$ 263,915
Less Goodwill and Other Intangible Assets	(1,335)	(1,533)	(2,233)	(3,382)	(4,950)
Tangible Equity	**$ 377,029**	**$ 284,075**	**$ 171,023**	**$ 146,362**	**$ 258,965**
Book Value Per Share	$ 12.01	$ 9.07	$ 9.20	$ 23.44	$ 46.00
Effect of Goodwill and Other Intangible Assets	(0.04)	(0.05)	(0.16)	(0.56)	(0.88)
Tangible Book Value Per Share	**$ 11.97**	**$ 9.02**	**$ 9.04**	**$ 22.88**	**$ 45.12**

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
This discussion presents management s analysis of the financial condition and results of operations as of and for the years ended December 31, 2012, 2011, and 2010. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also Cautionary Note Regarding Forward-Looking Statements.

CRITICAL ACCOUNTING POLICIES

We have established various accounting policies that govern the application of U.S. generally accepted accounting principles (GAAP) in the preparation of our Consolidated Financial Statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Our financial position and results of operations can be materially affected by these estimates and assumptions. Critical accounting policies are those policies that are most important to the determination of our financial condition and results of operations or that require management to make assumptions and estimates that are subjective or complex. Our significant accounting policies are discussed in the *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies.* Management believes that the following policies are critical.

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

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

Loan Sales

We normally sell guaranteed portion of certain SBA loans to secondary market investors. When SBA guaranteed loans are sold, we generally retain the right to service these loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan servicing assets. Loan servicing assets are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* and *Note 5 Loans* presented elsewhere herein.

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We reclassify certain loans to loans held for sale. In such reclassification, we take into consideration a number of factors, including, but not limited to, the following:

- NPL and/or classified status, non-accrual status, and days delinquent;
- possibility of rehabilitation or workout for the near future and long term earning capability as an asset;
- number of times the loan was modified;
- overall debt coverage ratio;
- whether the debt is on troubled debt restructure status;
- the location of the collateral; and
- the borrower s overall financial condition.

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

Investment Securities

The classification and accounting for investment securities are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* and *Note 5 Investment Securities* presented elsewhere herein. Under FASB ASC 320, *Investment,* investment securities generally must be classified as held-to-maturity, available-for-sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management s intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held-to-maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

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

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not that we will be required to sell the

security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security s effective interest rate at the date of acquisition. The cost basis of an other than temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

The Company had an equity investment of less than five percent in a publicly traded company, Pacific International Bancorp (PIB), and recognized an OTTI of $176,000 and $116,000 in the second and third quarter, respectively, of 2012. We will continue to monitor the investment for impairment and make appropriate reductions in carrying value when necessary. Other than this OTTI, management does not believe that there is any investment securities that are deemed other-than-temporarily impaired as of December 31, 2012.

Income Taxes

In accordance with the provisions of FASB ASC 740, the Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities examinations of the Company s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

As of December 31, 2012, the Company s deferred tax assets of $51.0 million were primarily the result of net operating loss carryforwards, allowance for loan losses, and tax credit carryforwards. For the year ended December 31, 2012, the Company recorded a net valuation allowance release of $62.6 million based on management s reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

The Company s management considers new evidence, both positive and negative, that could impact management s view with regards to future realization of deferred tax assets. As of December 31, 2012, in part because possible sources of taxable income were available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards, management determined that sufficient positive evidence existed as of December 31, 2012, to conclude that it is more likely than not that deferred taxes were fully realizable, and therefore, reduced the valuation allowance accordingly.

Income taxes are discussed in more detail in *Notes to Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies* and *Note 11 Income Taxes* presented elsewhere herein.

EXECUTIVE OVERVIEW

For the years ended December 31, 2012, 2011 and 2010, we recognized net income of $90.4 million and $28.1 million and net loss of $88.0 million, respectively. The increase in net income for the year ended December 31, 2012 as compared to the year ended December 31, 2011 was primarily attributable to the reversal of the deferred tax asset (DTA) valuation allowance, which contributed an income tax benefit of $47.4 million. The increase in net income for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was primarily the result of lower levels of provision for credit losses of $12.1 million compared to $122.5 million in 2010. For the years ended December 31, 2012, 2011 and 2010, our earnings per diluted share was $2.87, $1.38 and a loss per diluted share of $7.46, respectively.

Subsequent to our annual full-scope examination by the California Department of Financial Institutions (the DFI) and the Federal Reserve Bank (the FRB), which commenced in August 2012, the DFI terminated the Memorandum of Understanding on October 29, 2012 and the FRB terminated the Written Agreement on December 4, 2012. As a result, Hanmi Financial and the Bank are no longer subject to any regulatory enforcement actions, allowing us to focus on growth and profitability.

