HANMI FINANCIAL CORP
Form 10-K
February 29, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From To

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.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 o No þ

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 o No þ

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

Indicate by check mark 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. þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 29, 2007, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $684,296,000. 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 February 21, 2008 was 45,865,941 shares.

Documents Incorporated By Reference Herein: Registrant s Definitive Proxy Statement for its Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2007, is incorporated by reference into Part III of this report.

HANMI FINANCIAL CORPORATION

Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2007

Table of Contents

FORWARD-LOOKING STATEMENTS

Some of the statements under *Item 1.* Business, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement because of:

changes in our borrowers performance on loans;

changes in the commercial and consumer real estate markets;

changes in our costs of operation, compliance and expansion;

changes in the economy, including inflation;

changes in government interest rate policies;

changes in laws or the regulatory environment;

changes in the equity and debt securities markets; and

acts of terrorism or natural disasters such as earthquakes or floods.

For a discussion of these factors as well as some of the other factors that might cause such differences, see *Item 1A. Risk Factors, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Risk Management* and *Liquidity and Capital Resources.* 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.

PART I

Item 1. Business

General

Hanmi Financial Corporation (Hanmi Financial, we or us) is a Delaware corporation incorporated on March 14, 2000 pursuant to a Plan of Reorganization and Agreement of Merger to be the holding company for Hanmi Bank (the Bank). Hanmi Financial became the holding company for the Bank in June 2000 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 by the California Department of Financial Institutions (DFI) on December 15, 1982. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act (FDI Act) up to applicable limits thereof, and the Bank is a member of the Federal Reserve System. The Bank s headquarters is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. The Bank s full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. At December 31, 2007, the Bank maintained a branch network of 24 full-service branch offices in California and eight loan production offices in California, Colorado, Georgia, Illinois, Texas, Virginia and 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 brokerages 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 on our loan and securities portfolios and service charges on deposit accounts. A summary of revenues for the periods indicated follows:

	Year Ended December 31,					
(Dollars in thousands)	*2007*		*2006*		*2005*	
Interest and Fees on Loans	$ 261,992	81.6%	$ 239,075	80.5%	$ 180,845	77.8%
Interest on Investments	17,867	5.6%	19,710	6.6%	18,507	8.0%
Other Interest Income	1,037	0.3%	1,404	0.5%	1,589	0.7%
Service Charges on Deposit Accounts	18,061	5.6%	17,134	5.8%	15,782	6.8%
Other Non-Interest Income	21,945	6.9%	19,829	6.6%	15,668	6.7%
Total Revenues	$ 320,902	100.0%	$ 297,152	100.0%	$ 232,391	100.0%

Market Area

The Bank historically has provided its banking services through its branch network, located primarily in the Koreatown area of Los Angeles, to a wide variety of small- to medium-sized businesses. In recent years, it has expanded its service areas through de novo branching to Orange County, San Bernardino County, the Silicon Valley area in Santa Clara County, and San Diego County, and through acquisition to the San Francisco Bay area and the Seattle, Washington metropolitan area.

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 a wide geographic area, savings banks, thrift and loan associations, credit unions, mortgage companies, insurance companies and other lending institutions, 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, the State of California.

In 2007, the Bank opened two full-service branch offices in Fullerton, California and Rancho Cucamonga, California. In 2005 and 2006, the Bank opened loan production offices in Atlanta, Chicago, Dallas, Denver and Annandale. These offices will expand our geographic coverage by providing commercial and industrial, real estate and Small Business Administration (SBA) loans. The Bank also has loan production offices in Los Angeles, California; the San Jose, California metropolitan area; and the Seattle, Washington metropolitan area. We plan to continue to expand our business services by opening additional loan production offices in selected locations throughout the United States. The Bank is a preferred SBA lender in the following SBA districts: California (Los Angeles, Santa Ana, San Diego, Fresno, San Francisco and Sacramento), Portland, Seattle, Anchorage, Denver, Texas (Dallas and Houston), Illinois, Georgia, Florida, Virginia, Washington, D.C., Maryland, New Jersey and New York.

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 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 mortgage loans, the Bank 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 (the USPAP). The Bank first looks to cash flow from the borrower to repay the loan and then to cash flow from the business. The majority of the properties securing these loans are located in Los Angeles County and Orange County.

The Bank s commercial real estate loans are principally secured by investor-owned commercial buildings and owner-occupied commercial and industrial buildings. Generally, these types of loans are made for a period of up to seven years. Monthly payments are based upon a portion of the principal plus accrued interest. These loans usually have a loan-to-value ratio 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 generally not exceeding 65 percent; and
- recourse against the borrower or a guarantor in the event of default.

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

- the uncertain value of the project prior to completion;
- the inherent uncertainty in estimating construction costs, which are often beyond the borrower s control;
- construction delays and cost overruns;
- possible difficulties encountered in connection with municipal or other governmental regulations during construction; and
- the difficulty in accurately evaluating the market value of the completed project.

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 periodic principal payments, with interest payable monthly. Term loans normally provide for floating interest rates, with monthly payments of both principal and interest.

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

Commercial Term Loans

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

Commercial Lines of Credit

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

SBA Loans

The Bank originates loans qualifying for guarantees issued by the United States 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 and accrued interest. Under certain circumstances, the guarantee of principal and interest may be less than 75 percent. In general, the guaranteed percentage is less than 75 percent for loans over $1.3 million. 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 obtains appraisals in accordance with applicable regulations. SBA loans have terms ranging from five to twenty 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 generally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA guaranteed loans that it originates. During the fourth quarter of 2007 and 2006, the Bank also sold the unguaranteed portion of some SBA loans. When the Bank sells a SBA loan, it has a right to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. The Bank retains the right to service the SBA loans, for which it receives servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2007, the

Bank had $118.5 million of SBA loans in its portfolio, and was servicing $258.5 million of SBA loans sold to investors.

International Trade Finance

The Bank offers a variety of international finance and trade services and products, including letters of credit, import financing (trust receipt financing and bankers acceptances) and export financing. Although most of our trade finance activities are related to trade with Asian countries, all of our loans are made to companies domiciled in the United States. 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 (HELOCs), 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, loss 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

Loan applications may be approved by the Board of Directors Loan Committee, or by the Bank s management or lending officers to the extent of their lending authority. Individual lending authority is granted to the Chief Credit Officer, the Deputy Chief Credit Officer, Senior Credit Officers and certain additional officers, including Branch Managers and the line managers to whom they report. 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 shareholders equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2007, the Bank s authorized legal lending limits for loans to one borrower were $56.6 million for unsecured loans plus an additional $37.8 million for specific secured loans. However, the Bank has established internal loan limits that are lower than the legal lending limits.

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

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

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

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

Deposits

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

Website

We maintain an Internet website at *www.hanmi.com*. We make available free of charge on the website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission (SEC or the Commission). None of the information on or hyperlinked from our website is incorporated into this Annual Report on Form 10-K.

Employees

As of December 31, 2007, the Bank had 612 full-time employees and 15 part-time employees and Chun-Ha and All World had 31 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 a result primarily 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 regions of 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 than the Bank does.

The recent trend has been for other institutions, including brokerage firms, credit card companies and retail establishments, to offer banking services to consumers, 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 in 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. Amongst these banks, the Bank is the largest, with a loan portfolio that is 41.8 percent larger than its nearest competitor s loan portfolio, and a deposit portfolio that is 60.6 percent larger than its nearest competitor s deposit portfolio. 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 principal bases of competition for deposits are the interest rate paid, convenience and 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 Conditions, Government Policies, Legislation and Regulation

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

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

From time to time, Federal and state legislation is enacted which 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.

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 (DIF) administered by the Federal Deposit Insurance Corporation (FDIC), and not for the benefit of stockholders. Set forth below is a summary description of the key 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 regulation 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 us to maintain certain levels of capital. See *Capital Standards.*

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. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.

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.

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.

approve acquisitions 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.

Non-Banking and Financial Activities

Subject to certain prior notice or FRB approval requirements, bank holding companies may engage in any, or acquire shares of companies engaged in, those non-banking activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Hanmi Financial may engage in these non-banking 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 FRB approval pursuant to its election to become a financial holding company. Pursuant to the Gramm-Leach-Bliley Act of 1999 (the GLBA), in order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act (CRA). 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. Chun-Ha and All World qualify as financial subsidiaries under the GLBA.

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

Securities Registration

Our securities are registered with the Securities and Exchange Commission (SEC) under the Exchange Act of 1934, as amended (the Exchange Act). As such, we are subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act.

The Sarbanes-Oxley Act

We are subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading; and
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

The Bank

As a California chartered bank, the Bank is subject to primary supervision, periodic examination, and regulation by the DFI and by the FRB as the Bank s primary federal regulator. As a member bank, the Bank is a stockholder of the Federal Reserve Bank of San Francisco (the Reserve Bank). 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;

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

enter into informal nonpublic 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; and

take possession and close and liquidate the Bank.

Permissible Activities and Subsidiaries

California law permits state chartered commercial banks to 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 non-banking activities commonly conducted by national banks in operating subsidiaries, and, further, pursuant to the GLBA, the Bank 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. Presently, none of the Bank s subsidiaries are financial subsidiaries.

In September, 2007, the SEC and the FRB finalized joint rules required by the Financial Services Regulatory Relief Act of 2006 to implement exceptions provided in the GLBA for securities activities that banks may conduct without registering with the SEC as a securities broker or moving such activities to a broker-dealer affiliate. The FRB s final Regulation R provides exceptions for networking arrangements with third party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The final rules, which will not be effective until 2009, are not expected to have a material effect on the current securities activities that the Bank currently conducts for customers.

Interstate Banking and Branching

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

Federal Home Loan Bank System

The Bank is a member and stockholder of the capital stock of the Federal Home Loan Bank of San Francisco. Among other benefits, each Federal Home Loan Bank (FHLB) serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system.

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, 2007, the Bank was in compliance with these requirements.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to Hanmi Financial. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends without the prior approval of the DFI or the FRB. In addition, the banking agencies have the authority to prohibit the Bank from paying dividends, depending upon the Bank s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Furthermore, under the Federal Prompt Corrective Action regulations, the FRB may prohibit a bank holding company from paying any dividends if the holding company s bank subsidiary is classified as undercapitalized. 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.

Capital Standards

At December 31, 2007, Hanmi Financial and the Bank s capital ratios exceed the minimum percentage requirements for well capitalized institutions. See *Notes to Consolidated Financial Statements, Note 14 Regulatory Matters.*

The Federal banking agencies have adopted risk-based minimum capital guidelines for bank holding companies and banks that are intended 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 and transactions that are recorded as off-balance sheet items. 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 risk. Under the capital guidelines, a banking organization s total capital is divided into tiers. Tier 1 capital includes common equity and trust-preferred securities, subject to certain criteria and quantitative limits. The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent.

An institution s risk-based capital, leverage capital and tangible capital ratios together determine the institution s capital classification. An institution is treated as well capitalized if its total capital to risk-weighted assets ratio is 10.0 percent or more; its Tier 1 capital to risk-weighted assets ratio is 6.0 percent or more; and its Tier 1 capital to adjusted total average assets ratio is 5.0 percent or more.

As of December 31, 2007, the regulatory capital guidelines and the actual capital ratios for Hanmi Financial and the Bank were as follows:

	Requirement		*Actual as of December 31, 2007*	
	Adequately Capitalized	*Well Capitalized*	*Hanmi Bank*	*Hanmi Financial*
Total Risk-Based Capital Ratio	8.0%	10.0%	10.59%	10.65%
Tier 1 Risk-Based Capital Ratio	4.0%	6.0%	9.34%	9.40%
Tier 1 Leverage Capital Ratio	4.0%	5.0%	8.47%	8.52%

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking

Supervision. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk, supervisory assessment and market discipline in determining minimum capital requirements, currently becomes mandatory for large international banks outside the U.S. in 2008, is optional for others, and must be complied with in a parallel run for two years along with the existing Basel I standards. A separate rule is expected to be released and issued in final by the Federal regulatory agencies in 2008, which will offer U.S. banks that will not adopt Basel II an alternative standardized approach under Basel II option and address concerns that the Basel II framework may offer significant competitive advantages for the largest U.S. and international banks. The U.S. banking agencies have indicated, however, that they will retain the minimum leverage requirement for all U.S. banks. Further proposals and revisions to the Basel II framework may also occur in response to recent adverse liquidity and securitization market developments.

The FDI Act gives the Federal banking agencies the additional broad authority to take prompt corrective action to resolve the problems of insured depository institutions that fall within any undercapitalized category, including requiring the submission of an acceptable capital restoration plan. 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. The guidelines set forth 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.

FDIC Insurance

Through the Deposit Insurance Fund (DIF), the FDIC insures the Bank s customer deposits up to prescribed limits for each depositor. 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. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. The Federal Deposit Insurance Reform Act of 2006 (FDIRA) and implementing regulations provide for changes in the formula and factors to be considered by the FDIC in calculating the FDIC reserve ratio, assessments and dividends, including business line concentrations and risk of failure and severity of loss in the event of failure. It is unclear whether the FDIC may need to increase assessments in the near term or longer term to address the risks and costs of any increase in bank failures.

The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of a bank s depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank s charter by the DFI.

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 shareholders (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 shareholder; or
- any political or campaign committee controlled by such executive officer, director or principal shareholder.

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 and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank s affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

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

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

limit such loans and investments to all affiliate 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 nonaffiliated parties.

Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDI Act prompt corrective action provisions and the supervisory authority of the Federal and state banking agencies.

USA PATRIOT Act and Anti-Money Laundering Compliance

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws, including the Bank Secrecy Act. The Bank has adopted 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 Hanmi Financial and the Bank.

Consumer Laws

The Bank and Hanmi Financial are subject to many Federal and state consumer protection laws and regulations prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition, including:

The Home Ownership and Equity Protection Act of 1994 (HOEPA), which requires extra disclosures and consumer protections to borrowers from certain lending practices, such as practices deemed to be predatory lending.

Privacy policies required by Federal and state banking laws and regulations, which limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act (the FACT Act), which requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data.

The Equal Credit Opportunity Act (ECOA), which generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA), which requires that credit terms be disclosed in a meaningful and consistent way so that consumers may compare credit terms more readily and knowledgeably.

The Fair Housing Act, which regulates many lending practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.

