

HANMI FINANCIAL CORP

Form 10-Q

November 09, 2006

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

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

**For the Quarterly Period Ended September 30, 2006**

**or**

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

**For the Transition Period From \_\_\_\_\_ To \_\_\_\_\_**

Commission File Number: **000-30421**

**HANMI FINANCIAL CORPORATION**

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

**Delaware**

**95-4788120**

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

*(I.R.S. Employer Identification No.)*

**3660 Wilshire Boulevard, Penthouse Suite A  
Los Angeles, California**

**90010**

*(Address of Principal Executive Offices)*

*(Zip Code)*

**(213) 382-2200**

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

**Not Applicable**

*(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)*

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of November 1, 2006, there were 50,155,746 outstanding shares of the Registrant's Common Stock.

**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**QUARTERLY REPORT ON FORM 10-Q**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
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**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)***(Dollars in Thousands)*

|  | <b>September<br/>30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|--|-----------------------------------|----------------------------------|
| <b>ASSETS</b>  |                                   |                                  |
| Cash and Due From Banks  | \$ 97,609                         | \$ 103,477                       |
| Federal Funds Sold and Securities Purchased Under Agreements to Resell   | 67,000                            | 60,000                           |
| Cash and Cash Equivalents  | 164,609                           | 163,477                          |
| Securities Held to Maturity, at Amortized Cost (Fair Value: 2006 \$973;<br>2005 \$1,051)   | 975                               | 1,049                            |
| Securities Available for Sale, at Fair Value   | 397,981                           | 442,863                          |
| Loans Receivable, Net of Allowance for Loan Losses of \$28,276 and<br>\$24,963 at September 30, 2006 and December 31, 2005, Respectively | 2,814,535                         | 2,468,015                        |
| Loans Held for Sale, at the Lower of Cost or Fair Value  | 7,335                             | 1,065                            |
| Customers' Liability on Acceptances  | 11,245                            | 8,432                            |
| Premises and Equipment, Net  | 20,322                            | 20,784                           |
| Accrued Interest Receivable  | 16,190                            | 14,120                           |
| Deferred Income Taxes  | 11,615                            | 9,651                            |
| Servicing Asset  | 4,266                             | 3,910                            |
| Goodwill   | 207,646                           | 209,058                          |
| Core Deposit Intangible  | 6,876                             | 8,691                            |
| Federal Reserve Bank Stock, at Cost  | 11,760                            | 12,350                           |
| Federal Home Loan Bank Stock, at Cost  | 13,008                            | 12,237                           |
| Bank-Owned Life Insurance  | 23,368                            | 22,713                           |
| Other Assets   | 28,080                            | 15,837                           |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,739,811</b>               | <b>\$ 3,414,252</b>              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                   |                                  |
| <b>LIABILITIES:</b>  |                                   |                                  |
| <b>Deposits:</b>   |                                   |                                  |
| Noninterest-Bearing  | \$ 756,901                        | \$ 738,618                       |
| <b>Interest-Bearing:</b>   |                                   |                                  |
| Savings  | 99,719                            | 121,574                          |
| Money Market Checking and NOW Accounts   | 434,738                           | 526,171                          |
| Time Deposits of \$100,000 or More   | 1,393,721                         | 1,161,950                        |
| Other Time Deposits  | 288,702                           | 277,801                          |
| Total Deposits   | 2,973,781                         | 2,826,114                        |
| Accrued Interest Payable   | 19,191                            | 11,911                           |
| Acceptances Outstanding  | 11,245                            | 8,432                            |