Significant financial highlights include:

- With improvement in new loan production, gross loans increased by $109.8 million, or 5.7 percent, to $2.05 billion as of December 31, 2012, compared to $1.94 billion as of December 31, 2011. During 2011, gross loans decreased by $292.3 million, or 13.1 percent, compared to $2.23 billion as of December 31, 2010, owing mainly to higher levels of problem loan sales and charge offs.

- Asset quality improved in 2012 as indicated by lower levels of non-performing assets declining to1.32 percent of total assets as of December 31, 2012, compared to 1.91 percent of total assets as of December 31, 2011. Similarly, delinquent loans, 30 to 89 days past due and still accruing, declined to $2.4 million, or 0.12 percent of gross loans, at December 31, 2012 from $13.9 million, or 0.72 percent of gross loans, at December 31, 2011. The Bank s strategy of selling notes before non-performing assets were moved into foreclosure has allowed us to efficiently reduce them.

- Reversal of a $62.6 million DTA valuation allowance contributed an income tax benefit of $47.4 million to net income of $90.4 million for the year ended December 31, 2012. Our effective tax rate is estimated to be approximately 39% for 2013.

- Net interest margin continued to increase year over year. For the year ended December 31, 2012, net interest margin was 3.77 percent, increases of 9 and 22 basis points compared to 3.68 percent and 3.55 percent for the years ended December 31, 2011 and 2010, respectively.

- Operating efficiency improved to 61.07 percent for the year ended December 31, 2012, from 67.22 percent for the year ended the December 31, 2011 and 73.74 percent for the year ended December 31, 2010, reflecting higher revenues and lower operating costs.

Outlook for fiscal 2013

With strong asset quality and the lifting of the regulatory enforcement requirements, we believe that we are well positioned to take on the following strategic goals in 2013.

First, we would like to optimize our operating efficiency through strategic cost management and active cross-selling, while deploying our excess liquidity to quality loan production. This is the basis for our organic growth and profitability in this new normal environment.

In addition, we would like to increase our marketing and sales competitiveness by continuously emphasizing and rewarding personalized, relationship-based banking, and recruiting, retaining, and rewarding talented employees. This should enable us to offer value-added services and products to our customers.

Furthermore, given that our market will continue to evolve and be highly competitive, we will be proactive in exploring all strategic options available to us.

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RESULTS OF OPERATIONS

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets, and interest paid on liabilities obtained to fund those assets. Our net interest income is affected by changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on our loans are affected principally by changes to interest rates, the demand for such loans, the supply of money available for lending purposes, and other competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve Board.

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

	For the Year Ended								
	December 31, 2012			December 31, 2011			December 31, 2010		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
					(In Thousands)				
ASSETS									
Interest-Earning Assets:									
Gross Loans, Net of Deferred Loan Fees [1]	$ 1,993,367	$ 108,982	5.47%	$ 2,114,546	$ 117,671	5.56%	$ 2,544,472	$ 137,328	5.40%
Municipal Securities Taxable	45,213	1,796	3.97%	21,740	884	4.07%	3,746	189	5.05%
Municipal Securities Tax Exempt [2]	12,902	606	4.70%	6,544	332	5.07%	6,909	346	5.01%
Obligations of Other U.S. Government Agencies	77,053	1,372	1.78%	121,961	1,963	1.61%	69,112	1,952	2.82%
Other Debt Securities	277,386	5,250	1.89%	295,953	6,921	2.34%	135,513	3,733	2.75%
Equity Securities	31,356	818	2.61%	33,573	534	1.59%	37,437	532	1.42%
Federal Funds Sold	14,178	60	0.42%	5,857	27	0.46%	10,346	52	0.50%
Term Federal Funds Sold	70,478	706	1.00%	38,693	276	0.71%	8,342	33	0.40%
Interest-Bearing Deposits in Other Banks	164,492	422	0.26%	113,829	315	0.28%	166,001	468	0.28%
Total Interest-Earning Assets	2,686,425	120,012	4.47%	2,752,696	128,923	4.68%	2,981,878	144,633	4.85%
Noninterest-Earning Assets:									
Cash and Cash Equivalents	71,123			68,255			67,492		
Allowance for Loan Losses	(75,914)			(119,233)			(176,103)		
Other Assets	110,718			85,989			125,240		
Total Noninterest-Earning Assets	105,927			35,011			16,629		
TOTAL ASSETS	**$ 2,792,352**			**$ 2,787,707**			**$ 2,998,507**		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-Bearing Liabilities:									
Deposits:									
Savings	$ 110,349	2,152	1.95%	$ 109,272	2,757	2.52%	$ 119,754	3,439	2.87%
Money Market Checking and NOW Accounts	529,976	3,085	0.58%	465,840	3,461	0.74%	464,864	4,936	1.06%
Time Deposits of $100,000 or More	681,173	7,290	1.07%	913,643	13,855	1.52%	1,069,600	19,529	1.83%
Other Time Deposits	350,877	3,350	0.95%	315,174	3,885	1.23%	371,046	6,504	1.75%
FHLB Advances	3,354	165	4.92%	66,191	662	1.00%	158,531	1,366	0.86%
Other Borrowings				4,551	95	2.09%	2,753	53	1.93%
Junior Subordinated Debentures	82,406	2,703	3.28%	82,406	2,915	3.54%	82,406	2,811	3.41%
Total Interest-Bearing Liabilities	1,758,135	18,745	1.07%	1,957,077	27,630	1.41%	2,268,954	38,638	1.70%
Noninterest-Bearing Liabilities:									
Demand Deposits	676,707			600,726			562,422		
Other Liabilities	29,494			29,387			29,163		
Total Noninterest-Bearing Liabilities	706,201			630,113			591,585		
Total Liabilities	2,464,336			2,587,190			2,860,539		
Stockholders Equity	328,016			200,517			137,968		