The CRA, which requires insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities; directs the Federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices and further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. In its last examination for CRA compliance, as of October 10, 2006, the Bank was rated Outstanding.

The Home Mortgage Disclosure Act (HMDA), which includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The Real Estate Settlement Procedures Act (RESPA), which requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks.

The National Flood Insurance Act, which requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.

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 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 impair our business operations and results.

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. Deterioration in economic conditions could result in 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.

Recent negative developments in the financial industry and U.S. and global credit markets may affect our operations and results. Negative developments in the latter half of 2007 in the subprime mortgage market and the securitization markets for such loans have resulted in uncertainty in the financial markets generally and the expectation of a general economic downturn beginning in 2008. Commercial as well as consumer loan portfolio performances have deteriorated at many institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue. Bank and bank holding company stock prices have been negatively affected as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. As a result, there is a potential for new Federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the impact of new legislation in response to those developments could negatively affect our operations by restricting our business operations, including our ability to originate or sell loans, and adversely affect our financial performance.

Our Southern California business focus and economic conditions in Southern California could adversely affect our operations. The Bank s operations are located primarily in Los Angeles and Orange counties. Because of this geographic concentration, our results depend largely upon economic conditions in these areas. Deterioration in economic conditions in the Bank s market area, 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 concentrations in commercial real estate loans located primarily in Southern California could have adverse effects on credit quality. Approximately 30.7 percent of the Bank s loan portfolio consists of commercial real estate and construction loans, primarily in Southern California. Because of this concentration, a deterioration of the Southern California commercial real estate market could have adverse consequences for the Bank. Among the factors that could contribute to such a decline are general economic conditions in Southern California, interest rates and local market construction and sales activity.

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.

If we cannot attract deposits, our growth may be inhibited. Our ability to increase our asset base depends in large part on our ability to attract additional deposits at favorable rates. We seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets. We cannot assure you that these efforts will be successful.

We must manage our funding resources to enable us to meet our ongoing operations costs and our deposit and borrowing obligations as they come due. Liquidity is essential to our business and any inability to raise funds could have a substantial negative effect on our liquidity. Sources of funds to meet our operating needs and obligations include deposits; interest and fee income on loans and other products and services; earnings on our investment securities portfolio; revenue from the sale or securitization of loans; new capital infusions and borrowings, such as from the Federal Home Loan Banks. Adverse regulatory developments or a decline in our financial condition or a decline in financial market conditions generally, such as the recent turmoil faced by depository financial institutions in the domestic and worldwide credit markets, could have a significant impact on our ability to meet our liquidity needs, including our ability to attract deposits in an increasingly competitive environment.

We may not be able to pay dividends in the future. A substantial source of Hanmi Financial s income from which we pay Hanmi Financial obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. As a result of our net loss for 2007 after the goodwill impairment charge and the increased provision for credit losses, the Bank must obtain the prior approval of the DFI and the FRB in order to pay dividends to Hanmi Financial. In the event the Bank is unable to pay dividends to us, we may not be able to service our debt, pay our obligations or pay dividends on our outstanding common stock. See *Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* for a further discussion of restrictions on the Bank s ability to pay dividends to Hanmi Financial.

Our operations may require us to raise additional capital in the future, but that capital may not be available or may not be on terms acceptable to us when it is needed. We are required by Federal regulatory authorities to maintain adequate levels of capital to support our operations. We believe that our existing capital resources will satisfy our capital requirements for the foreseeable future and will be sufficient to offset any problem assets. However, should our asset quality erode and require significant additional provision, resulting in consistent net operating losses at the Bank, our capital levels will decline and we will need to raise capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

The short-term and long-term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks is uncertain. As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation Basel II may be or what impact a pending alternative standardized approach to Basel II option for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

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, changes in existing laws, or repeals of existing laws may cause our results to differ materially. Further, Federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions and a material change in these conditions could have a material adverse affect on our financial condition and results of operations.

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, in making loans and attracting and retaining employees. 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 differ depending upon the nature and level of competition.

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 believes are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on our financial condition and results of operations. As described herein, the Bank substantially increased its provision for credit losses in 2007, as compared to 2006 and 2005, as a result of increases in historical loss factors, increased charge-offs and migration of more loans into more adverse risk categories.

Failure to manage our growth may adversely affect our performance. Our financial performance and profitability depend on our ability to manage our recent and possible future growth. Future acquisitions and our continued growth may present operating, integration and other issues that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 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.

Our stock price can be volatile due to many factors. Our stock price can fluctuate widely in response to a variety of factors, in addition to those described above, including:

- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- new technology used, or services offered, by our competitors;
- natural disasters, such as earthquakes; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

Item 1B. Unresolved Staff Comments

None.

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, 2008.

The following table sets forth information about our offices:

Office	*Type of Office*	*Address*	*City/State*	*Owned/ Leased*
Corporate Headquarters	Headquarters(1)	3660 Wilshire Boulevard, Penthouse Suite A	Los Angeles, CA	Leased
Cerritos Branch	Branch	11754 East Artesia Boulevard	Artesia, CA	Leased
Downtown Branch	Branch	950 South Los Angeles Street	Los Angeles, CA	Leased
Fashion District Branch	Branch	726 East 12th Street, Suite 211	Los Angeles, CA	Leased
Fullerton Branch	Branch	5245 Beach Boulevard	Buena Park, CA	Leased
Garden Grove Branch	Branch	9820 Garden Grove Boulevard	Garden Grove, CA	Owned
Gardena Branch	Branch	2001 West Redondo Beach Boulevard	Gardena, CA	Leased
Irvine Branch	Branch	14474 Culver Drive, Suite D	Irvine, CA	Leased
Koreatown Galleria Branch	Branch	3250 West Olympic Boulevard, Suite 200	Los Angeles, CA	Leased
Koreatown Plaza Branch	Branch(2)	928 South Western Avenue, Suite 260	Los Angeles, CA	Leased
Mid-Olympic Branch	Branch(3)	3099 West Olympic Boulevard	Los Angeles, CA	Owned
Olympic Branch	Branch(4)	3737 West Olympic Boulevard	Los Angeles, CA	Owned
Rancho Cucamonga Branch	Branch	9759 Baseline Road	Rancho Cucamonga, CA	Leased
Rowland Heights Branch	Branch	18720 East Colima Road	Rowland Heights, CA	Leased
San Diego Branch	Branch	4637 Convoy Street, Suite 101	San Diego, CA	Leased
San Francisco Branch	Branch	1491 Webster Street	San Francisco, CA	Leased
Silicon Valley Branch	Branch	2765 El Camino Real	Santa Clara, CA	Leased
South Cerritos Branch	Branch	11900 South Street, Suite 109	Cerritos, CA	Leased
Torrance Branch	Branch	2370 Crenshaw Boulevard, Suite H	Torrance, CA	Leased
Van Nuys Branch	Branch	14427 Sherman Way	Van Nuys, CA	Leased
Vermont Branch	Branch(5)	933 South Vermont Avenue	Los Angeles, CA	Owned
West Garden Grove Branch	Branch	9122 Garden Grove Boulevard	Garden Grove, CA	Owned
West Torrance Branch	Branch	21838 Hawthorne Boulevard	Torrance, CA	Leased
Western Branch	Branch	120 South Western Avenue	Los Angeles, CA	Leased
Wilshire Branch	Main Branch(6)	3660 Wilshire Boulevard, Suite 103	Los Angeles, CA	Leased
Commercial Loan Department	Loan Office(1)	3660 Wilshire Boulevard, Suite 1050	Los Angeles, CA	Leased
SBA Loan Department	Loan Office(1)	3327 Wilshire Boulevard	Los Angeles, CA	Leased

Atlanta LPO	Loan Office(1)	3585 Peachtree Industrial Boulevard, Suite 144	Duluth, GA	Leased
Chicago LPO	Loan Office(1)	6200 North Hiawatha, Suite 235	Chicago, IL	Leased
Dallas LPO	Loan Office(1)	2711 LBJ Freeway, Suite 114	Farmers Branch, TX	Leased
Denver LPO	Loan Office(1)	3033 South Parker Road, Suite 340	Aurora, CO	Leased
Northern California LPO	Loan Office(1)	39899 Balentine Drive, Suite 200	Newark, CA	Leased
Northwest Region LPO	Loan Office(1)	3500 108th Avenue Northeast, Suite 280	Bellevue, WA	Leased
Virginia LPO	Loan Office(1)	7535 Little River Turnpike, Suite 200B	Annandale, VA	Leased
Chun-Ha Insurance Services	Headquarters(1)	12912 Brookhurst Street, Suite 480	Garden Grove, CA	Leased
Chun-Ha Insurance Services	Insurance Office(1)	3225 Wilshire Boulevard, Suite 1806	Los Angeles, CA	Leased
All World Insurance Services	Headquarters(1)	12912 Brookhurst Street, Suite 480	Garden Grove, CA	Leased

(1) Deposits are not accepted at this facility.

(2) Residential Mortgage Center is also located at this facility.

(3) Auto Loan Center and Consumer Loan Center are also located at this facility.

(4) Training Facility is also located at this facility.

(5) Administrative offices are also located at this facility.

(6) International Finance Department is also located at this facility.

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, 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. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2007, no matters were submitted to stockholders for a vote.

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 by NASDAQ under the symbol HAFC.

		High		*Low*		*Cash Dividend*
2007:						
Fourth Quarter	$	16.70	$	8.39	$	0.06 per share
Third Quarter	$	17.39	$	14.04	$	0.06 per share
Second Quarter	$	19.50	$	15.74	$	0.06 per share
First Quarter	$	23.18	$	18.58	$	0.06 per share
2006:						
Fourth Quarter	$	22.88	$	18.89	$	0.06 per share
Third Quarter	$	20.00	$	18.13	$	0.06 per share
Second Quarter	$	20.46	$	17.09	$	0.06 per share
First Quarter	$	19.95	$	17.04	$	0.06 per share

Holders

Hanmi Financial had 347 registered stockholders of record as of February 7, 2008.

Dividends

The ability of Hanmi Financial to pay dividends to our shareholders is 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 shareholders in an amount which exceeds the lesser of (a) the retained earnings of the bank or (b) the net income of the bank for its last three fiscal years, in each case less the amount of any previous distributions made during such period. As a result of the net loss incurred by the Bank in 2007, the Bank is currently not able to pay dividends to Hanmi Financial under Section 642. However, Financial Code Section 643 provides, alternatively, that, notwithstanding the foregoing restriction, dividends in an amount not exceeding the greatest of (a) the retained earnings of the bank; (b) the net income of the bank for its last fiscal year or (c) the net income of the bank for its current fiscal year may be declared with the prior approval of the California Commissioner of Financial Institutions. The Bank had retained earnings of $52.8 million as of December 31, 2007.

Similarly, the net loss for 2007 requires prior FRB approval of bank dividends in 2008 to Hanmi Financial. FRB Regulation H Section 208.5 provides that the Bank must obtain FRB approval to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank s net income during the current calendar year and the retained net income of the prior two calendar years. The Bank will seek prior approval from the DFI and the FRB to pay cash dividends to Hanmi Financial.

There can be no assurance when or if these approvals would be granted, or that, even if granted, the Board of Directors will continue to authorize cash dividends to our shareholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information as of December 31, 2007 relating to equity compensation plans of Hanmi Financial pursuant to which grants of options, restricted stock awards or other rights to acquire shares may be granted from time to time.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		*Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (b)*	*Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))*
Equity Compensation Plans Approved By Security Holders	1,472,766	$	15.33	2,879,000
Equity Compensation Plans Not Approved By Security Holders		$		
Total Equity Compensation Plans	1,472,766	$	15.33	2,879,000

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 Poors (S&P) 500 Financials Index; and 3) the SNL Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The SNL Bank $1B-$5B Index was added to the graph this year to enhance comparisons of Hanmi Financial s performance to other companies with similar market capitalizations. 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 into any filing under the Securities Act of 1933 or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

TOTAL RETURN PERFORMANCE

		December 31,					
Index	*Symbol*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Hanmi Financial	HAFC	$ 100.00	$ 121.24	$ 223.44	$ 224.61	$ 286.92	$ 111.66
NASDAQ Composite	ˆ IXIC	$ 100.00	$ 150.01	$ 162.89	$ 165.13	$ 180.85	$ 198.60
S&P 500 Financials	S5FINL	$ 100.00	$ 127.92	$ 138.45	$ 143.61	$ 166.82	$ 132.05
SNL Bank $1B-$5B		$ 100.00	$ 135.99	$ 167.83	$ 164.97	$ 190.90	$ 139.06

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On April 25, 2006, the Board of Directors of Hanmi Financial authorized the repurchase of up to $50.0 million of common stock. The following are details on repurchases under this program for the fourth quarter of 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	*(a)Total Number of Shares (or Units) Purchased*	*(b) Average Price Paid per Share (or Unit)*	*(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs*	*(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
Repurchases from October 1, 2007 to October 31, 2007	2,000	$ 16.57	2,000	$ 11,074,000
Repurchases from November 1, 2007 to November 30, 2007	1,060,400	$ 9.62	1,060,400	$ 798,000
Repurchases from December 1, 2007 to December 31, 2007	82,000	$ 9.34	82,000	$ 29,000
Total	1,144,400	$ 9.62	1,144,400	

Item 6. Selected Financial Data

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Report and the information contained in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.* The selected historical financial data as of and for each of the years in the five years ended December 31, 2007 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,				
Dollars in thousands, except for per share data)	*2007*	*2006*	*2005*	*2004*	*2003*
UMMARY STATEMENTS OF OPERATIONS:					
nterest Income	$ 280,896	$ 260,189	$ 200,941	$ 135,554	$ 77,417
nterest Expense	128,693	106,429	62,111	32,617	20,796
let Interest Income Before Provision for Credit Losses	152,203	153,760	138,830	102,937	56,621
rovision for Credit Losses	38,323	7,173	5,395	2,907	5,680
Ion-Interest Income	40,006	36,963	31,450	26,211	20,022
Ion-Interest Expenses	189,929	77,313	70,201	66,566	39,325
ncome (Loss) Before Provision for Income Taxes	(36,043)	106,237	94,684	59,675	31,638
rovision for Income Taxes	24,477	40,588	36,455	22,975	12,425
IET INCOME (LOSS)	$ (60,520)	$ 65,649	$ 58,229	$ 36,700	$ 19,213
UMMARY BALANCE SHEETS:					
Cash and Cash Equivalents	$ 122,398	$ 138,501	$ 163,477	$ 127,164	$ 62,595
otal Investment Securities	350,457	391,579	443,912	418,973	414,616
let Loans(1)	3,241,097	2,837,390	2,469,080	2,234,842	1,248,399
otal Assets	3,983,746	3,725,243	3,414,252	3,104,188	1,787,139
otal Deposits	3,001,699	2,944,715	2,826,114	2,528,807	1,445,835
otal Liabilities	3,612,201	3,238,126	2,987,475	2,704,278	1,647,672
otal Stockholders Equity	371,545	487,117	426,777	399,910	139,467
angible Equity	257,537	273,159	209,028	178,791	137,424
verage Net Loans	3,049,775	2,721,229	2,359,439	1,912,534	1,103,765
verage Investment Securities	368,144	414,672	418,750	425,537	379,635
verage Interest-Earning Assets	3,494,758	3,214,761	2,871,564	2,387,412	1,538,820
verage Total Assets	3,882,891	3,602,181	3,249,190	2,670,701	1,623,214