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|   |                     |                     |
|---|---------------------|---------------------|
| FHLB Advances and Other Borrowings  | 169,435             | 46,331              |
| Junior Subordinated Debentures  | 82,406              | 82,406              |
| Other Liabilities   | 12,392              | 12,281              |
| <b>Total Liabilities</b>  | <b>3,268,450</b>    | <b>2,987,475</b>    |
| <b>SHAREHOLDERS EQUITY:</b>   |                     |                     |
| Common Stock, \$.001 Par Value; Authorized 200,000,000 Shares; Issued 50,154,146 Shares (48,991,146 Outstanding) at September 30, 2006 and Issued 49,821,798 Shares (48,658,798 Outstanding) at December 31, 2005                             | 50                  | 50                  |
| Additional Paid-In Capital  | 343,197             | 339,991             |
| Unearned Compensation   |                     | (1,150)             |
| Accumulated Other Comprehensive Loss Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of (\$1,638) and (\$1,671) at September 30, 2006 and December 31, 2005, Respectively | (3,630)             | (4,383)             |
| Retained Earnings   | 151,785             | 112,310             |
|   | 491,402             | 446,818             |
| Less Treasury Stock, at Cost; 1,163,000 Shares at September 30, 2006 and December 31, 2005  | (20,041)            | (20,041)            |
| <b>Total Shareholders Equity</b>  | <b>471,361</b>      | <b>426,777</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>  | <b>\$ 3,739,811</b> | <b>\$ 3,414,252</b> |

See Accompanying Notes to Consolidated Financial Statements.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

*(Dollars in Thousands, Except Per Share Data)*

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2006</b>               | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
| <b>INTEREST INCOME:</b>                                       |                           |             |                          |             |
| Interest and Fees on Loans                                    | \$ 62,854                 | \$ 47,454   | \$ 173,733               | \$ 128,430  |
| Interest on Investments                                       | 4,836                     | 4,277       | 14,948                   | 13,659      |
| Interest on Federal Funds Sold                                | 436                       | 221         | 748                      | 679         |
| <br>  |                           |             |                          |             |
| Total Interest Income   | 68,126                    | 51,952      | 189,429                  | 142,768     |
| <br>  |                           |             |                          |             |
| <b>INTEREST EXPENSE:</b>                                      |                           |             |                          |             |
| Interest on Deposits  | 25,178                    | 14,655      | 66,690                   | 35,811      |
| Interest on FHLB Advances and Other Borrowings                | 2,084                     | 878         | 4,699                    | 2,330       |
| Interest on Junior Subordinated Debentures                    | 1,672                     | 1,298       | 4,734                    | 3,499       |
| <br>  |                           |             |                          |             |
| Total Interest Expense  | 28,934                    | 16,831      | 76,123                   | 41,640      |
| <br>  |                           |             |                          |             |
| <b>NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES</b> |                           |             |                          |             |
| Provision for Credit Losses                                   | 39,192                    | 35,121      | 113,306                  | 101,128     |
|   | 1,682                     | 3,157       | 5,542                    | 3,743       |
| <br>  |                           |             |                          |             |
| <b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>  |                           |             |                          |             |
|   | 37,510                    | 31,964      | 107,764                  | 97,385      |
| <br>  |                           |             |                          |             |
| <b>NON-INTEREST INCOME:</b>                                   |                           |             |                          |             |
| Service Charges on Deposit Accounts                           | 4,249                     | 4,059       | 12,663                   | 11,657      |
| Trade Finance Fees  | 1,227                     | 1,162       | 3,414                    | 3,143       |
| Remittance Fees   | 517                       | 527         | 1,537                    | 1,545       |
| Other Service Charges and Fees                                | 591                       | 680         | 1,739                    | 1,948       |
| Bank-Owned Life Insurance Income                              | 221                       | 215         | 654                      | 630         |
| Increase in Fair Value of Derivatives                         | 389                       | 176         | 723                      | 965         |
| Other Income  | 731                       | 648         | 2,209                    | 1,823       |
| Gain on Sales of Loans  | 1,400                     | 1,712       | 3,550                    | 2,076       |
| Gain (Loss) on Sales of Securities Available for Sale         | (3)                       | 21          | 2                        | 117         |
| <br>  |                           |             |                          |             |
| Total Non-Interest Income                                     | 9,322                     | 9,200       | 26,491                   | 23,904      |