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,792,352**	**$ 2,787,707**	**$ 2,998,507**
NET INTEREST INCOME	**$ 101,267**	**$ 101,293**	**$ 105,995**
COST OF DEPOSITS	**0.68%**	**1.00%**	**1.33%**
NET INTEREST SPREAD [3]	**3.40%**	**3.27%**	**3.15%**
NET INTEREST MARGIN [4]	**3.77%**	**3.68%**	**3.55%**

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(1) *Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $1.5 million, $2.0 million and $1.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.*

(2) *Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

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

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

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

	Year Ended December 31,					
	2012 vs. 2011			2011 vs. 2010		
	Increase (Decrease) Due to Change In			Increase (Decrease) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and Dividend Income:						
Gross Loans, Net of Deferred Loan Fees	$ (6,649)	$ (2,040)	$ (8,689)	$ (21,995)	$ 2,338	$ (19,657)
Municipal Securities Taxable	903	9	912	739	(44)	695
Municipal Securities Tax Exempt	266	8	274	(19)	5	(14)
Obligations of Other U.S. Government Agencies	(540)	(51)	(591)	1,082	(1,071)	11
Other Debt Securities	(412)	(1,259)	(1,671)	3,828	(640)	3,188
Equity Securities	11	273	284	(58)	60	2
Federal Funds Sold	32	1	33	(21)	(4)	(25)
Term Federal Funds Sold	288	142	430	198	45	243
Interest-Bearing Deposits in Other Banks	102	5	107	(144)	(9)	(153)
Total Interest and Dividend Income	**$ (5,999)**	**$ (2,912)**	**$ (8,911)**	**$ (16,390)**	**$ 680**	**$ (15,710)**
Interest Expense:						
Savings	$ (12)	$ (593)	$ (605)	$ (286)	$ (396)	$ (682)
Money Market Checking and NOW Accounts	1	(377)	(376)	5	(1,480)	(1,475)
Time Deposits of $100,000 or More	(3,040)	(3,525)	(6,565)	(2,626)	(3,048)	(5,674)
Other Time Deposits	(31)	(504)	(535)	(882)	(1,737)	(2,619)
FHLB Advances	(351)	(146)	(497)	(809)	105	(704)
Other Borrowings	(48)	(47)	(95)	38	4	42
Junior Subordinated Debentures		(212)	(212)		104	104
Total Interest Expense	**$ (3,481)**	**$ (5,404)**	**$ (8,885)**	**$ (4,560)**	**$ (6,448)**	**$ (11,008)**
Change in Net Interest Income	**$ (2,518)**	**$ 2,492**	**$ (26)**	**$ (11,830)**	**$ 7,128**	**$ (4,702)**

For the years ended December 31, 2012, 2011 and 2010, net interest income before provision for credit losses on a tax-equivalent basis was $101.3 million, $101.3 million and $106.0 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2012 were 3.40 percent and 3.77 percent, respectively, compared to 3.27 percent and 3.68 percent, respectively, for the year ended December 31, 2011, and 3.15 percent and 3.55 percent, respectively, for the year ended December 31, 2010. Net interest income remained stable for the years ended December 31, 2012 and 2011 due to the decrease in interest income, which was primarily offset by the decrease in interest expense. The decrease in interest income was due primarily to declines in average loans outstanding and loan yields, and a decrease in other debt securities yield. This decrease was primarily offset in the interest expense by lower deposit costs resulting from the replacement of high-cost promotional time deposits with low-cost deposits. The decrease in net interest income in 2011 as compared to 2010 was primarily due to decreases in average loan outstanding and investment yields, which was partially offset by higher loan yields and lower deposit costs resulting from the replacement of higher-cost promotional time deposits with low-cost deposit products.