Average Deposits	2,989,806	2,881,448	2,632,254	2,129,724	1,416,564
Average Borrowings	355,819	221,347	165,482	223,780	63,138
Average Interest-Bearing Liabilities	2,643,296	2,367,389	2,046,227	1,687,688	1,057,249
Average Stockholders Equity	492,637	458,227	417,813	293,313	132,369
Average Tangible Equity	275,036	242,362	198,527	143,262	130,252
PER SHARE DATA:					
Earnings (Loss) Per Share Basic	$ (1.27)	$ 1.34	$ 1.18	$ 0.87	$ 0.68
Earnings (Loss) Per Share Diluted	$ (1.27)	$ 1.33	$ 1.17	$ 0.84	$ 0.67
Book Value Per Share(2)	$ 8.10	$ 9.93	$ 8.77	$ 8.11	$ 4.92
Tangible Book Value Per Share(3)	$ 5.62	$ 5.57	$ 4.30	$ 3.62	$ 4.85
Cash Dividends Per Share	$ 0.24	$ 0.24	$ 0.20	$ 0.20	$ 0.20
Common Shares Outstanding	45,860,941	49,076,613	48,658,798	49,330,704	28,326,820

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

(2) Total stockholders equity divided by common shares outstanding.

(3) Tangible equity divided by common shares outstanding.

	As of and for the Year Ended December 31,				
	2007	*2006*	*2005*	*2004*	*2003*
SELECTED PERFORMANCE RATIOS:					
Return on Average Assets(4)	(1.56)%	1.82%	1.79%	1.37%	1.18%
Return on Average Stockholders Equity(5)	(12.28)%	14.33%	13.94%	12.51%	14.51%
Return on Average Tangible Equity (6)	(22.00)%	27.09%	29.33%	25.62%	14.75%
Net Interest Spread(7)	3.17%	3.59%	3.96%	3.75%	3.06%
Net Interest Margin(8)	4.36%	4.78%	4.83%	4.31%	3.68%
Efficiency Ratio(9)	98.81%	40.54%	40.86%	51.54%	51.31%
Dividend Payout Ratio(10)	(18.90)%	17.91%	16.95%	22.99%	29.41%
Average Stockholders Equity to Average Total Assets	12.69%	12.72%	12.86%	10.98%	8.15%
SELECTED CAPITAL RATIOS:					
Total Capital to Total Risk-Weighted Assets:					
Hanmi Financial	10.65%	12.55%	12.04%	11.98%	11.13%
Hanmi Bank	10.59%	12.28%	11.98%	11.80%	11.09%
Tier 1 Capital to Total Risk-Weighted Assets:					
Hanmi Financial	9.40%	11.58%	11.03%	10.93%	10.05%
Hanmi Bank	9.34%	11.31%	10.96%	10.75%	10.00%
Tier 1 Capital to Average Total Assets:					
Hanmi Financial	8.52%	10.08%	9.11%	8.93%	7.80%
Hanmi Bank	8.47%	9.85%	9.06%	8.78%	7.75%
SELECTED ASSET QUALITY RATIOS:					
Non-Performing Loans to Total Gross Loans(11)	1.66%	0.50%	0.41%	0.27%	0.68%
Non-Performing Assets to Total Assets(12)	1.37%	0.38%	0.30%	0.19%	0.48%
Net Loan Charge-Offs to Average Total Gross Loans	0.73%	0.17%	0.12%	0.19%	0.29%
Allowance for Loan Losses to Total Gross Loans	1.33%	0.96%	1.00%	1.00%	1.06%
Allowance for Loan Losses to Non-Performing Loans	80.05%	193.86%	246.40%	377.49%	154.13%

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

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

(6) Net income (loss) divided by average tangible equity.

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

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

(9)

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

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

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

(12) *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.

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

	Year Ended December 31,				
(Dollars in thousands)	*2007*	*2006*	*2005*	*2004*	*2003*
Average Stockholders Equity	$ 492,637	$ 458,227	$ 417,813	$ 293,313	$ 132,369
Less Average Goodwill and Average Other Intangible Assets	(217,601)	(215,865)	(219,286)	(150,051)	(2,117)
Average Tangible Equity	$ 275,036	$ 242,362	$ 198,527	$ 143,262	$ 130,252
Return on Average Stockholders Equity	(12.28)%	14.33%	13.94%	12.51%	14.51%
Effect of Average Goodwill and Average Other Intangible Assets	(9.72)%	12.76%	15.39%	13.11%	0.24%
Return on Average Tangible Equity	(22.00)%	27.09%	29.33%	25.62%	14.75%

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:

	December 31,				
(Dollars in thousands, except per share amounts)	*2007*	*2006*	*2005*	*2004*	*2003*

Total Stockholders Equity	$ 371,545	$ 487,117	$ 426,777	$ 399,910	$ 139,467
Less Goodwill and Other Intangible Assets	(114,008)	(213,958)	(217,749)	(221,119)	(2,043)
Tangible Equity	$ 257,537	$ 273,159	$ 209,028	$ 178,791	$ 137,424
Book Value Per Share	$ 8.10	$ 9.93	$ 8.77	$ 8.11	$ 4.92
Effect of Goodwill and Other Intangible Assets	(2.48)	(4.36)	(4.47)	(4.49)	(0.07)
Tangible Book Value Per Share	$ 5.62	$ 5.57	$ 4.30	$ 3.62	$ 4.85

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, 2007, 2006 and 2005. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements because of certain factors discussed elsewhere in this Report. See *Item 1A. Risk Factors.*

Critical Accounting Policies

We have established various accounting policies that govern the application of GAAP in the preparation of our consolidated financial statements. Our significant accounting policies are described in the *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies.* Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial s Board of Directors.

Allowance for Loan Losses

We believe the allowance for loan losses and allowance for off-balance sheet items are critical accounting policies that require significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements. Our allowance for loan loss methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on ten segmented loan pools by risk rating, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in non-performing loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rate are other qualitative factors that are considered in our methodologies. See *Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items, Results of Operations Provision for Credit Losses* and *Notes to Consolidated Financial Statements, Note 1 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 routinely sell SBA and residential mortgage loans to secondary market investors. When SBA guaranteed loans are sold, we generally retain the right to service these loans. We may record loan servicing assets when the benefits of servicing are expected to be more than adequate compensation to a servicer. We determine whether the benefits of servicing are expected to be more than adequate compensation to a servicer 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 1 Summary of Significant Accounting Policies* and *Note 4 Servicing Assets* presented elsewhere herein.

Goodwill

We have goodwill, which represents the excess of purchase price over the fair value of net assets acquired, because of various business acquisitions. As of December 31, 2007 and 2006, goodwill was $107.1 million and $207.6 million, respectively, which resulted primarily from the acquisition of Pacific Union Bank (PUB) in 2004. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* goodwill must be recorded at the reporting unit level. Reporting units are defined as an operating segment. We have identified one reporting unit our banking operations. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be tested for impairment at least annually (at any time during the year, but at the same time each year), or more frequently if events or circumstances change, such as adverse changes in the business climate, that would more likely than not reduce the reporting unit s fair value below its carrying amount.

During our annual assessment of goodwill during the fourth quarter of 2007, we recognized an impairment loss on goodwill of $102.9 million based on the decline in the market value of our common stock, which we believe reflects, in part, recent turmoil in the financial markets that has adversely affected the market value of the common stock of many banks. Goodwill is discussed in more detail in *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* and *Note 6 Goodwill* presented elsewhere herein.

Overview

In 2007, total assets increased 6.9 percent, reflecting the weakening economy, compared to increases of 9.1 percent and 10.0 percent in 2006 and 2005. Total assets increased to $3,983.7 million at December 31, 2007 from $3,725.2 million and $3,414.3 million at December 31, 2006 and 2005, respectively. Net loans increased to $3,241.1 million at December 31, 2007 from $2,837.4 million and $2,469.1 million at December 31, 2006 and 2005, respectively. Total deposits increased to $3,001.7 million at December 31, 2007 from $2,944.7 million and $2,826.1 million at December 31, 2006 and 2005, respectively.

Effective January 2, 2007, we completed the acquisitions of Chun-Ha and All World, which had combined total assets of $3.9 million on the date of acquisition. The acquisitions were accounted for as purchases, so the operating results and assets and liabilities of Chun-Ha and All World are included from the acquisition date.

For the year ended December 31, 2007, we recognized a net loss of $60.5 million, as compared with net income of $65.6 million for the year ended December 31, 2006. Such loss in 2007 was mainly caused by a goodwill impairment charge of $102.9 million occasioned by the decline in the market value of our common stock that reflects, in part, recent turmoil in the financial markets. If we measure our operating results from our continuing operations without this impairment charge on a non-GAAP basis (as shown in the table below), we realized net income of $42.4 million, as compared with $65.6 million in 2006. 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 our results from our core banking operations.

	Year Ended December 31, 2007		
(Dollars in thousands, except per share data)	*Income (Loss) (Numerator)*	*Weighted-Average Shares (Denominator)*	*Per Share Amount*
GAAP Net Loss	$ (60,520)	47,787,213	$ (1.27)
Impairment Loss on Goodwill	102,891		
Dilutive Securities Options and Warrants		306,504	$ 2.15
Non-GAAP Net Income, Excluding Impairment Loss on Goodwill	$ 42,371	48,093,717	$ 0.88

The largest factor affecting our 2007 operating results was a $38.3 million provision for credit losses, which increased from $7.2 million and $5.4 million in 2006 and 2005, respectively. In the last quarter of 2007, the economic conditions in the markets in which our borrowers operate continued to deteriorate and the levels of loan delinquency and defaults experienced by the Bank were substantially higher than historical levels. In response, the Bank has tightened its credit standards and significantly expanded its loan portfolio monitoring activities beyond the normal level of portfolio monitoring to attempt to identify potential weaknesses in performing loans. For loans with identified weaknesses, we have created individual action plans to mitigate, to the extent possible, such weaknesses. This effort resulted, in part, in additional downgrades in the classification of loans, primarily to special mention. For non-performing loans, we have enhanced our collection efforts, increased workout and collection personnel and created individual action plans to maximize, to the extent possible, collections on such loans. We will continue our monitoring of the loan portfolio until the Bank s credit risk profile returns to a normalized level.

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 incurred to fund those assets. Net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities. It also is affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities. Despite the growth in loans, net interest income in 2007 was essentially flat at $152.2 million compared to $153.8 million in 2006 due to compression in the net interest margin that was caused by the FRB lowering short-term interest rates and intense competition for loans and deposits in our niche markets. The Bank s net interest margin was 4.36 percent in 2007, compared to 4.78 percent a year ago.

We generated substantial non-interest income from service charges on deposit accounts, charges and fees from international trade finance, and gains on sales of loans. For the year ended December 31, 2007, non-interest income was $40.0 million, an increase of $3.0 million, or 8.2 percent, over the 2006 non-interest income of $37.0 million. Such increase was mainly caused by an increase in insurance commissions from the operation of two insurance companies acquired in January 2007. For the year ended December 31, 2005, non-interest income was $31.5 million.

Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and data processing expenses. For the year ended December 31, 2007, non-interest expenses, excluding the goodwill impairment charge, were $87.0 million (as shown in the table below), an increase of $9.7 million, or 12.6 percent, over the 2006 non-interest expenses of $77.3 million. In 2007, the increase was primarily the result of $1.7 million of separation expenses for the retirement of our former Chief Executive Officer and additional operating expenses from two insurance companies acquired in January 2007. Our efficiency ratio, excluding the goodwill impairment charge, was 45.28 percent in 2007 (as shown in the table below), compared to 40.54 percent and 40.86 percent, in 2006 and 2005, respectively. Management believes the presentation of these financial measures 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 our results from our core banking operations.

	Year Ended December 31,		
(In thousands)	*2007*	*2006*	*2005*
GAAP Total Non-Interest Expenses	$ 189,929	$ 77,313	$ 70,201
Deduct Impairment Loss on Goodwill	(102,891)		
Non-GAAP Total Non-Interest Expenses	$ 87,038	$ 77,313	$ 70,201
GAAP Efficiency Ratio	98.81%	40.54%	40.86%
Effect of Impairment Loss on Goodwill	(53.53)%		
Non-GAAP Efficiency Ratio	45.28%	40.54%	40.86%

Results Of Operations

Net Interest Income, Net Interest Spread and Net Interest Margin

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

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

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.