## NON-INTEREST EXPENSES:

|  |        |       |        |        |
|--|--------|-------|--------|--------|
| Salaries and Employee Benefits             | 10,357 | 9,155 | 30,209 | 26,867 |
| Occupancy and Equipment                    | 2,596  | 2,179 | 7,472  | 6,581  |
| Data Processing                            | 1,202  | 1,253 | 3,635  | 3,663  |
| Advertising and Promotion                  | 665    | 726   | 2,122  | 1,983  |
| Supplies and Communication                 | 636    | 559   | 1,848  | 1,867  |
| Professional Fees                          | 390    | 393   | 1,550  | 1,432  |
| Amortization of Core Deposit Intangible    | 585    | 694   | 1,815  | 2,140  |
| Decrease in Fair Value of Embedded Options | 78     | 173   | 292    | 748    |
| Other Operating Expenses                   | 2,964  | 1,859 | 7,385  | 5,836  |
| Merger-Related Expenses                    |        |       |        | (509)  |

|                             |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|
| Total Non-Interest Expenses | 19,473 | 16,991 | 56,328 | 50,608 |
|-----------------------------|--------|--------|--------|--------|

## INCOME BEFORE PROVISION FOR

|                            |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| INCOME TAXES               | 27,359 | 24,173 | 77,927 | 70,681 |
| Provision for Income Taxes | 9,762  | 9,204  | 29,588 | 27,342 |

|                   |                  |                  |                  |                  |
|-------------------|------------------|------------------|------------------|------------------|
| <b>NET INCOME</b> | <b>\$ 17,597</b> | <b>\$ 14,969</b> | <b>\$ 48,339</b> | <b>\$ 43,339</b> |
|-------------------|------------------|------------------|------------------|------------------|

## EARNINGS PER SHARE:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.36 | \$ 0.30 | \$ 0.99 | \$ 0.88 |
| Diluted | \$ 0.36 | \$ 0.30 | \$ 0.98 | \$ 0.86 |

## WEIGHTED-AVERAGE SHARES

## OUTSTANDING:

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 48,890,662 | 49,144,508 | 48,809,921 | 49,386,112 |
| Diluted | 49,450,601 | 49,914,432 | 49,395,152 | 50,157,206 |

|                              |         |         |         |         |
|------------------------------|---------|---------|---------|---------|
| DIVIDENDS DECLARED PER SHARE | \$ 0.06 | \$ 0.05 | \$ 0.18 | \$ 0.15 |
|------------------------------|---------|---------|---------|---------|

See Accompanying Notes to Consolidated Financial Statements.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND**  
**COMPREHENSIVE INCOME**  
**NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
*(Dollars in Thousands)*

|  | Common Stock |                | Number of Shares  |                         | Shareholders' Equity  |                                   |                   | Treasury Stock, at Cost | Total Shareholders' Equity |                   |
|--|--------------|----------------|-------------------|-------------------------|-----------------------|-----------------------------------|-------------------|-------------------------|----------------------------|-------------------|
|  | Issued       | Treasury Stock | Outstanding       | Additional Common Stock | Unearned Compensation | Other Comprehensive Income (Loss) | Retained Earnings |                         |                            |                   |
| <b>BALANCE DECEMBER 31, 2004</b>   | 49,330,704   |                | <b>49,330,704</b> | <b>\$ 49</b>            | <b>\$ 334,932</b>     | <b>\$</b>                         | <b>\$ 1,035</b>   | <b>\$ 63,894</b>        | <b>\$</b>                  | <b>\$ 399,910</b> |
| Exercises of Stock Options   | 338,541      |                | 338,541           | 1                       | 2,191                 |                                   |                   |                         |                            | 2,192             |
| Restricted Stock Award   | 100,000      |                | 100,000           |                         | 1,815                 | (1,815)                           |                   |                         |                            |                   |
| Share-Based Compensation Expense   |              |                |                   |                         |                       | 575                               |                   |                         |                            | 575               |
| Tax Benefit from Exercises of Stock Options  |              |                |                   |                         | 546                   |                                   |                   |                         |                            | 546               |
| Repurchase of Stock  |              | (1,163,000)    | (1,163,000)       |                         |                       |                                   |                   | (20,041)                |                            | (20,041)          |
| Cash Dividends   |              |                |                   |                         |                       |                                   |                   | (7,386)                 |                            | (7,386)           |
| Comprehensive Income:  |              |                |                   |                         |                       |                                   |                   |                         |                            |                   |
| Net Income   |              |                |                   |                         |                       |                                   |                   | 43,339                  |                            | 43,339            |
| Change in Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Tax |              |                |                   |                         |                       |                                   |                   | (3,129)                 |                            | (3,129)           |
| Total Comprehensive Income   |              |                |                   |                         |                       |                                   |                   |                         |                            | 40,210            |