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Average gross loans were $1.99 billion in 2012, as compared with $2.11 billion in 2011 and $2.54 billion in 2010, representing decreases of 5.7 percent and 16.9 percent in 2012 and 2011, respectively. Average investment securities were $412.6 million in 2012, as compared with $446.2 million in 2011 and $215.3 million in 2010, representing a decrease of 7.5 percent in 2012 and an increase of 107.3 percent in 2011. Average interest-earning assets were $2.69 billion in 2012, as compared with $2.75 billion in 2011 and $2.98 billion in 2010, representing decreases of 2.2 percent and 7.7 percent in 2012 and 2011, respectively. The decrease in average interest earning assets was a direct result of the proactive disposition of problem loans under the credit quality improvement strategy and the balance sheet deleveraging strategy during 2012 and 2011. Average interest-bearing liabilities were $1.76 billion in 2012, as compared to $1.96 billion in 2011 and $2.27 billion in 2010, representing decreases of 10.2 percent and 13.7 percent in 2012 and 2011, respectively. Average Federal Home Loan Bank advances were $3.4 million in 2012, as compared with $66.2 million in 2011 and $158.5 million in 2010, representing decreases of 94.9 percent and 58.2 percent in 2012 and 2011, respectively.

The average yield on interest-earning assets decreased by 21 basis points to 4.47 percent in 2012, after a 17 basis point decrease to 4.68 percent in 2011 from 4.85 percent in 2010, due primarily to lower yields on investment securities and loans. The average yield on gross loans decreased by 9 basis points to 5.47 percent in 2012, after a 16 basis point increase to 5.56 percent in 2011 from 5.40 percent in 2010. The decrease in 2012 was attributable to lower interest rates on new loans resulting from rising competition in the market, and the increase in 2011 was attributable to a decrease in our overall level of nonaccrual loans. Total loan interest and fee income decreased by $8.7 million, or 7.4 percent, to $109.0 million in 2012, after a $19.7 million, or 14.3 percent, decrease to $117.7 million in 2011 from $137.3 million in 2010. The average cost on interest-bearing liabilities decreased by 34 basis points to 1.07 percent in 2012, after a decrease of 29 basis points to 1.41 percent in 2011 from 1.70 percent in 2010. These decreases were primarily due to a continued shift in funding sources toward lower-cost funds through disciplined deposit pricing while reducing wholesale funds and rate sensitive deposits.

Provision for Credit Losses

In anticipation of credit risks inherent in our lending business, we set aside allowance for loan losses through charges to earnings. These charges are made not only for our outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credit, or letters of credit. The charges made for our outstanding loan portfolio are recorded to the allowance for loan losses, whereas charges for off-balance sheet items are recorded to the reserve for off-balance sheet items, and are presented as a component of other liabilities.

Due to the continued improvement of our overall credit quality during 2012, net charge-offs decreased by $34.9 million, or 50.8 percent, to $33.8 million for the year ended December 31, 2012 from $68.7 million for the year ended December 31, 2011. Non-accrual loans decreased by $15.1 million, or 28.8 percent, to $37.3 million for the year ended December 31, 2012 from $52.4 million for the year ended December 31, 2011. Delinquent loans, 30 to 89 days past due and still accruing, decreased by $11.5 million, or 82.7 percent, to $2.4 million for the year ended December 31, 2012 from $13.9 million for the year ended December 31, 2011. All other credit metrics also experienced improvements as the quality of the loan portfolio improved. Therefore, provision for credit losses was $6.0 million for the year ended December 31, 2012, compared to $12.1 million for the year ended December 31, 2011. See *Non-Performing Assets* and *Allowance for Loan Losses and Allowance for Off-Balance Sheet Items* for further details.

For the year ended December 31, 2011, the provision for credit losses was $12.1 million, compared to $122.5 million for the year ended December 31, 2010. The decrease in the provision for credit losses was attributable to a decrease in problem loans and an improvement in asset quality through aggressive management of our problem assets. Net charge-offs decreased by $53.2 million, or 43.7 percent, from $121.9 million for the year ended

December 31, 2010 to $68.7 million for the year ended December 31, 2011. Non-performing loans decreased from $142.4 million, or 6.38 percent of total gross loans, as of December 31, 2010 to $52.4 million, or 2.7 percent of total gross loans, as of December 31, 2011.