	Year Ended December 31,							
	2007			*2006*			*2005*	
thousands)	*Average Balance*	*Interest Income/ Expense*	*Average Yield/ Rate*	*Average Balance*	*Interest Income/ Expense*	*Average Yield/ Rate*	*Average Balance*	*Interest Income/ Expense*
rning Assets:								
ns, Net(1)	$ 3,080,544	$ 261,992	8.50%	$ 2,747,922	$ 239,075	8.70%	$ 2,382,230	$ 180,845
Securities(2)	71,937	3,055	4.25%	72,694	3,087	4.25%	74,166	3,122
s of Other U.S. nt Agencies	116,701	4,963	4.25%	122,503	5,148	4.20%	102,703	4,002
t Securities	179,506	8,436	4.70%	219,475	10,120	4.61%	241,881	10,271
urities	26,228	1,413	5.39%	24,684	1,354	5.49%	23,571	1,107
nds Sold	19,746	1,032	5.23%	27,410	1,402	5.11%	46,799	1,589
ral Funds Sold	96	5	5.21%	41	2	4.88%		
rning Deposits				32	1	4.04%	214	5
est-Earning Assets	3,494,758	280,896	8.04%	3,214,761	260,189	8.09%	2,871,564	200,941
t-Earning Assets:								
Cash Equivalents	92,148			93,535			92,245	
for Loan Losses	(30,769)			(26,693)			(22,791)	
ets	326,754			320,578			308,172	
nterest-Earning	388,133			387,420			377,626	
ts	$ 3,882,891			$ 3,602,181			$ 3,249,190	
IES AND OLDERS EQUITY earing Liabilities:								
	$ 97,173	2,004	2.06%	$ 107,811	1,853	1.72%	$ 138,167	2,130
rket Checking and ounts	452,825	15,446	3.41%	471,780	14,539	3.08%	539,678	12,964

osits of $100,000 or	1,430,603	75,516	5.28%	1,286,202	64,184	4.99%	959,904	31,984
e Deposits	306,876	15,134	4.93%	280,249	12,460	4.45%	242,996	7,114
vances and Other s	273,413	13,949	5.10%	138,941	6,977	5.02%	83,076	3,017
ordinated Debentures	82,406	6,644	8.06%	82,406	6,416	7.79%	82,406	4,902
est-Bearing Liabilities	2,643,296	128,693	4.87%	2,367,389	106,429	4.50%	2,046,227	62,111
t-Bearing Liabilities:								
eposits	702,329			735,406			751,509	
ilities	44,629			41,159			33,641	
nterest-Bearing	746,958			776,565			785,150	
ilities	3,390,254			3,143,954			2,831,377	
ers Equity	492,637			458,227			417,813	
ilities and ers Equity	$ 3,882,891			$ 3,602,181			$ 3,249,190	
t Income		$ 152,203			$ 153,760			$ 138,830
t Spread(3)			3.17%			3.59%		
t Margin(4)			4.36%			4.78%		

(1) Loans are net of deferred fees and related direct costs. Loan fees have been included in the calculation of interest income. Loan fees were $2.7 million, $4.8 million and $6.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(2) Tax-exempt income, computed on a tax-equivalent basis using an effective marginal rate of 35 percent, was $4.7 million, $4.7 million and $4.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. Yields on tax-exempt income were 6.53 percent, 6.53 percent and 6.48 percent for the years ended December 31, 2007, 2006 and 2005, respectively.

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

	Year Ended December 31,					
	2007 vs. 2006 Increase (Decrease) Due to Change in			*2006 vs. 2005 Increase (Decrease) Due to Change in*		
(In thousands)	*Volume*	*Rate*	*Total*	*Volume*	*Rate*	*Total*
Interest Income:						
Gross Loans, Net	$ 28,391	$ (5,474)	$ 22,917	$ 29,839	$ 28,391	$ 58,230
Municipal Securities	(32)		(32)	(63)	28	(35)
Obligations of Other U.S. Government Agencies	(246)	61	(185)	816	330	1,146
Other Debt Securities	(1,875)	191	(1,684)	(994)	843	(151)
Equity Securities	83	(24)	59	54	193	247
Federal Funds Sold	(400)	30	(370)	(807)	620	(187)
Term Federal Funds Sold	3		3	2		2
Interest-Earning Deposits	(1)		(1)	(10)	6	(4)
Total Interest Income	25,923	(5,216)	20,707	28,837	30,411	59,248
Interest Expense:						
Savings	(196)	347	151	(503)	226	(277)
Money Market Checking and NOW Accounts	(601)	1,508	907	(1,773)	3,348	1,575
Time Deposits of $100,000 or More	7,481	3,851	11,332	13,068	19,132	32,200
Other Time Deposits	1,244	1,430	2,674	1,220	4,126	5,346
FHLB Advances and Other Borrowings	6,860	112	6,972	2,524	1,436	3,960
Junior Subordinated Debentures		228	228		1,514	1,514
Total Interest Expense	14,788	7,476	22,264	14,536	29,782	44,318
Change in Net Interest Income	$ 11,135	$ (12,692)	$ (1,557)	$ 14,301	$ 629	$ 14,930

For the years ended December 31, 2007 and 2006, net interest income was $152.2 million and $153.8 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2007 were 3.17 percent and 4.36 percent, respectively, compared to 3.59 percent and 4.78 percent, respectively, for the year ended December 31, 2006 and 3.96 percent and 4.83 percent, respectively, for the year ended December 31, 2005.

Average loans were $3.08 billion in 2007, as compared with $2.75 billion in 2006 and $2.38 billion in 2005, representing increases of 12.1 percent and 15.4 percent in 2007 and 2006, respectively. Average interest-earning assets were $3.49 billion in 2007, as compared with $3.21 billion in 2006 and $2.87 billion in 2005, representing increases of 8.7 percent and 12.0 percent in 2007 and 2006, respectively. In 2007, the majority of interest-earning assets growth was funded by a $108.4 million increase in average total deposits and a $134.5 million increase in FHLB advances and other borrowings. In 2006, the growth was funded primarily by a $249.2 million increase in average total deposits and a $55.9 million increase in FHLB advances and other borrowings. Total average interest-bearing liabilities grew by $275.9 million and $321.2 million, respectively, in 2007 and 2006.

The average yield on interest-earning assets slightly decreased to 8.04 percent in 2007, after a 109 basis point increase in 2006 to 8.09 percent from 7.00 percent in 2005. The strong competition for deposits in our local markets accelerated our average cost on interest-bearing liabilities to 4.87 percent in 2007, compared to 4.50 percent in 2006 and 3.04 percent in 2005, despite the FRB lowering rates by 100 basis points since September 2007. As a result, interest income grew 8.0 percent to $280.9 million for 2007, but was outpaced by a 20.9 percent increase in interest expense to $128.7 million. In 2006, interest income increased by

29.5 percent to $260.2 million from $200.9 million in 2005, but was outpaced by a 71.4 percent increase in interest expense to $106.4 million in 2006 from $62.1 million in 2005.

Our net interest income in 2007 was slightly lower at $152.2 million, compared to $153.8 million in 2006, as the modest growth in average interest-earning assets was offset by the FRB s lowering of rates. In 2006, net interest income increased by 10.8 percent to $153.8 million from $138.8 million in 2005, due primarily to a 12.0 percent increase in average interest-earning assets.

Provision for Credit Losses

For the year ended December 31, 2007, the provision for credit losses was $38.3 million, compared to $7.2 million for the year ended December 31, 2006. The allowance for loan losses was 1.33 percent and 0.96 percent of total gross loans at December 31, 2007 and 2006, respectively. The increase in the provision for credit losses is attributable to increases in the loan portfolio, net charge-offs, non-performing loans and criticized and classified loans. The loan portfolio increased $403.7 million, or 14.2 percent, from $2,837.4 million at December 31, 2006 to $3,241.1 million at December 31, 2007. Net charge-offs increased $18.1 million, or 394.3 percent, from $4.6 million for the year ended December 31, 2006 to $22.6 million for the year ended December 31, 2007. Non-performing loans increased from $14.2 million, or 0.50 percent of total gross loans, as of December 31, 2006 to $54.5 million, or 1.66 percent of total gross loans, as of December 31, 2007. The $403.7 million, or 14.2 percent, increase in the loan portfolio and the $40.3 million, or 283.3 percent, increase in non-performing loans required the provision to increase to $38.3 million in 2007 from $7.2 million in 2006 to maintain the necessary allowance level.

For the year ended December 31, 2006, the provision for credit losses was $7.2 million, compared to $5.4 million for the year ended December 31, 2005, an increase of 33.0 percent. The allowance for loan losses was 0.96 percent and 1.00 percent of total gross loans at December 31, 2006 and 2005, respectively, with the increase in the dollar amount allowed for credit losses due to an increase in loan volume. This was primarily due to the overall decrease in historical loss factors on pass grade loans, while non-performing loans increased from $10.1 million, or 0.41 percent of total gross loans, as of December 31, 2005 to $14.2 million, or 0.50 percent of total gross loans, as of December 31, 2006. The $368.3 million, or 14.9 percent, increase in the loan portfolio and the $4.1 million, or 40.3 percent, increase in non-performing loans required the provision to increase to $7.2 million in 2006 from $5.4 million in 2005 to maintain the necessary allowance level.

Non-Interest Income

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

	Year Ended December 31,		
(In thousands)	*2007*	*2006*	*2005*
Service Charges on Deposit Accounts	$ 18,061	$ 17,134	$ 15,782
Insurance Commissions	4,954	770	651
Trade Finance Fees	4,493	4,567	4,269
Remittance Fees	2,049	2,056	2,122
Other Service Charges and Fees	2,527	2,359	2,496
Bank-Owned Life Insurance Income	933	879	845
Increase in Fair Value of Derivatives	683	1,074	1,105

Other Income	1,702	1,157	1,042
Gain on Sales of Loans	5,452	6,917	3,021
Gain on Sales of Other Real Estate Owned	226	48	
Gain on Sales of Securities Available for Sale		2	117
Other-Than-Temporary Impairment Loss on Securities	(1,074)		
Total Non-Interest Income	$ 40,006	$ 36,963	$ 31,450

We earn non-interest income from four major sources: service charges on deposit accounts, insurance commissions, fees generated from international trade finance and gain on sales of loans. For the year ended December 31, 2007, non-interest income was $40.0 million, an increase of 8.2 percent from $37.0 million for the year ended December 31, 2006. The overall increase in non-interest income for 2007 is primarily due to expansion in the Bank s loan and deposit portfolios and higher insurance commissions due to the acquisition of two insurance agencies in January 2007, partially offset by lower gain on sales of loans and an other-than-temporary impairment loss on securities. For the year ended December 31, 2006, non-interest income was $37.0 million, an increase of 17.5 percent from $31.5 million for the year ended December 31, 2005. The overall increase in non-interest income for 2006 is primarily due to expansion in the Bank s loan and deposit portfolios.

Service charges on deposit accounts increased $927,000, or 5.4 percent, in 2007 compared to 2006 and increased $1.4 million, or 8.6 percent, in 2006 compared to 2005. Service charge income on deposit accounts increased in 2007 and 2006 due to an increase in the number of accounts and an increase in demand deposit transaction volume. Average demand deposits decreased by 4.5 percent to $702.3 million in 2007 from $735.4 million in 2006 and decreased by 2.1 percent to $735.4 million in 2006 from $751.5 million in 2005.

Insurance commissions increased $4.2 million, or 543.4 percent, in 2007 compared to 2006 and increased $119,000, or 18.3 percent, in 2006 compared to 2005. Insurance commissions increased in 2007 due to the acquisition of two insurance agencies in January 2007.

Fees generated from international trade finance decreased by 1.6 percent from $4.6 million in 2006 to $4.5 million in 2007 and increased by 7.0 percent from $4.3 million in 2005 to $4.6 million in 2006. The decrease in 2007 is attributable primarily to decreased export letter of credit volume. The increase in 2006 is attributable primarily to increased export letter of credit volume and fee increases. Trade finance fees relate primarily to import and export letters of credit.

The changes in the fair value of derivatives are caused primarily by movements in the indexes to which interest rates on certain certificates of deposit are tied. In 2005, the Bank offered certificates of deposit tied to either the Standard & Poor s 500 Index or a basket of Asian currencies. The Bank entered into swap transactions to hedge the market risk associated with such certificates of deposit. The swaps and the related derivatives embedded in the certificates of deposit are accounted for at fair value. The increases in the fair value of the swaps of $683,000, $1.1 million and $1.1 million recorded in non-interest income in 2007, 2006 and 2005, respectively, are partially offset by changes in the fair value of the embedded derivatives recorded in non-interest expenses.

Gain on sales of loans was $5.5 million in 2007, compared to $6.9 million in 2006 and $3.0 million in 2005, representing a decrease of 21.2 percent for the year ended December 31, 2007 and an increase of 129.0 percent for the year ended December 31, 2006. In 2007, the decrease in gain on sales of loans resulted from lower premiums, which decreased to 4.3 percent in 2007 compared to 5.3 percent in 2006. In 2006, the increase in gain on sales of loans resulted from increased sales activity in SBA loans, which was primarily due to increased loan production and sales efforts, including the sale of some of the unguaranteed portions of SBA loans. Generally, the guaranteed portion of a substantial percentage of SBA loans is sold in the secondary markets, and servicing rights are retained. During 2007, there were $116.6 million of SBA loans sold, compared to $110.7 million in 2006 and $50.6 million in 2005.

We periodically evaluate our investments for other-than-temporary impairment. We have investments in Community Reinvestment Act (CRA) preferred securities with an aggregate par value of $2.0 million as of December 31, 2007 and 2006. During the fourth quarter of 2007, based on an evaluation of the length of time and extent to which the estimated fair value of the CRA preferred securities had been less than their carrying value, and the financial condition and near-term prospects of the issuers, we recorded an other-than-temporary impairment charge of $1.1 million to write down the value of the CRA preferred securities to their estimated fair value.

Non-Interest Expenses

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

	Year Ended December 31,		
(In thousands)	*2007*	*2006*	*2005*
Salaries and Employee Benefits	$ 47,036	$ 40,512	$ 36,839
Occupancy and Equipment	10,494	9,643	9,413
Data Processing	6,390	5,857	4,844
Advertising and Promotion	3,630	2,997	2,913
Supplies and Communications	2,592	2,391	2,556
Professional Fees	2,468	1,910	2,201
Amortization of Other Intangible Assets	2,324	2,379	2,785

Decrease in Fair Value of Embedded Option		233		582		748
Other Operating Expenses		11,871		11,042		8,411
Merger-Related Expenses						(509)
Impairment Loss on Goodwill		102,891				
Total Non-Interest Expenses	$	189,929	$	77,313	$	70,201

For the year ended December 31, 2007, non-interest expenses were $189.9 million, an increase of $112.6 million, or 145.7 percent, from $77.3 million for the year ended December 31, 2006. The increase in 2007 was primarily the result of an impairment loss on goodwill of $102.9 million. The remaining increase in 2007 was due to increases in compensation, occupancy and equipment expenses, and other operating expenses, as well as non-interest expenses of $3.6 million attributable to Chun-Ha and All World and $1.3 million attributable to the two new branches that opened during 2007. For the year ended December 31, 2006, non-interest expenses were $77.3 million, an increase of $7.1 million, or 10.1 percent, from $70.2 million for the year ended December 31, 2005. The increase in 2006 was primarily the result of higher compensation.