|   |                   |                    |                   |              |                   |                   |                   |                  |                    |                   |
|---|-------------------|--------------------|-------------------|--------------|-------------------|-------------------|-------------------|------------------|--------------------|-------------------|
| <b>BALANCE<br/>SEPTEMBER<br/>30, 2005</b> | <b>49,769,245</b> | <b>(1,163,000)</b> | <b>48,606,245</b> | <b>\$ 50</b> | <b>\$ 339,484</b> | <b>\$ (1,240)</b> | <b>\$ (2,094)</b> | <b>\$ 99,847</b> | <b>\$ (20,041)</b> | <b>\$ 416,006</b> |
|---|-------------------|--------------------|-------------------|--------------|-------------------|-------------------|-------------------|------------------|--------------------|-------------------|

|  |                   |                    |                   |              |                   |                   |                   |                   |                    |                   |
|--|-------------------|--------------------|-------------------|--------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
| <b>BALANCE<br/>DECEMBER<br/>31, 2005</b> | <b>49,821,798</b> | <b>(1,163,000)</b> | <b>48,658,798</b> | <b>\$ 50</b> | <b>\$ 339,991</b> | <b>\$ (1,150)</b> | <b>\$ (4,383)</b> | <b>\$ 112,310</b> | <b>\$ (20,041)</b> | <b>\$ 426,777</b> |
|--|-------------------|--------------------|-------------------|--------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|

|   |         |  |         |  |       |  |  |         |  |         |
|---|---------|--|---------|--|-------|--|--|---------|--|---------|
| Cumulative<br>Adjustment<br>Share-Based<br>Compensation<br>Exercises of<br>Stock Options<br>and Stock<br>Warrants                               | 332,348 |  | 332,348 |  | 2,795 |  |  |         |  | 2,795   |
| Share-Based<br>Compensation<br>Expense  |         |  |         |  | 998   |  |  |         |  | 998     |
| Tax Benefit<br>from Exercises<br>of Stock<br>Options  |         |  |         |  | 329   |  |  |         |  | 329     |
| Cash Dividends  |         |  |         |  |       |  |  | (8,864) |  | (8,864) |
| Comprehensive<br>Income:<br>Net Income  |         |  |         |  |       |  |  | 48,339  |  | 48,339  |
| Change in<br>Unrealized Loss<br>on Securities<br>Available for<br>Sale,<br>Interest-Only<br>Strips and<br>Interest Rate<br>Swaps, Net of<br>Tax |         |  |         |  |       |  |  | 753     |  | 753     |
| Total<br>Comprehensive<br>Income  |         |  |         |  |       |  |  |         |  | 49,092  |

|   |                   |                    |                   |              |                   |           |                   |                   |                    |                   |
|---|-------------------|--------------------|-------------------|--------------|-------------------|-----------|-------------------|-------------------|--------------------|-------------------|
| <b>BALANCE<br/>SEPTEMBER<br/>30, 2006</b> | <b>50,154,146</b> | <b>(1,163,000)</b> | <b>48,991,146</b> | <b>\$ 50</b> | <b>\$ 343,197</b> | <b>\$</b> | <b>\$ (3,630)</b> | <b>\$ 151,785</b> | <b>\$ (20,041)</b> | <b>\$ 471,361</b> |
|---|-------------------|--------------------|-------------------|--------------|-------------------|-----------|-------------------|-------------------|--------------------|-------------------|

See Accompanying Notes to Consolidated Financial Statements.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