Non-Interest Income

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

	Year Ended December 31,		
	2012	2011	2010
		(In Thousands)	
Service Charges on Deposit Accounts	$ 12,146	$ 12,826	$ 14,049
Insurance Commissions	4,857	4,500	4,695
Remittance Fees	1,976	1,925	1,968
Trade Finance Fees	1,140	1,305	1,523
Other Service Charges and Fees	1,499	1,447	1,516
Bank-Owned Life Insurance Income	1,110	939	942
Gain on Sales of SBA Loans Guaranteed Portion	9,923	4,543	514
Net Loss on Sales of Other Loans	(9,481)	(6,020)	
Net Gain on Sales of Investment Securities	1,396	1,635	122
Net Impairment Loss Recognized in Earnings	(292)		(790)
Other Operating Income	538	751	867
Total Non-Interest Income	**$ 24,812**	**$ 23,851**	**$ 25,406**

For the year ended December 31, 2012, non-interest income was $24.8 million, an increase of $961,000, or 4.0 percent, from $23.9 million for the year ended December 31, 2011. The increase in non-interest income for 2012 was primarily attributable to a gain from selling the guaranteed portions of SBA loans, partially offset by a net loss recognized from selling other loans. Gain from selling the guaranteed portions of SBA loans for the year ended December 31, 2012 totaled $9.9 million, or 40.0 percent of total non-interest income, a $5.4 million increase from $4.5 million for the year ended December 31, 2011. However, the net loss on sales of other loans increased to $9.5 million for the year ended December 31, 2012 from $6.0 million for the year ended December 31, 2011. This increase was a result of management s effort to reduce problem and non-performing assets. The other large source of non-interest income for the year ended December 31, 2012 was service charges on deposit accounts, which represented 49.0 percent of total non-interest income for the year ended December 31, 2012. Service charge income decreased to $12.1 million for the year ended December 31, 2012, compared with $12.8 million for the year ended December 31, 2011, due mainly to a decrease in number of non-interest bearing demand deposit accounts.

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

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Non-Interest Expense

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

	Year Ended December 31,		
	2012	2011	2010
		(In Thousands)	
Salaries and Employee Benefits	$ 36,931	$ 35,465	$ 36,730
Occupancy and Equipment	10,424	10,353	10,773
Deposit Insurance Premiums and Regulatory Assessments	4,431	6,630	10,756
Data Processing	4,941	5,601	5,931
Other Real Estate Owned Expense	344	1,620	10,679
Professional Fees	4,694	4,187	3,521
Directors and Officers Liability Insurance	1,186	2,940	2,865
Supplies and Communications	2,370	2,323	2,302
Advertising and Promotion	3,876	2,993	2,394
Loan-Related Expense	527	827	1,147
Amortization of Other Intangible Assets	198	700	1,149
Expense related to Unconsummated Capital Offerings		2,220	
Other Operating Expenses	6,939	8,189	8,558
Total Non-Interest Expense	**$ 76,861**	**$ 84,048**	**$ 96,805**

For the year ended December 31, 2012, non-interest expense was $76.9 million, a decrease of $7.1 million, or 8.5 percent, from $84.0 million for the year ended December 31, 2011. This decrease was due primarily to a non-recurring expense of $2.2 million related to an unconsummated capital raise in 2011, and reductions in deposit insurance premiums, directors and officers liability insurance and other real estate owned expense. Reflecting improved overall financial conditions, premiums for deposit insurance premium and regulatory assessments decreased by $2.2 million, or 33.2 percent, to $4.4 million, for the year ended December 31, 2012, compared to $6.6 million for the year ended December 31, 2011. For the same reason, along with a change in new insurance carriers, directors and officers liability insurance also decreased by $1.7 million, or 58.6 percent, to $1.2 million for the year ended December 31, 2012, compared to $2.9 million for the year ended December 31, 2011. Salaries and employee benefits, however, increased by $1.4 million, or 4.0 percent, to $36.9 million for the year ended December 31, 2012, compared to $35.5 million for the year ended December 31, 2011, due mainly to increased bonus provisions and incentive awards during 2012. Other real estate owned expenses decreased by $1.3 million, or 78.8 percent, to $344,000 for the year ended December 31, 2012, compared to $1.6 million for the year ended December 31, 2011, due mainly to our reduction of OREO properties.