Salaries and employee benefits expenses for 2007 increased $6.5 million, or 16.1 percent, to $47.0 million from $40.5 million for 2006. Salaries and employee benefits expenses for 2006 increased $3.7 million, or 10.0 percent, to $40.5 million from $36.8 million for 2005. The increase in 2007 was due to $2.4 million attributable to Chun-Ha and All World, $1.7 million of separation expenses for our former Chief Executive Officer s retirement, $521,000 attributable to the two new branches that opened during 2007, $370,000 of additional share-based compensation reflecting stock options granted, annual salary increases and an increase in the average number of employees. Average headcount was 623, 589 and 535 in 2007, 2006 and 2005, respectively, representing increases of 5.8 percent, 10.1 percent and 6.4 percent, respectively, over the prior years. The increase in 2006 was due primarily to annual salary increases, additional share-based compensation reflecting stock options granted and an increase in the average number of employees.

Occupancy and equipment expenses for 2007 increased $851,000, or 8.8 percent, to $10.5 million from $9.6 million for 2006. Occupancy and equipment expenses for 2006 increased $230,000, or 2.4 percent, to $9.6 million from $9.4 million for 2005. The increase in 2007 was due to $476,000 attributable to the two new branches that opened during 2007, $194,000 attributable to Chun-Ha and All World, and additional office space leased. The increase in 2006 was due to additional office space leased.

Other operating expenses were $11.9 million for 2007, compared to $11.0 million for 2006, representing an increase of $829,000, or 7.5 percent. The increase is primarily attributable to an increase in the amortization of loan servicing assets. Other operating expenses were $11.0 million for 2006, compared to $8.4 million for 2005, representing an increase of $2.6 million, or 31.3 percent. The increase is primarily attributable to a $534,000 operating loss related to an international trade transaction, amortization expense of $879,000 related to the termination in the fourth quarter of 2005 of interest rate swaps that had unrealized losses aggregating $2.1 million, and a $355,000 impairment charge to adjust the loan servicing asset to fair value.

During our annual assessment of goodwill during the fourth quarter of 2007, we concluded that we had an impairment of goodwill based on the decline in the market value of our common stock, which we believe reflects, in part, recent turmoil in the financial markets that has adversely affected the market value of the common stock of many banks. The fair value was determined based on a weighted distribution of values derived from three different approaches: market approach, market capitalization approach, and income approach. Based on this assessment, we concluded that $102.9 million of the related goodwill was impaired and was required to be expensed as a non-cash charge to continuing operations during the fourth quarter of 2007. As of December 31, 2007 and 2006, goodwill was $107.1 million and $207.6 million, respectively, which resulted primarily from the acquisition of PUB in 2004.

Income Taxes

For the year ended December 31, 2007, income taxes of $24.5 million were recognized on pre-tax losses of $36.0 million, representing an effective tax rate of 67.9 percent, compared to income taxes of $40.6 million recognized on pre-tax income of $106.2 million, representing an effective tax rate of 38.2 percent, for 2006, and income taxes of $36.5 million recognized on pre-tax income of $94.7 million, representing an effective tax rate of 38.5 percent, for 2005. The effective tax rate for 2007 includes a $102.9 million impairment loss on goodwill, which is not deductible for tax purposes.

During 2007, we made investments in various tax credit funds totaling $5.8 million and recognized $775,000 of income tax credits earned from qualified low-income housing investments. We recognized an income tax credit of $659,000 for the tax year 2006 from $4.8 million in such investments and recognized an income tax credit of $673,000 for the tax year 2005 from $5.9 million in such investments. We intend to continue to make such investments as part of an effort to lower the effective tax rate and to meet our community reinvestment obligations under the CRA.

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

Most of our temporary differences involve recognizing more expenses in our financial statements than we have been allowed to deduct for taxes, and therefore we normally have a net deferred tax asset. At December 31, 2007 and 2006, we had net deferred tax assets of $18.5 million and $13.1 million, respectively.

Financial Condition

Loan Portfolio

Total gross loans increased by $419.1 million, or 14.6 percent, in 2007. Total gross loans represented 82.5 percent of total assets at December 31, 2007, compared with 77.0 percent and 73.2 percent at December 31, 2006 and 2005, respectively.

Commercial and industrial loans were $2,094.7 million and $1,726.4 million at December 31, 2007 and 2006, respectively, representing 63.7 percent and 60.2 percent, respectively, of the total loan portfolio. Commercial loans include term loans and revolving lines of credit. Term loans typically have a maturity of three to five 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 (five to twenty 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.

Real estate loans were $1,101.9 million and $1,041.4 million at December 31, 2007 and 2006, respectively, representing 33.5 percent and 36.3 percent, respectively, of the total 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.

The following table sets forth the amount of total loans outstanding in each category as of the dates indicated:

	Amount of Loans Outstanding as of December 31,				
(In thousands)	*2007*	*2006*	*2005*	*2004*	*2003*
Real Estate Loans:					
Commercial Property	$ 795,675	$ 757,428	$ 733,650	$ 783,539	$ 397,853
Construction	215,857	202,207	152,080	92,521	43,047
Residential Property*(1)*	90,375	81,758	88,442	80,786	58,477
Total Real Estate Loans	1,101,907	1,041,393	974,172	956,846	499,377
Commercial and Industrial Loans:					
Commercial Term Loans	1,599,853	1,202,612	945,210	754,108	433,398
Commercial Lines of Credit	256,978	225,630	224,271	201,940	120,856
International Loans	119,360	126,561	106,520	95,936	65,040
SBA Loans*(2)*	118,528	171,631	155,491	166,285	91,717
Total Commercial and Industrial Loans	2,094,719	1,726,434	1,431,492	1,218,269	711,011
Consumer Loans*(3)*	90,449	100,121	92,154	87,526	54,878
Total Gross Loans	$ 3,287,075	$ 2,867,948	$ 2,497,818	$ 2,262,641	$ 1,265,266

(1) *As of December 31, 2007, 2006, 2005, 2004 and 2003, loans held for sale totaling $310,000, $630,000, $0, $0 and $0, respectively, were included at the lower of cost or fair value.*

(2) *As of December 31, 2007, 2006, 2005, 2004 and 2003, loans held for sale totaling $6.0 million, $23.2 million, $0, $3.9 million and $25.5 million, respectively, were included at the lower of cost or market.*

(3) *Consumer loans includes HELOCs.*

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

	Percentage Distribution of Loans as of December 31,				
	2007	*2006*	*2005*	*2004*	*2003*
Real Estate Loans:					
Commercial Property	24.2%	26.4%	29.4%	34.6%	31.4%
Construction	6.6%	7.1%	6.1%	4.1%	3.4%
Residential Property	2.7%	2.8%	3.5%	3.6%	4.7%
Total Real Estate Loans	33.5%	36.3%	39.0%	42.3%	39.5%
Commercial and Industrial Loans:					
Commercial Term Loans	48.7%	41.9%	37.8%	33.3%	34.3%
Commercial Lines of Credit	7.8%	7.9%	9.0%	8.9%	9.6%
International Loans	3.6%	4.4%	4.3%	4.3%	5.1%
SBA Loans	3.6%	6.0%	6.2%	7.3%	7.2%
Total Commercial and Industrial Loans	63.7%	60.2%	57.3%	53.8%	56.2%
Consumer Loans	2.8%	3.5%	3.7%	3.9%	4.3%
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:

	December 31,	
(In thousands)	*2007*	*2006*
Commitments to Extend Credit	$ 524,349	$ 578,347
Commercial Letters of Credit	52,544	65,158
Standby Letters of Credit	48,071	48,289
Unused Credit Card Lines	18,622	17,031

Total Undisbursed Loan Commitments	$ 643,586	$ 708,825

The table below shows the maturity distribution and repricing intervals of outstanding loans as of December 31, 2007. 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 $54.3 million.

(In thousands)	*Within One Year*	*After One But Within Five Years*	*After Five Years*	*Total*
Real Estate Loans:				
Commercial Property	$ 390,407	$ 245,020	$ 160,248	$ 795,675
Construction	215,857			215,857
Residential Property	22,881	40,656	26,838	90,375
Total Real Estate Loans	629,145	285,676	187,086	1,101,907
Commercial and Industrial Loans:				
Commercial Term Loans	875,340	325,428	399,085	1,599,853
Commercial Lines of Credit	256,978			256,978
International Loans	119,360			119,360
SBA Loans	108,413	1,338	8,777	118,528
Total Commercial and Industrial Loans	1,360,091	326,766	407,862	2,094,719
Consumer Loans	61,538	28,862	49	90,449
Total Gross Loans	$ 2,050,774	$ 641,304	$ 594,997	$ 3,287,075
Loans With Predetermined Interest Rates	$ 117,175	$ 619,110	$ 590,680	$ 1,326,965
Loans With Variable Interest Rates	$ 1,933,599	$ 22,194	$ 4,317	$ 1,960,110

As of December 31, 2007, there were $389.7 million of loans, or 11.9 percent of total gross loans, to borrowers who were involved in the accommodation/hospitality industry, and $336.9 million of loans, or 10.2 percent of total gross loans, to borrowers operating gasoline stations. There was no other concentration of loans to any one type of industry exceeding ten percent of total gross loans outstanding.

Non-Performing Assets

Non-performing assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned (OREO). Loans are generally placed on non-accrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Loans may be restructured by management when a borrower has experienced some change in financial status, causing an inability to meet the original repayment terms, and where we believe the borrower eventually will overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

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

Non-performing loans were $54.5 million at December 31, 2007, compared to $14.2 million and $10.1 million at December 31, 2006 and 2005, respectively, representing a 283.3 percent increase in 2007 and a 40.3 percent increase in 2006. Total gross loans increased by 14.6 percent in 2007 over 2006 and 14.8 percent in 2006 over 2005. As a result, the ratio of non-performing loans to total gross loans increased to 1.66 percent at December 31, 2007 from 0.50 percent at December 31, 2006, and increased to 0.50 percent at December 31, 2006 from 0.41 percent at December 31, 2005. As of December 31, 2007, we had $287,000 of OREO. There was no OREO as of December 31, 2006.

Except for non-performing loans set forth below and loans disclosed as impaired, our management is not aware of any loans as of December 31, 2007 and 2006 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. Our 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.

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

	December 31,				
(Dollars in thousands)	*2007*	*2006*	*2005*	*2004*	*2003*
Non-Performing Loans:					
Non-Accrual Loans:					
Real Estate Loans:					
Commercial Property	$ 2,684	$ 246	$	$	$ 527
Construction	24,118				
Residential Property	1,490		474	112	1,126
Commercial and Industrial Loans	25,729	13,862	9,574	5,510	6,398
Consumer Loans	231	105	74	184	53
Total Non-Accrual Loans	54,252	14,213	10,122	5,806	8,104
Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest):					
Real Estate Loans:					
Commercial Property					557
Commercial and Industrial Loans	150			169	
Consumer Loans	77	2	9	39	
Total Loans 90 Days or More Past Due and Still Accruing (as to Principal or Interest)	227	2	9	208	557
Total Non-Performing Loans	54,479	14,215	10,131	6,014	8,661
Other Real Estate Owned	287				
Total Non-Performing Assets	$ 54,766	$ 14,215	$ 10,131	$ 6,014	$ 8,661
Non-Performing Loans as a Percentage of Total Gross Loans	1.66%	0.50%	0.41%	0.27%	0.68%
	1.37%	0.38%	0.30%	0.19%	0.48%

Non-Performing Assets as a Percentage of Total
Assets

Non-accrual loans at December 31, 2007 included a $17.0 million construction loan for low-income housing that is fully collateralized and participated in by the local government. The downgrade of this loan relates to project cost overruns and construction delays. Despite these setbacks, we anticipate the project being completed and our loan being repaid without a loss to the Bank.

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

Provisions to the allowance for loan losses are made quarterly to recognize probable loan losses. The quarterly provision is based on the allowance need, which is calculated using a formula designed to provide adequate allowances for losses inherent in the portfolio. The formula is made up of various components. The allowance is first determined by assigning reserve ratios for all loans. All loans that are classified are then assigned certain allocations according to type with larger percentages applied to loans deemed to be of a higher risk. These percentages are determined based on the prior loss history by type of loan, adjusted for current economic factors.

	December 31,								
sands)	*2007*		*2006*		*2005*		*2004*		*2*
oan le To	*Allowance Amount*	*Loans Receivable*	*Allowance Amount*	*Loans Receivable*	*Allowance Amount*	*Loans Receivable*	*Allowance Amount*	*Loans Receivable*	*Allowance Amount*
ns:									
pperty	$ 2,269	$ 795,675	$ 2,101	$ 757,428	$ 2,043	$ 733,650	$ 1,854	$ 783,539	$ 374
	3,478	215,857	586	202,207	475	152,080	349	92,521	427
perty*(1)*	32	90,065	19	81,128	19	87,377	155	80,786	191
e Loans	5,779	1,101,597	2,706	1,040,763	2,537	973,107	2,358	956,846	992
l									
(1)	36,011	2,088,694	23,099	1,703,194	21,035	1,431,492	19,051	1,214,419	11,376
s	1,821	90,449	1,752	100,121	1,391	92,154	1,293	87,526	846
									135
	$ 43,611	$ 3,280,740	$ 27,557	$ 2,844,078	$ 24,963	$ 2,496,753	$ 22,702	$ 2,258,791	$ 13,349

(1) Loans held for sale excluded.

The allowance is based on estimates, and ultimate future losses may vary from current estimates. Underlying trends in the economic cycle, particularly in Southern California, which management cannot completely predict, will influence credit quality. It is possible that future economic or other factors will adversely affect the Bank s borrowers. As a result, we may sustain loan losses in any particular period that are sizable in relation to the allowance, or exceed the allowance. In addition, our asset quality may deteriorate through a number of possible factors, including rapid growth, failure to maintain or enforce appropriate underwriting standards, failure to maintain an adequate number of qualified loan personnel, and failure to identify and monitor potential problem loans.

The allowance for loan losses and allowance for off-balance sheet items are maintained at levels that are believed to be adequate by management to absorb estimated probable loan losses inherent in the loan portfolio. The adequacy of the allowances is determined through periodic evaluations of the loan portfolio and other pertinent factors, which are inherently subjective as the process calls for various significant estimates and assumptions. Among other factors, the estimates involve the amounts and timing of expected future cash flows and fair value of collateral on impaired loans, estimated losses on loans based on historical loss experience, various qualitative factors, and uncertainties in estimating losses and inherent risks in the various credit portfolios, which may be subject to substantial change.