*(In Thousands)*

|   | <b>Nine Months Ended</b> |                  |
|---|--------------------------|------------------|
|   | <b>September 30,</b>     |                  |
|   | <b>2006</b>              | <b>2005</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                          |                  |
| Net Income  | \$ 48,339                | \$ 43,339        |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: |                          |                  |
| Depreciation and Amortization of Premises and Equipment                           | 2,203                    | 1,985            |
| Amortization of Premiums and Accretion of Discounts on Investments, Net           | 221                      | 245              |
| Amortization of Core Deposit Intangible   | 1,815                    | 2,140            |
| Share-Based Compensation Expense  | 998                      | 575              |
| Provision for Credit Losses   | 5,542                    | 3,743            |
| FHLB Stock Dividend   | (460)                    | (224)            |
| Gain on Sales of Securities Available for Sale                                    | (2)                      | (117)            |
| Increase in Fair Value of Derivatives   | (723)                    | (965)            |
| Decrease in Fair Value of Embedded Options  | 292                      | 748              |
| Gain on Sales of Loans  | (3,550)                  | (2,076)          |
| Loss on Sales of Premises and Equipment   | 22                       | 13               |
| Tax Benefit from Exercises of Stock Options                                       | (329)                    | 546              |
| Deferred Tax Benefit  | (1,964)                  | (3,150)          |
| Origination of Loans Held for Sale  | (88,047)                 | (34,563)         |
| Proceeds from Sales of Loans Held for Sale  | 85,327                   | 40,114           |
| Increase in Accrued Interest Receivable   | (2,070)                  | (2,128)          |
| (Increase) Decrease in Serving Assets   | (356)                    | 130              |
| Increase in Cash Surrender Value of Bank-Owned Life Insurance                     | (655)                    | (630)            |
| Increase in Other Assets  | (12,243)                 | (2,865)          |
| Increase in Accrued Interest Payable  | 7,280                    | 1,910            |
| Increase in Other Liabilities   | 111                      | 5,862            |
| Other, net  | 3,159                    | (2,551)          |
| <b>Net Cash Provided By Operating Activities</b>                                  | <b>44,910</b>            | <b>52,031</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                          |                  |
| Proceeds from Redemption of FRB Stock   | 590                      |                  |
| Proceeds from Matured or Called Securities Available for Sale                     | 46,005                   | 72,449           |
| Proceeds from Sales of Securities Available for Sale                              | 5,005                    | 11,360           |
| Net Increase in Loans Receivable  | (352,062)                | (231,100)        |
| Purchases of FRB and FHLB Stock   | (311)                    | (2,066)          |
| Purchases of Securities Available for Sale  | (6,273)                  | (63,238)         |
| Purchases of Premises and Equipment   | (1,763)                  | (2,733)          |
| <b>Net Cash Used In Investing Activities</b>                                      | <b>(308,809)</b>         | <b>(215,328)</b> |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|   |         |          |
|---|---------|----------|
| Increase in Deposits  | 147,667 | 217,963  |
| Proceeds from Exercises of Stock Options and Stock Warrants | 2,795   | 2,192    |
| Tax Benefit from Exercises of Stock Options                 | 329     |          |
| Cash Dividends Paid   | (8,864) | (7,386)  |
| Cash Paid to Acquire Treasury Stock                         |         | (20,041) |
| Proceeds from Long-Term FHLB Advances and Other Borrowings  | 120,000 | 7,450    |
| Repayment of Long-Term FHLB Advances and Other Borrowings   | (313)   | (10,183) |
| Net Change in Short-Term FHLB Advances and Other Borrowings | 3,417   | 20,371   |

|  |                |                |
|--|----------------|----------------|
| <b>Net Cash Provided By Financing Activities</b> | <b>265,031</b> | <b>210,366</b> |
|--|----------------|----------------|

|  |              |               |
|--|--------------|---------------|
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b> | <b>1,132</b> | <b>47,069</b> |
|--|--------------|---------------|

|   |         |         |
|---|---------|---------|
| Cash and Cash Equivalents Beginning of Period | 163,477 | 127,164 |
|---|---------|---------|

|  |                   |                   |
|--|-------------------|-------------------|
| <b>CASH AND CASH EQUIVALENTS END OF PERIOD</b> | <b>\$ 164,609</b> | <b>\$ 174,233</b> |
|--|-------------------|-------------------|