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

Income Taxes

As of December 31, 2012, the Company s net deferred tax assets of $51.0 million were primarily the result of net operating loss carryforwards, allowance for loan losses, and tax credit carryforwards. For the year ended December 31, 2012, the Company recorded a net valuation allowance release of $62.6 million based on management s reassessment of the amount of its deferred tax assets that are more likely than not to be realized. For the year ended December 31, 2012, total income tax benefit was $47.4 million, resulting in an effective rate of (110.14)%.

The Company s management considers new evidence, both positive and negative, that could impact management s view with regards to future realization of deferred tax assets. As of December 31, 2012, in part because possible sources of taxable income were available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards, management determined that sufficient positive evidence existed as of December 31, 2012, to conclude that it is more likely than not that deferred taxes were fully realizable, and therefore, reduced the valuation allowance accordingly.

FINANCIAL CONDITION

Investment Portfolio

Investment securities are classified as held to maturity or available for sale in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading securities as of December 31, 2012, 2011 and 2010. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2012, our investment portfolio was composed primarily of mortgage-backed securities, U.S. government agency securities, and collateralized mortgage obligations. Investment securities available for sale were 100.00 percent, 86.5 percent and 99.8 percent of the total investment portfolio as of December 31, 2012, 2011 and 2010, respectively. Most of the investment securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders equity as of December 31, 2012, 2011 and 2010.

During 2012, all held-to-maturity securities were reclassified to available-for-sale securities. As more than 95 percent of the reclassified securities were municipal bonds, the Company decided to reclassify all held-to-maturity securities to available-for-sale securities to be more proactive under the current municipal market with a rising default risk. These securities carried a fair value of $52.3 million and an amortized cost of $50.3 million at December 31, 2012.

As of December 31, 2012, securities available for sale were $451.1 million, or 15.6 percent of total assets, compared to $381.9 million, or 13.9 percent of total assets, as of December 31, 2011. For the year ended December 31, 2012, our total investment portfolio increased by $9.5 million, or 2.2 percent, to $451.1 million from $441.6 million as of December 31, 2011, due to purchases of $267.9 million of investment securities available for sale, offset mainly by paydowns, sales and scheduled amortization.

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

	As of December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In Thousands)			
Securities Held to Maturity:						
Municipal Bonds-Tax Exempt	$	$	$ 9,815	$ 9,867	$ 696	$ 696
Municipal Bonds-Taxable			38,797	38,392		
Mortgage-Backed Securities *(1)*			3,137	3,128		
U.S. Government Agency Securities			7,993	7,976	149	151
Total Securities Held to Maturity	**$**	**$**	**$ 59,742**	**$ 59,363**	**$ 845**	**$ 847**
Securities Available for Sale:						
Mortgage-Backed Securities [(1)]	$ 157,185	160,326	110,433	113,005	108,436	109,842
Collateralized Mortgage Obligations [(1)]	98,821	100,487	161,214	162,837	139,053	137,193
U.S. Government Agency Securities	92,990	93,118	72,385	72,548	114,066	113,334
Municipal Bonds-Tax Exempt	12,209	12,812	5,901	6,138	18,032	16,603
Municipal Bonds-Taxable	44,248	46,142	3,389	3,482	4,388	4,425
Corporate Bonds	20,470	20,400	20,460	19,836	20,449	20,205
SBA Loan Pools Securities	14,104	14,026				
Asset-Backed Securities					7,115	7,384
Other Securities	3,331	3,357	3,318	3,335	3,305	3,259
Equity Securities	354	392	647	681	647	873
Total Securities Available for Sale	**$ 443,712**	**$ 451,060**	**$ 377,747**	**$ 381,862**	**$ 415,491**	**$ 413,118**

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

The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of December 31, 2012:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
				(In Thousands)				
Mortgage-Backed Securities	$ 239	3.60%	$ 93,536	1.93%	$ 49,550	2.06%	$ 13,860	2.86%
Collateralized Mortgage Obligations	8,530	0.85%	64,464	1.73%	22,944	1.79%	2,883	2.47%
U.S. Government Agency Securities			6,039	1.45%	69,976	1.97%	16,975	1.89%
Municipal Bonds-Tax Exempt [(1)]			698	7.06%	5,186	2.86%	6,325	3.63%
Municipal Bonds-Taxable			1,050	3.47%	26,893	4.00%	16,305	4.32%
Corporate Bonds			20,470	1.81%				
SBA Loan Pools Securities			4,940	1.38%			9,164	1.85%
Other Securities	3,331	1.28%						
Equity Securities							354	
Total	**$ 12,100**	**1.02%**	**$ 191,197**	**1.85%**	**$ 174,549**	**2.31%**	**$ 65,866**	**2.87%**