On a quarterly basis, we utilize a classification migration model and individual loan review analysis tools as starting points for determining the adequacy of the allowance for loan losses and allowance for off-balance sheet items. Our loss migration analysis tracks a certain number of quarters of loan loss history to determine historical losses by classification category (i.e., pass, special mention, substandard and doubtful) for each loan type, except certain loan (automobile, mortgage and credit cards), which are analyzed as homogeneous loan pools. These calculated loss factors are then applied to outstanding loan balances, unused commitments and off-balance sheet exposures, such as letters of credit. The individual loan review analysis is the other part of the allowance allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios. Further allowance assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

The allowance for loan losses increased by $16.1 million, or 58.3 percent, to $43.6 million at December 31, 2007 as compared with $27.6 million at December 31, 2006. The increase in the allowance for loan losses in 2007 was due primarily to the increased migration of loans into more adverse risk rating categories and the increase in the overall loan portfolio. See *Provision for Credit Losses.* In addition, the allowance reflects higher estimated loss severity arising from a softening economy, partially offset by our better collateral coverage on impaired loans and the presence of guarantees. The increase in the allowance for loan losses in 2006 was due primarily to increased specific allowances for impaired loans and an increase in the qualitative adjustments due to changes in the qualitative factors. The ratio of the allowance for loan losses to total gross loans substantially improved to 1.33 percent at the end of 2007 as compared with 0.96 percent and 1.00 percent at December 31, 2006 and 2005, respectively, primarily due to the overall increase of historical loss factors and classified loans.

The Bank also recorded in other liabilities an allowance for off-balance sheet exposure, primarily unfunded loan commitments, of $1.8 million and $2.1 million at December 31, 2007 and 2006, respectively. Based on management s evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure at December 31, 2007 and 2006.

We determine the appropriate overall allowance for loan losses and allowance for off-balance sheet items based on the analysis described above, taking into account management s judgment. The allowance methodology is reviewed on a periodic basis and modified as appropriate. Based on this analysis, including the aforementioned factors, we believe that the allowance for loan losses and allowance for off-balance sheet items are adequate as of December 31, 2007 and 2006.

	As of and For The Year Ended December 31,				
(Dollars in thousands)	*2007*	*2006*	*2005*	*2004*	*2003*
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 27,557	$ 24,963	$ 22,702	$ 13,349	$ 11,254
Allowance for Loan Losses from PUB Acquisition				10,566	
Charge-Offs:					
Real Estate Loans:					
Commercial Property					198
Commercial and Industrial Loans	22,255	5,333	4,371	5,004	3,687
Consumer Loans	1,075	796	827	481	538
Total Charge-Offs	23,330	6,129	5,198	5,485	4,423
Recoveries on Loans Previously Charged Off:					
Real Estate Loans:					
Commercial Property		406			21
Residential Property					6
Commercial and Industrial Loans	494	957	2,193	1,702	859
Consumer Loans	202	187	201	78	322
Total Recoveries on Loans Previously Charged Off	696	1,550	2,394	1,780	1,208

Net Loan Charge-Offs	22,634	4,579	2,804	3,705	3,215
Provision Charged to Operating Expenses	38,688	7,173	5,065	2,492	5,310
Balance at End of Year	$ 43,611	$ 27,557	$ 24,963	$ 22,702	$ 13,349
Allowance for Off-Balance Sheet Items:					
Balance at Beginning of Year	$ 2,130	$ 2,130	$ 1,800	$ 1,385	$ 1,015
Provision Charged to Operating Expenses	(365)		330	415	370
Balance at End of Year	$ 1,765	$ 2,130	$ 2,130	$ 1,800	$ 1,385
Ratios:					
Net Loan Charge-Offs to Average Total Gross Loans	0.73%	0.17%	0.12%	0.19%	0.29%
Net Loan Charge-Offs to Total Gross Loans at End of Period	0.69%	0.16%	0.11%	0.16%	0.25%
Allowance for Loan Losses to Average Total Gross Loans	1.41%	1.00%	1.05%	1.17%	1.20%
Allowance for Loan Losses to Total Gross Loans at End of Period	1.33%	0.96%	1.00%	1.00%	1.06%
Net Loan Charge-Offs to Allowance for Loan Losses	51.90%	16.62%	11.23%	16.32%	24.08%
Net Loan Charge-Offs to Provision Charged to Operating Expenses	58.50%	63.84%	55.36%	148.68%	60.55%
Allowance for Loan Losses to Non-Performing Loans	80.05%	193.86%	246.40%	377.55%	154.13%
Balances:					
Average Total Gross Loans Outstanding During Period	$ 3,082,671	$ 2,751,565	$ 2,386,575	$ 1,938,422	$ 1,119,860
Total Gross Loans Outstanding at End of Period	$ 3,287,075	$ 2,867,948	$ 2,497,818	$ 2,262,641	$ 1,265,266
Non-Performing Loans at End of Period	$ 54,479	$ 14,215	$ 10,131	$ 6,014	$ 8,661

Investment Portfolio

As of December 31, 2007, the investment portfolio was composed primarily of mortgage-backed securities, U.S. Government agency securities (Agencies), municipal bonds, collateralized mortgage obligations and corporate bonds.

Investment securities available for sale were 99.7 percent, 99.8 percent and 99.8 percent of the total investment portfolio as of December 31, 2007, 2006 and 2005, respectively. Most of the securities held by us carried fixed interest rates. Other than holdings of Agencies, there were no investments in securities of any one issuer exceeding 10 percent of stockholders equity as of December 31, 2007, 2006 or 2005.

We maintain an investment portfolio primarily for liquidity purposes. As of December 31, 2007, securities available for sale were $349.5 million, or 8.8 percent of total assets, compared to $390.6 million, or 10.5 percent of total assets, as of December 31, 2006. In 2007 and 2006, we purchased $45.0 million and $9.7 million, respectively, of Agencies, corporate bonds and mortgage-backed securities to replenish the portfolio for principal repayments in the form of calls, prepayments and scheduled amortization and to maintain an asset mix consistent with our strategic direction.

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

	Investment Portfolio as of December 31,					
	2007		*2006*		*2005*	
(In thousands)	*Amortized Cost*	*Fair Value*	*Amortized Cost*	*Fair Value*	*Amortized Cost*	*Fair Value*
Securities Held to Maturity:						
Municipal Bonds	$ 694	$ 694	$ 693	$ 693	$ 692	$ 692
Mortgage-Backed Securities	246	247	274	276	357	359
Total Securities Held to Maturity	$ 940	$ 941	$ 967	$ 969	$ 1,049	$ 1,051
Securities Available for Sale:						
U.S. Government Agency Securities	$ 104,893	$ 105,089	$ 119,768	$ 118,244	$ 129,589	$ 127,813
Mortgage-Backed Securities	99,332	99,198	123,614	121,608	149,311	147,268
Municipal Bonds	69,907	71,751	69,966	71,710	71,536	73,220
Collateralized Mortgage Obligations	51,881	51,418	67,605	66,113	83,068	81,456
Corporate Bonds	18,295	18,226	8,090	7,887	8,235	8,053
Other Securities	3,925	3,835	4,999	5,050	4,999	5,053

Total Securities Available for Sale	$ 348,233	$ 349,517	$ 394,042	$ 390,612	$ 446,738	$ 442,863

The following table summarizes the maturity and/or repricing schedule for investment securities and their weighted-average yield as of December 31, 2007:

	Within One Year		*After One But Within Five Years*		*After Five But Within Ten Years*		*After Ten Years*	
(Dollars in thousands)	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
U.S. Government Agency Securities	$ 61,942	4.26%	$ 43,147	4.74%	$		$	
Mortgage-Backed Securities(1)	28,971	4.98%	36,518	4.84%	33,955	4.91%		
Municipal Bonds(2)			2,844	5.01%	9,757	6.26%	59,844	6.39%
Collateralized Mortgage Obligations(1)	19,629	4.29%	28,772	4.31%	3,017	4.38%		
Corporate Bonds			18,226	5.04%				
Other Securities	3,835	7.12%						
	$ 114,377	4.54%	$ 129,507	4.72%	$ 46,729	5.16%	$ 59,844	6.39%

(1) Mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2037. The above table is based on the expected prepayment schedule.

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

Deposits

Total deposits at December 31, 2007, 2006 and 2005 were $3,001.7 million, $2,944.7 million and $2,826.1 million, respectively, representing an increase of $57.0 million, or 1.9 percent, in 2007 and $118.6 million, or 4.2 percent, in 2006. At December 31, 2007, 2006 and 2005, total time deposits outstanding were $1,782.5 million, $1,678.8 million and $1,439.8 million, respectively, representing 59.4 percent, 57.0 percent and 50.9 percent, respectively, of total deposits. This growth reflects the shift away from low-yielding accounts that normally occurs as interest rates rise and depositors take advantage of the greater interest rate differentials available in the market.

Demand deposits and money market accounts decreased by $40.5 million, or 3.5 percent, in 2007 and $98.2 million, or 7.8 percent, in 2006. Core deposits (defined as demand, money market and savings deposits) decreased by $46.7 million, or 3.7 percent, to $1,219.7 million as of December 31, 2007 from $1,265.9 million as of December 31, 2006, as depositors shifted funds into higher yielding certificates of deposit. At December 31, 2007, noninterest-bearing demand deposits represented 22.7 percent of total deposits compared to 24.7 percent at December 31, 2006.

Average deposits for the years ended December 31, 2007, 2006 and 2005 were $2,989.8 million, $2,881.4 million and $2,632.3 million, respectively. Average deposits grew by 3.8 percent in 2007 and 9.5 percent in 2006.

We accept brokered deposits on a selective basis at prudent interest rates to augment deposit growth. There were $31.8 million and $3.3 million of brokered deposits as of December 31, 2007 and 2006, respectively. We also had $200.0 million of state time deposits over $100,000 with a weighted-average interest rate of 3.62 percent and 5.16 percent as of December 31, 2007 and 2006, respectively.

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

	Year Ended December 31,					
	2007		*2006*		*2005*	
(Dollars in thousands)	*Average Balance*	*Average Rate*	*Average Balance*	*Average Rate*	*Average Balance*	*Average Rate*
Demand, Noninterest-Bearing	$ 702,329		$ 735,406		$ 751,509	
Savings	97,173	2.06%	107,811	1.72%	138,167	1.54%
Money Market Checking and NOW Accounts	452,825	3.41%	471,780	3.08%	539,678	2.40%
Time Deposits of $100,000 or More	1,430,603	5.28%	1,286,202	4.99%	959,904	3.33%
Other Time Deposits	306,876	4.93%	280,249	4.45%	242,996	2.93%
Total Deposits	$ 2,989,806		$ 2,881,448		$ 2,632,254	

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

(Dollars in thousands)	*December 31,* 2007	2006	2005
Three Months or Less	$ 958,917	$ 689,309	$ 587,251
Over Three Months Through Six Months	289,293	414,687	248,338
Over Six Months Through Twelve Months	188,890	274,402	321,714
Over Twelve Months	4,583	4,960	4,647
	$ 1,441,683	$ 1,383,358	$ 1,161,950

FHLB Advances and Other Borrowings

FHLB advances and other borrowings mostly take the form of advances from the FHLB of San Francisco and overnight Federal funds.

At December 31, 2007, advances from the FHLB were $432.7 million, an increase of $264.6 million, or 157.4 percent, from the December 31, 2006 balance of $168.1 million. During 2007 and 2006, advances from the FHLB were utilized to fund loans due to favorable rates.

Junior Subordinated Debentures

During the first half of 2004, we issued two junior subordinated notes bearing interest at the three-month London InterBank Offered Rate (LIBOR) plus 2.90 percent totaling $61.8 million and one junior subordinated note bearing interest at the three-month LIBOR plus 2.63 percent totaling $20.6 million. The outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of PUB, totaled $82.4 million at December 31, 2007 and 2006.

Interest Rate Risk Management

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

The following table shows the status of our gap position as of December 31, 2007:

(Dollars in thousands)	*Less Than Three Months*	*After Three Months But Within One Year*	*After One Year But Within Five Years*	*After Five Years*	*Non-Interest-Sensitive*	*Total*
Assets						
Cash	$	$	$	$	$ 105,898	$ 105,898
Federal Funds Sold	16,500					16,500
Securities:						
Fixed Rate	16,150	72,744	129,507	106,681		325,082
Floating Rate	5,133		16,407	3,835		25,375
Loans:						
Fixed Rate	35,867	84,151	619,109	590,679		1,329,806
Floating Rate	1,693,610	52,986	148,448	7,973		1,903,017
Non-Accrual					54,252	54,252
Deferred Loan Fees and Allowance for Loan Losses					(45,978)	(45,978)
Federal Reserve Bank and Federal Home Loan Bank Stock				33,479		33,479
Other Assets		24,521		7,467	204,327	236,315
Total Assets	$ 1,767,260	$ 234,402	$ 913,471	$ 750,114	$ 318,499	$ 3,983,746
Liabilities and Stockholders Equity						
Liabilities						
Deposits:						
Demand Deposits	$ 42,550	$ 137,147	$ 329,152	$ 171,433	$	$ 680,282
Savings	13,749	33,099	37,597	8,654		93,099
Money Market Checking and NOW Accounts	65,181	125,737	145,117	109,771		445,806
Time Deposits:						
Fixed Rate	1,141,570	631,433	9,340	115		1,782,458
Floating Rate	54					54
FHLB Advances and Other Borrowings	364,500	105,000	13,084	4,580		487,164
	82,406					82,406

Junior Subordinated Debentures						
Other Liabilities					40,932	40,932
Stockholders Equity					371,545	371,545
Total Liabilities and Stockholders Equity	$ 1,710,010	$ 1,032,416	$ 534,290	$ 294,553	$ 412,477	$ 3,983,746
Repricing Gap	$ 57,250	$ (798,014)	$ 379,181	$ 455,561	$ (93,978)	$
Cumulative Repricing Gap	$ 57,250	$ (740,764)	$ (361,583)	$ 93,978	$	$
Cumulative Repricing Gap as a Percentage of Total Assets	1.44%	(18.59)%	(9.08)%	2.36%		
Cumulative Repricing Gap as a Percentage of Interest-Earning Assets	1.58%	(20.39)%	(9.95)%	2.59%		

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

On December 31, 2007, the cumulative repricing gap as a percentage of interest-earning assets in the less than three month period was 1.58 percent. This decrease from the previous year s figure of 29.26 percent was caused primarily by increases of $329.5 million and $363.6 million in fixed rate certificates of deposit and FHLB advances and other borrowings, respectively, with maturities of less than three months. The cumulative repricing percentage in the less than twelve month period also moved lower, reaching (20.39) percent. This was a decrease from the previous year s figure of (2.56) percent. The decrease was caused primarily by increases of $105.2 million and $423.6 million in fixed rate certificates of deposit and FHLB advances and other borrowings, respectively, with maturities of less than twelve months.

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

	Less Than Three Months		*Less Than Twelve Months*	
	December 31,		*December 31,*	
(Dollars in thousands)	*2007*	*2006*	*2007*	*2006*
Cumulative Repricing Gap	$ 57,250	$ 970,441	$ (740,764)	$ (85,051)
Percentage of Total Assets	1.44%	26.05%	(18.59)%	(2.28)%
Percentage of Interest-Earning Assets	1.58%	29.26%	(20.39)%	(2.56)%

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

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

Rate Shock Table

	Percentage Changes		*Change in Amount*	
Change in Interest Rate	*Net Interest Income*	*Economic Value of Equity*	*Net Interest Income*	*Economic Value of Equity*
	(Dollars in Thousands)			
200%	3.55%	(18.92)%	$ 5,169	$ (101,438)
100%	1.78%	(9.80)%	$ 2,586	$ (52,565)

(100)%	(1.86)%	10.48%	$ (2,707)	$ 56,200
(200)%	(3.84)%	21.55%	$ (5,588)	$ 115,576

The estimated sensitivity does not necessarily represent our forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions, including how customer preferences or competitor influences might change.

Liquidity and Capital Resources

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

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

Specific statistics, which include the loans-to-assets ratio, off-balance sheet items and dependence on non-core deposits, foreign deposits, lines of credit and liquid assets, are reviewed regularly for liquidity management purposes.

	December 31,		
Liquidity Ratios	*2007*	*2006*	*2005*
Core Deposits/Total Assets	26.9%	30.1%	35.3%
Short-Term Non-Core Funding/Total Assets	54.8%	46.0%	41.8%
Net Loans/Total Assets	79.8%	76.6%	72.4%
Investments/Deposits	13.6%	15.9%	18.9%
Loans and Investments/Deposits	122.0%	112.2%	106.3%
Off-Balance Sheet Items/Total Assets	15.8%	19.0%	18.5%

The net loans to total assets ratio increased to 79.8 percent as of December 31, 2007, compared to 76.6 percent at December 31, 2006. The ratio of loans and investments to deposits increased to 122.0 percent as the Bank made use of short-term borrowings to fund a portion of loan portfolio growth. Off-balance sheet items as a percentage of total assets decreased at December 31, 2006 to 15.8 percent, compared to 19.0 percent at December 31, 2006, and the total amount decreased to $643.6 million at December 31, 2007 from $708.8 million at December 31, 2006. The decrease was primarily due to a $54.0 million decrease in commitments to extend credit. During the year, the percentage of off-balance sheet items to total assets generally ranged from 18 percent to 20 percent. The ratio of short-term non-core funding to total assets was 54.8 percent at December 31, 2007, compared to 46.0 percent at December 31, 2006.

Foreign deposits are U.S.-based deposits made by foreign customers. Foreign deposit risk deals with dependency on foreign deposits that could adversely affect the Bank s liquidity. These liabilities are assumed to be volatile because of the variability of social, political and environmental conditions in foreign countries. As of December 31, 2007, 2006 and 2005, foreign deposits were $331.2 million, $325.4 million and $294.3 million, respectively.

As of December 31, 2007, we maintained a total of $186.0 million in credit lines secured by us to meet our liquidity needs. In addition, we maintained eight master repurchase agreements, all of which can furnish liquidity to us in consideration of bond collateral. We also can meet our liquidity needs through borrowings from the FHLB. We are eligible to borrow up of 25 percent of our total assets from the FHLB.

As of December 31, 2007, there were no material commitments for capital expenditures. We raise capital in the form of deposits, borrowings (primarily FHLB advances and junior subordinated debentures) and equity, and expect to continue to rely upon deposits as the primary source of capital.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see *Item 1. Business Off-Balance Sheet Commitments.*

Contractual Obligations

Our contractual obligations as of December 31, 2007 are as follows:

Contractual Obligations	*Less Than One Year*	*More Than One Year and Less Than Three Years*	*More Than Three Years and Less Than Five Years*	*More Than Five Years*	*Total*
			(In thousands)		
Time Deposits	$ 1,773,057	$ 4,313	$ 5,027	$ 115	$ 1,782,512
Commitments to Extend Credit	524,349				524,349
FHLB Advances and Other Borrowings	469,500	13,084		4,580	487,164
Junior Subordinated Debentures				82,406	82,406
Standby Letters of Credit	43,643	4,328		100	48,071
Operating Lease Obligations	2,906	5,509	2,684	5,179	16,278
Total Contractual Obligations	$ 2,813,455	$ 27,234	$ 7,711	$ 92,380	$ 2,940,780

Recently Issued Accounting Standards

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

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

SAB No. 109, Written Loan Commitments Recorded at Fair Value through Earnings On November 5, 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109. Previously, SAB No. 105, *Application of Accounting Principles to Loan Commitments,* stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB No. 109 supersedes SAB No. 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB No. 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB No. 109 retains that view. SAB No. 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of SAB No. 109 did not have a material impact on our financial condition or results of operations.

EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements In March 2007, the FASB ratified EITF Issue No. 06-10, which provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset based on the terms of the collateral assignment agreement. EITF Issue No. 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF Issue No. 06-10 did not have a material impact on our financial condition or results of operations.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective as of the beginning of a company s first fiscal year after November 15, 2007. We are required to and plan to adopt the provisions of SFAS No. 159 beginning in the first quarter of 2008. The adoption of SFAS No. 159 did not have a material impact on our financial condition or results of operations.

SFAS No. 157, Fair Value Measurements In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within that fiscal year. The adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations.

EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements In September 2006, the FASB s

Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, which requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee s benefit during his or her retirement, then the liability recognized during the employee s active service period should be based on the future cost of insurance to be incurred during the employee s retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* or Accounting Principles Board Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented; or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007. The adoption of EITF Issue No. 06-4 did not have a material impact on our financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed as a part of this Report are set forth on pages 50 through 84.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of December 31, 2007, Hanmi Financial carried out an evaluation, under the supervision and with the participation of Hanmi Financial s management, including Hanmi Financial s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Hanmi Financial s disclosure controls and procedures and internal controls over financial reporting pursuant to Securities and Exchange Commission (SEC) rules. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that:

Hanmi Financial s disclosure controls and procedures were effective as of the end of the period covered by this report in timely alerting them to material information relating to Hanmi Financial that is required to be included in Hanmi Financial s periodic SEC filings; and

Hanmi Financial s internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

During the quarter ended December 31, 2007, there have been no changes in Hanmi Financial s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial s internal control over financial reporting.

Disclosure controls and procedures are defined in SEC rules as controls and other procedures designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Hanmi Financial s disclosure controls and procedures were designed to ensure that material information related to Hanmi Financial, including subsidiaries, is made known to management, including the Chief Executive Officer and Chief Financial Officer, in a timely manner.

KPMG LLP, the independent registered public accounting firm that audited and reported on the consolidated financial statements of Hanmi Financial and subsidiaries, has issued a report on Hanmi Financial s internal control over financial reporting as of December 31, 2007. The report expresses an unqualified opinion on the effectiveness of Hanmi Financial s internal control over financial reporting as of December 31, 2007.

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

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

Management assessed the effectiveness of Hanmi Financial s internal control over financial reporting as of December 31, 2007. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment included an evaluation of the design of Hanmi Financial s internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2007, Hanmi Financial maintained effective internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hanmi Financial Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audits.

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

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

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

In our opinion, Hanmi Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hanmi Financial Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
February 29, 2008

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Except as hereinafter noted, the information concerning directors and officers of Hanmi Financial is incorporated by reference from the sections entitled *The Board of Directors and Executive Officers* and *Section 16(a) Beneficial Ownership Reporting Compliance* of Hanmi Financial s Definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed with the Commission within 120 days after the close of Hanmi Financial s fiscal year.

Audit Committee Financial Expert

Mark K. Mason was appointed to the Audit Committee of the Board of Directors as of May 23, 2007. The Board has determined that Mr. Mason meets the independence standards required by NASDAQ and is a financial expert within the meaning of the current rules of the SEC.

Code of Ethics

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

Item 11. Executive Compensation

Information concerning executive compensation is incorporated by reference from the section entitled *Executive Compensation* of Hanmi Financial s Definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed with the Commission within 120 days after the close of Hanmi Financial s fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will appear under the caption *Beneficial Ownership of Principal Stockholders and Management* in Hanmi Financial s Definitive Proxy Statement for the Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information concerning certain relationships and related transactions and director independence is incorporated by reference from the section entitled *Certain Relationships and Related Transactions* of Hanmi Financial s Definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed with the Commission within 120 days after the close of Hanmi Financial s fiscal year.

Item 14. Principal Accounting Fees and Services

Information concerning Hanmi Financial s principal accountants fees and services is incorporated by reference from the section entitled *Independent Accountants* of Hanmi Financial s Definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed with the Commission within 120 days after the close of Hanmi Financial s fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Schedules

(1) The Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 52 of this Report.

(2) All Financial Statement Schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(3) The Exhibits required to be filed with this Report are listed in the Exhibit Index included herein at page 88.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hanmi Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hanmi Financial Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
February 29, 2008

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets

	December 31,	
(Dollars in thousands)	*2007*	*2006*
ASSETS		
Cash and Due From Banks	$ 105,898	$ 97,501
Federal Funds Sold	16,500	41,000
Cash and Cash Equivalents	122,398	138,501
Term Federal Funds Sold		5,000
Securities Held to Maturity, at Amortized Cost (Fair Value: 2007 $941; 2006 $969)	940	967
Securities Available for Sale, at Fair Value	349,517	390,612
Loans Receivable, Net of Allowance for Loan Losses of $43,611 and $27,557 at December 31, 2007 and 2006, Respectively	3,234,762	2,813,520
Loans Held for Sale, at the Lower of Cost or Fair Value	6,335	23,870
Customers Liability on Acceptances	5,387	8,403
Premises and Equipment, Net	20,800	20,075
Accrued Interest Receivable	17,500	16,919
Other Real Estate Owned	287	
Deferred Income Taxes	18,470	13,064
Servicing Assets	4,336	4,579
Goodwill	107,100	207,646
Other Intangible Assets	6,908	6,312
Federal Reserve Bank Stock, at Cost	11,733	11,733
Federal Home Loan Bank Stock, at Cost	21,746	13,189
Bank-Owned Life Insurance	24,525	23,592
Other Assets	31,002	27,261
TOTAL ASSETS	$ 3,983,746	$ 3,725,243
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-Bearing	$ 680,282	$ 728,347
Interest-Bearing:		
Savings	93,099	99,255
Money Market Checking and NOW Accounts	445,806	438,267

Time Deposits of $100,000 or More	1,441,683	1,383,358
Other Time Deposits	340,829	295,488
Total Deposits	3,001,699	2,944,715
Accrued Interest Payable	21,828	22,582
Acceptances Outstanding	5,387	8,403
FHLB Advances and Other Borrowings	487,164	169,037
Junior Subordinated Debentures	82,406	82,406
Other Liabilities	13,717	10,983
Total Liabilities	3,612,201	3,238,126
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $.001 Par Value; Authorized 200,000,000 Shares; Issued 50,493,441 Shares (45,860,941 Shares Outstanding) and 50,239,613 Shares (49,076,613 Shares Outstanding) at December 31, 2007 and 2006, Respectively	50	50
Additional Paid-In Capital	348,073	344,810
Unearned Compensation		(245)
Accumulated Other Comprehensive Income (Loss) Unrealized Gain (Loss) on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of $527 and ($1,450) at December 31, 2007 and 2006, Respectively	275	(3,200)
Retained Earnings	93,404	165,498
	441,557	507,158
Less Treasury Stock, at Cost; 4,632,500 Shares and 1,163,000 Shares at December 31, 2007 and 2006, Respectively	(70,012)	(20,041)
Total Stockholders Equity	371,545	487,117
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,983,746	$ 3,725,243

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands, except per share data)	*Year Ended December 31,* 2007	2006	2005
INTEREST AND DIVIDEND INCOME:			
Interest and Fees on Loans	$ 261,992	$ 239,075	$ 180,845
Taxable Interest on Investments	13,399	15,2690	14,278
Tax-Exempt Interest on Investments	3,055	3,087	3,122
Dividends on FHLB and FRB Stock	1,413	1,354	1,107
Interest on Federal Funds Sold	1,032	1,402	1,589
Interest on Term Federal Funds Sold	5	2	
Total Interest and Dividend Income	280,896	260,189	200,941
INTEREST EXPENSE:			
Interest on Deposits	108,100	93,036	54,192
Interest on FHLB Advances and Other Borrowings	13,949	6,977	3,017
Interest on Junior Subordinated Debentures	6,644	6,416	4,902
Total Interest Expense	128,693	106,429	62,111
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	152,203	153,760	138,830
Provision for Credit Losses	38,323	7,173	5,395
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	113,880	146,587	133,435
NON-INTEREST INCOME:			
Service Charges on Deposit Accounts	18,061	17,134	15,782
Insurance Commissions	4,954	770	651
Trade Finance Fees	4,493	4,567	4,269
Remittance Fees	2,049	2,056	2,122
Other Service Charges and Fees	2,527	2,359	2,496
Bank-Owned Life Insurance Income	933	879	845
Increase in Fair Value of Derivatives	683	1,074	1,105