[(1)] *The yield on municipal bonds has been computed on a federal tax-equivalent basis of 35%.*

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The amortized cost and estimated fair value of investment securities as of December 31, 2012, 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	28,257	28,342
Over Five Years Through Ten Years	105,386	106,787
Over Ten Years	39,605	40,700
Mortgage-Backed Securities	157,185	160,326
Collateralized Mortgage Obligations	98,821	100,487
SBA Loans Pool Securities	14,104	14,026
Equity Securities	354	392
Total	**$ 443,712**	**$ 451,060**

We periodically evaluate our investments for other-than-temporary impairment (OTTI). The Company had an equity security with a carrying value of $296,000 at December 31, 2012. During 2012, the issuer s financial condition had deteriorated, and it was determined that the investment value is other-than-temporarily impaired. Based on the closing prices of the shares at September 30, 2012 and June 30, 2012, we recorded OTTI charges of $176,000 and $116,000, respectively, to write down the investment value to its fair value. As such, for the year ended December 31, 2012, the total OTTI charge on this equity security was $292,000. During the fourth quarter of 2012, there was no OTTI on this equity security due to the improved closing price of the shares being higher than the book value.

Gross unrealized losses on investment securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2012 and December 31, 2011:

	Holding Period								
Investment Securities	Less Than 12 Months			12 Months or More			Total		
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)								
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 Loans 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**
December 31, 2011:									
Mortgage-Backed Securities	$ 1	$ 3,076	1	$	$		$ 1	$ 3,076	1
Collateralized Mortgage Obligations	260	36,751	16				260	36,751	16
U.S. Government Agency Securities	5	6,061	2				5	6,061	2
Corporate Bonds	41	4,445	2	582	15,391	4	623	19,836	6

Other Securities	1	12	1	41	959	1	42	971	2
Equity Securities	51	85	1				51	85	1
Total	**$ 359**	**$ 50,430**	**23**	**$ 623**	**$ 16,350**	**5**	**$ 982**	**$ 66,780**	**28**

The impairment losses described previously are not included in the above table. All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2012 and 2011 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of December 31, 2012. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

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 that this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management s opinion, all securities, other than the OTTI write-down related to an equity security, that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2012 and December 31, 2011 are not other-than-temporarily impaired, and therefore, no other impairment charges as of December 31, 2012 and December 31, 2011 are warranted.

Investment securities available for sale with carrying values of $18.2 million and $45.8 million as of December 31, 2012 and December 31, 2011, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

Loan Portfolio

Real estate loans are extended to finance the purchase and/or improvement of commercial real estate and residential property. The properties generally are investor-owned, but may be for user-owned purposes. Underwriting guidelines include, among other things, an appraisal in conformity with the USPAP, limitations on loan-to-value ratios, and minimum cash flow requirements to service debt. The majority of the properties taken as collateral are located in Southern California. Commercial loans include term loans and revolving lines of credit. Term loans typically have a maturity of three to seven years and are extended to finance the purchase of business entities, owner-occupied commercial property, business equipment, leasehold improvements or for permanent working capital. SBA guaranteed loans usually have a longer maturity (5 to 20 years). Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. These borrowers are well diversified as to industry, location and their current and target markets.

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

	As of December 31,				
	2012	2011	2010	2009	2008
			(In Thousands)		
Real Estate Loans:					
Commercial Property	$ 787,094	$ 663,023	$ 729,222	$ 839,598	$ 908,970
Construction		33,976	60,995	126,350	178,783
Residential Property	101,778	52,921	62,645	77,149	92,361
Total Real Estate Loans	888,872	749,920	852,862	1,043,097	1,180,114
Commercial and Industrial Loans:					
Commercial Term	884,364	944,836	1,118,999	1,420,034	1,611,449
Commercial Lines of Credit	56,121	55,770	59,056	101,159	214,699
SBA Loans	148,306	116,192	105,688	134,521	140,989
International Loans	34,221	28,676	44,167	53,488	95,185
Total Commercial and Industrial Loans	1,123,012	1,145,474	1,327,910	1,709,202	2,062,322
Consumer Loans *(1)*	36,676	43,346	50,300	63,303	83,525
Total Gross Loans	**$ 2,048,560**	**$ 1,938,740**	**$ 2,231,072**	**$ 2,815,602**	**$ 3,325,961**

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

As of December 31, 2012 and 2011, loans receivable (excluding loans held for sale), net of deferred loan costs and allowance for loan losses, totaled $1.99 billion and $1.85 billion, respectively, representing an increase of $137.0 million, or 7.4 percent. Total gross loans increased by $109.8 million, or 5.7 percent, to $2.05 billion as of December 31, 2012, from $1.94 billion as of December 31, 2011.