Other Income	1,702	1,157	1,042
Gain on Sales of Loans	5,452	6,917	3,021
Gain on Sales of Other Real Estate Owned	226	48	
Gain on Sales of Securities Available for Sale		2	117
Other-Than-Temporary Impairment Loss on Securities	(1,074)		
Total Non-Interest Income	40,006	36,963	31,450
NON-INTEREST EXPENSES:			
Salaries and Employee Benefits	47,036	40,512	36,839
Occupancy and Equipment	10,494	9,643	9,413
Data Processing	6,390	5,857	4,844
Advertising and Promotion	3,630	2,997	2,913
Supplies and Communications	2,592	2,391	2,556
Professional Fees	2,468	1,910	2,201
Amortization of Other Intangible Assets	2,324	2,379	2,785
Decrease in Fair Value of Embedded Options	233	582	748
Other Operating Expenses	11,871	11,042	8,411
Merger-Related Expenses			(509)
Impairment Loss on Goodwill	102,891		
Total Non-Interest Expenses	189,929	77,313	70,201
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(36,043)	106,237	94,684
Provision for Income Taxes	24,477	40,588	36,455
NET INCOME (LOSS)	$ (60,520)	$ 65,649	$ 58,229
EARNINGS (LOSS) PER SHARE:			
Basic	$ (1.27)	$ 1.34	$ 1.18
Diluted	$ (1.27)	$ 1.33	$ 1.17
WEIGHTED-AVERAGE SHARES OUTSTANDING:			
Basic	47,787,213	48,850,221	49,174,885
Diluted	47,787,213	49,435,128	49,942,356
DIVIDENDS DECLARED PER SHARE	$ 0.24	$ 0.24	$ 0.20

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income

	Common Stock Number of Shares			*Stockholders Equity*					
usands)	*Gross Shares Issued and Outstanding*	*Treasury Shares*	*Net Shares Issued and Outstanding*	*Common Stock*	*Additional Paid-in Capital*	*Unearned Compensation*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Treasury Stock, at Cost*
T 2005	49,330,704		49,330,704	$ 49	$ 334,932	$	$ 1,035	$ 63,894	$
ock	391,094		391,094	1	2,515				
k Award	100,000		100,000		1,815	(1,815)			
f pensation						665			
om ock					729				
ase		(1,163,000)	(1,163,000)						(20,041)
s								(9,813)	
e Income:									
								58,229	
ealized ties ale, trips and waps, Net							(5,418)		
ensive									
T 1, 2005	49,821,798	(1,163,000)	48,658,798	50	339,991	(1,150)	(4,383)	112,310	(20,041)
ljustment ds								(656)	
ljustment					(916)	1,150			
ock	417,815		417,815		3,553				
ock									

Expense					1,521				
om									
ck									
					661				
s								(11,805)	
e Income:									
								65,649	
ealized									
ties									
ale,									
trips and									
waps, Net									
							1,183		
ensive									
T									
31, 2006	50,239,613	(1,163,000)	49,076,613	50	344,810		(3,200)	165,498	(20,041)
for									
isitions	102,181		102,181		2,198				
ock									
ock									
	132,647		132,647		1,164				
Expense					1,880	11			
k Awards	19,000		19,000		256	(256)			
om									
ck									
					317				
s								(11,574)	
Common									
		(3,469,500)	(3,469,500)						(49,971)
Stock									
					(2,552)				
e Loss:									
								(60,520)	
ealized									
ties									
ale,									
trips and									
waps, Net									
							3,475		
ensive									

T															
31, 2007	50,493,441	(4,632,500)	45,860,941	$	50	$	348,073	$	(245)	$	275	$	93,404	$	(70,012)

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)	*Year Ended December 31,* 2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$ (60,520)	$ 65,649	$ 58,229
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Operating Activities:			
Depreciation and Amortization of Premises and Equipment	2,953	2,924	2,704
Amortization of Premiums and Accretion of Discounts on Investments, Net	218	264	565
Amortization of Other Intangible Assets	2,324	2,379	2,785
Share-Based Compensation Expense	1,891	1,521	665
Provision for Credit Losses	38,323	7,173	5,395
Federal Reserve Bank and Federal Home Loan Bank Stock Dividends	(708)	(641)	(362)
Gain on Sales of Securities Available for Sale		(2)	(117)
Other-Than-Temporary Impairment Loss on Securities	1,074		
Increase in Fair Value of Derivatives	(683)	(1,074)	(1,105)
Decrease in Fair Value of Embedded Options	233	582	748
Gain on Sales of Loans	(5,452)	(6,917)	(3,021)
Gain on Sales of Other Real Estate Owned	(226)	(48)	
Loss on Sales of Premises and Equipment	22	96	34
Impairment Loss on Goodwill	102,891		
Excess Tax Benefit from Exercises of Stock Options	(193)	(598)	729
Deferred Tax Benefit	(14,618)	(2,942)	(2,707)
Origination of Loans Held for Sale	(108,639)	(154,608)	(61,709)
Proceeds from Sales of Loans Held for Sale	131,626	138,720	67,515
Increase in Accrued Interest Receivable	(581)	(2,799)	(4,091)
(Increase) Decrease in Servicing Assets, Net	243	(669)	(64)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(933)	(879)	(845)
Increase in Other Assets	(4,040)	(11,424)	(2,015)
Increase (Decrease) in Accrued Interest Payable	(754)	10,671	4,811
Increase (Decrease) in Other Liabilities	3,034	(1,298)	188
Other, Net	6,165	2,236	612
Net Cash Provided By Operating Activities	93,650	48,316	68,944

CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Redemption of Federal Reserve Bank Stock		617	
Proceeds from Matured Term Federal Funds Sold	5,000		
Proceeds from Matured or Called Securities Available for Sale	89,958	56,729	89,885
Proceeds from Sales of Securities Available for Sale		5,005	11,360
Proceeds from Sales of Other Real Estate Owned	1,306	593	
Net Increase in Loans Receivable	(459,930)	(352,678)	(242,088)
Purchase of Term Federal Funds Sold		(5,000)	
Purchases of Federal Reserve Bank and Federal Home Loan Bank Stock	(7,849)	(311)	(2,264)
Purchases of Securities Available for Sale	(44,980)	(9,663)	(132,700)
Purchases of Premises and Equipment	(3,682)	(2,237)	(3,831)
Business Acquisitions, Net of Cash Acquired	(4,121)		
Net Cash Used In Investing Activities	(424,298)	(306,945)	(279,638)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in Deposits	56,984	118,601	297,307
Proceeds from Exercises of Stock Options and Stock Warrants	1,164	3,553	2,516
Excess Tax Benefit from Exercises of Stock Options	193	598	
Stock Issued for Business Acquisitions	2,198		
Cash Paid to Acquire Treasury Stock	(49,971)		(20,041)
Cash Paid to Repurchase Stock Warrants	(2,552)		
Cash Dividends Paid	(11,574)	(11,805)	(9,813)
Proceeds from Long-Term FHLB Advances and Other Borrowings		130,000	7,411
Repayment of Long-Term FHLB Advances and Other Borrowings	(443)	(5,420)	(30,246)
Net Change in Short-Term FHLB Advances and Other Borrowings	318,546	(1,874)	(127)
Net Cash Provided By Financing Activities	314,545	233,653	247,007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,103)	(24,976)	36,313
Cash and Cash Equivalents at Beginning of Year	138,501	163,477	127,164
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 122,398	$ 138,501	$ 163,477
Supplemental Disclosures of Cash Flow Information:			
Interest Paid	$ 129,447	$ 117,100	$ 41,266

Income Taxes Paid	$ 38,232	$ 45,869	$ 37,650
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Transfer of Loans to Other Real Estate Owned	$ 1,367	$ 541	$
Accrued Dividend	$ 3,030	$ 2,941	$ 2,433

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of Hanmi Financial Corporation and subsidiaries conform to U.S. generally accepted accounting principles. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation

The consolidated financial statements include the accounts of Hanmi Financial Corporation (Hanmi Financial, we, us or our) and our wholly owned subsidiaries, Hanmi Bank (the Bank), Chun-Ha Insurance Services, Inc. (Chun-Ha) and All World Insurance Services, Inc. (All World). Intercompany transactions and balances are eliminated in consolidation.

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

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. The Bank is a California state-chartered, FDIC-insured financial institution. As of December 31, 2007, the Bank maintained a branch network of 24 full-service branch offices in California and eight loan production offices in California, Colorado, Georgia, Illinois, Texas, Virginia and Washington.

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

Cash and Cash Equivalents

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

Securities

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

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

2. Securities that are bought and held principally for the purpose of selling them in the near future are classified as trading securities and reported at fair value. Unrealized gains and losses are recognized in earnings; and

3. Securities not classified as held-to-maturity or trading securities are classified as available for sale and reported at fair value. Unrealized gains and losses are reported as a separate component of stockholders equity as accumulated other comprehensive income (loss), net of income taxes.

Accreted discounts and amortized premiums on investment securities are included in interest income using the effective interest method

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

over the remaining period to the call date or contractual maturity and, in the case of mortgage-backed securities and securities with call features, adjusted for anticipated prepayments. Unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific-identification method.

We assess, at each reporting date, whether there is an other-than-temporary impairment to our investment securities. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors we examine to assess impairment include the severity and duration of the loss, an analysis of the issuers of the securities and if there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we reexamine the financial resources and overall ability the Bank has and the intent management has to hold the securities until their fair values recover. To the extent there is an impairment of value deemed other than temporary for a security held to maturity or available for sale, a loss is recognized in earnings and a new cost basis established for the security.

We also have a minority investment of 4.99 percent in a non-publicly traded company, Pacific International Bank. The investment is carried at cost and is included in other assets on the Consolidated Balance Sheets. As of December 31, 2007 and 2006, its carrying value was $511,000. We monitor the investment for impairment and make appropriate reductions in carrying value when necessary.

Loans

We originate loans for investment, with such designation made at the time of origination. Loans are recorded at the contractual amounts due from borrowers, adjusted for undisbursed funds, net deferred loan fees and origination costs, and the allowance for loan losses.

Loans Held for Sale

Loans originated and intended for sale in the secondary market, primarily Small Business Administration (SBA) loans, are carried at the lower of cost or market value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loan Interest Income and Fees

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

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

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

Allowance for Loan Losses

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

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

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

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

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

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

2. the loan s observable fair value; or

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

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

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

Other Real Estate Owned

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

Premises and Equipment

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

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

Impairment of Long-Lived Assets

We account for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Servicing Assets

Servicing assets are recorded at the lower of amortized cost or fair value in accordance with the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* The fair values of servicing assets represent either the price paid if purchased, or the allocated carrying amounts based on relative values when retained in a sale. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees.

Upon sales of such loans, we receive a fee for servicing the loans. The servicing asset is recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, discounted by a rate in the range of 11 percent to 12 percent and a constant prepayment rate ranging from 6 percent to

16 percent. The servicing asset is amortized in proportion to and over the period of estimated servicing income. Management periodically evaluates the servicing asset for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

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

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

Goodwill

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

The impairment test is performed in two phases. The first step involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit was derived based on a weighted distribution of values derived from three different approaches: market approach, market capitalization approach, and income approach. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed.

Other Intangible Assets

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

As required by SFAS No. 142, we evaluated the useful lives assigned to other intangible assets and determined that no change was necessary and amortization expense was not adjusted for the year ended December 31, 2007. As required by SFAS No. 142, other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The other intangible assets recoverability analysis is consistent with our policy for assessing impairment of long-lived assets.

Federal Reserve Bank Stock

The Bank is a member of the Federal Reserve Bank of San Francisco (FRB) and is required to maintain stock in the FRB based on a specified ratio relative to the Bank s capital. FRB stock is carried at cost and may be sold back to the

FRB at its carrying value. FRB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of San Francisco (FHLB) and is required to own common stock in the FHLB based upon the Bank s balance of residential mortgage loans and outstanding FHLB advances. FHLB stock is carried at cost and may be

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

sold back to the FHLB at its carrying value. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

Derivative Instruments

We account for derivatives in accordance with the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* Under SFAS No. 133, all derivatives are recognized on the balance sheet at their fair values. On the date the derivative contract is entered into, we designate the derivative as a fair value hedge or a cash flow hedge. Fair value hedges include hedges of the fair value of a recognized asset, liability or a firm commitment. Cash flow hedges include hedges of the variability of cash flows to be received or paid related to a recognized asset, liability or a forecasted transaction. Changes in the fair value of derivatives designated as fair value hedges, along with the change in fair value on the hedged asset, liability or firm commitment that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of derivatives designated as cash flow hedges, to the extent effective as a hedge, are recorded in accumulated other comprehensive income (loss) and reclassified into earnings in the period during which the hedged item affects earnings.

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

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

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

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

Bank-Owned Life Insurance

We have purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due, if any, that are probable at settlement.

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

Affordable Housing Investments

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

Junior Subordinated Debentures

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

FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised December 2003) an Interpretation of ARB No. 51,* requires that variable interest entities be consolidated by a company if that company is subject to a majority of expected losses from the variable interest entity s activities, or is entitled to receive a majority of the entity s expected residual returns, or both. The Trusts are not consolidated and junior subordinated debt represents liabilities of Hanmi Financial to the Trusts.

Income Taxes

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2007 and 2006, no valuation allowance was required.

Share-Based Compensation

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

SFAS No. 123(R), we accounted for stock compensation under the intrinsic value method permitted by Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Accordingly, we previously recognized no compensation cost for employee stock options that were granted with an exercise price equal to the market value of the underlying common stock on the date of grant.

Prior to the adoption of SFAS No. 123(R), we applied APB No. 25 to account for share-based awards. The reported net income and earnings per share for the year ended December 31, 2005 has been presented below to reflect the impact had we been required to

Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005 *(Continued)*

Note 1 Summary of Significant Accounting Policies *(Continued)*

recognize compensation cost based on the fair value at the grant date for stock options, as required under SFAS No. 123(R). The pro forma amounts are as follows:

(Dollars in thousands, except per share data)		*Year Ended December 31, 2005*
Net Income As Reported	$	58,229
Add Share-Based Employee Compensation Expense Included in Reported Net Income, Net of Related Tax Effects (Restricted Stock Award)		409
Deduct Total Share-Based Employee Compensation Expense Determined Under Fair Value-Based Method for All Awards Subject to SFAS No. 123, Net of Related Tax Effects		(1,214)
Net Income Pro Forma	$	57,424
Earnings Per Share As Reported:		
Basic	$	1.18
Diluted	$	1.17
Earnings Per Share Pro Forma:		
Basic	$	1.17
Diluted	$	1.15

In November 2005, the Financial Accounting Standards Board (FASB) issued Staff Position No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of the Share-Based Payment Awards* (FAS 123R-3). We have adopted the alternative transition method prescribed by FAS 123R-3 and concluded that we have no pool of tax benefits as of the adoption date of