The increase was due mainly to a $124.1 million increase in commercial property, a $48.9 million increase in residential property, and a $32.1 million increase in SBA loans, partially offset by a $60.5 million decrease in commercial term loans and a $34.0 million decrease in construction loans for the year ended December 31, 2012. The increase in commercial property loans was due to $222.5 million new loans and $15.2 million purchases, partially offset by $35.5 million loans transferred to loans held for sale, $8.5 million charge-offs, and $69.7 million net amortization and payoffs. The increase in residential property was mainly due to $67.6 million purchases, partially offset by $2.2 million loans transferred to loans held for sale and $16.1 million net amortization and payoffs. The increase in SBA loans was due to $38.5 million new loans, partially offset by $1.2 million loans transferred to loans held for sale, $1.8 million charge-offs, and $3.4 million net amortization and payoffs. The decrease in commercial term loans was due to $202.5 million net amortization and payoffs, $46.4 million loans transferred to loans held for sale, and $23.9 million charge-offs, partially offset by $211.5 million new loans. The decrease in constructions was due to $22.8 million net amortization and payoffs, $9.3 million loans transferred to loans held for sale, and $2.0 million charge-offs. As of December 31, 2012, we did not have any construction loan.

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

	As of December 31,				
	2012	2011	2010	2009	2008
Real Estate Loans:					
Commercial Property	38.4%	34.2%	32.7%	29.9%	27.2%
Construction	0.0%	1.8%	2.7%	4.5%	5.4%
Residential Property	5.0%	2.7%	2.8%	2.7%	2.8%
Total Real Estate Loans	43.4%	38.7%	38.2%	37.1%	35.4%
Commercial and Industrial Loans:					
Commercial Term	43.2%	48.7%	50.2%	50.4%	48.5%
Commercial Lines of Credit	2.7%	2.9%	2.6%	3.6%	6.5%
SBA Loans	7.2%	6.0%	4.7%	4.8%	4.2%
International Loans	1.7%	1.5%	2.0%	1.9%	2.9%
Total Commercial and Industrial Loans	54.8%	59.1%	59.5%	60.7%	62.1%
Consumer Loans	1.8%	2.2%	2.3%	2.2%	2.5%
Total Gross Loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

	As of December 31,				
	2012	2011	2010	2009	2008
			(In Thousands)		
Commitments to Extend Credit	$ 182,746	$ 158,748	$ 178,424	$ 262,821	$ 386,785
Standby Letters of Credit	10,588	12,742	15,226	17,225	47,289
Commercial Letters of Credit	6,092	9,298	11,899	13,544	29,177
Unused Credit Card Lines	13,459	15,937	24,649	23,408	16,912
Total Undisbursed Loan Commitments	**$ 212,885**	**$ 196,725**	**$ 230,198**	**$ 316,998**	**$ 480,163**

The table below shows the maturity distribution and repricing intervals of outstanding loans as of December 31, 2012. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes non-accrual loans of $37.3 million.

	Within One Year	After One Year But Within Five Years	After Five Years	Total
		(In Thousands)		
Real Estate Loans:				
Commercial Property	$ 415,398	$ 360,935	$ 10,761	$ 787,094
Construction				
Residential Property	80,439	19,856	1,483	101,778
Total Real Estate Loans	495,837	380,791	12,244	888,872
Commercial and Industrial Loans:				
Commercial Term	605,277	270,213	8,874	884,364
Commercial Lines of Credit	55,910	191	20	56,121

SBA Loans	139,195	8,698	413	148,306
International Loans	34,221			34,221
Total Commercial and Industrial Loans	834,603	279,102	9,307	1,123,012
Consumer Loans	36,388	288		36,676
Total Gross Loans	**$ 1,366,828**	**$ 660,181**	**$ 21,551**	**$ 2,048,560**
Loans With Predetermined Interest Rates	$ 232,356	$ 351,342	$ 20,497	$ 604,195
Loans With Variable Interest Rates	$ 1,134,472	$ 308,839	$ 1,054	$ 1,444,365

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As of December 31, 2012, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

Industry	Balance as of December 31, 2012 *(In Thousands)*	Percentage of Total Gross Loans Outstanding
Lessors of Non-Residential Buildings	$ 451,452	22.0%
Accommodation/Hospitality	330,720	16.1%
Gasoline Stations	276,042	13.5%

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

Non-Performing Assets

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

Except for non-performing loans set forth below, management is not aware of any loans as of December 31, 2012 and 2011 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower s ability to pay.

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