**Supplemental Disclosures of Cash Flow Information:**

|                   |           |           |
|-------------------|-----------|-----------|
| Interest Paid     | \$ 83,403 | \$ 43,550 |
| Income Taxes Paid | \$ 30,708 | \$ 26,150 |

See Accompanying Notes to Consolidated Financial Statements.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

Hanmi Financial Corporation ( Hanmi Financial, we or us ) is a Delaware corporation that is the holding company for Hanmi Bank (the Bank ) and is subject to the Bank Holding Company Act of 1956, as amended.

Hanmi Bank, our primary subsidiary, is a commercial bank licensed by the California Department of Financial Institutions. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits thereof. The Bank is a member of the Federal Reserve System.

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 multi-ethnic populations of Los Angeles, Orange, San Diego, San Francisco and Santa Clara counties of the State of California. 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. As of September 30, 2006, the Bank maintained a branch network of 22 locations, serving individuals and small- to medium-sized businesses in its primary market. The Bank also had eight loan production offices in California, Colorado, Georgia, Illinois, Texas, Virginia and Washington.

In the opinion of management, the consolidated financial statements of Hanmi Financial Corporation and subsidiary reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods ended September 30, 2006, but are not necessarily indicative of the results that will be reported for the entire year. In the opinion of management, the aforementioned consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America ( GAAP ). The interim information should be read in conjunction with our 2005 Annual Report on Form 10-K.

Descriptions of our significant accounting policies are included in Note 1 Summary of Significant Accounting Policies in our 2005 Annual Report on Form 10-K. Certain reclassifications were made to the prior period s presentation to conform to the current period s presentation.

***Share-Based Compensation***

We adopted Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment* ( SFAS No. 123(R) ), 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* ( SFAS No. 123 ). 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 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.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 in 2005.

|  | <b>Three<br/>Months<br/>Ended<br/>September<br/>30, 2005</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2005</b> |
|--|--|---|
|  | <i>(Dollars in Thousands, Except Per Share Data)</i>         |   |
| <b>Net Income As Reported</b>  | <b>\$ 14,969</b>   | <b>\$ 43,339</b>  |
| Add Share-Based Employee Compensation Expense Included in Reported Net Income, Net of Related Tax Effects (Restricted Stock Award)                                 | 56   | 353   |
| 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 | (507)  | (1,384)   |
| <b>Net Income Pro Forma</b>  | <b>\$ 14,518</b>   | <b>\$ 42,308</b>  |
| <b>Earnings Per Share As Reported:</b>   |  |   |
| Basic  | \$ 0.30  | \$ 0.88   |
| Diluted  | \$ 0.30  | \$ 0.86   |
| <b>Earnings Per Share Pro Forma:</b>   |  |   |
| Basic  | \$ 0.30  | \$ 0.86   |
| Diluted  | \$ 0.29  | \$ 0.84   |

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 windfall tax benefits as of the adoption date of SFAS No. 123(R).

SFAS No. 123(R) requires that cash flows resulting from the realization of tax deductions recognized on awards that are fully vested prior to the adoption of SFAS No. 123(R) be classified as a financing cash inflow and an operating cash outflow in the Consolidated Statements of Cash Flows. Before the adoption of SFAS No. 123(R), we presented all tax benefits realized from the exercise of stock options as an operating cash inflow.

In addition, SFAS No. 123(R) requires that any unearned compensation related to awards granted prior to the adoption of SFAS No. 123(R) be eliminated against the appropriate equity accounts. As a result, the presentation of Shareholders' Equity was revised to reflect the transfer of the balance previously reported in Unearned Compensation to Additional Paid-In Capital.

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION**

At September 30, 2006, we had two stock incentive plans, the Year 2000 Stock Option Plan, which provides for the granting of non-qualified and incentive stock options and restricted stock awards to employees (including officers and directors), and our 2004 CEO Stock Option Plan, which provides for the grant of stock options to our Chief Executive Officer (the 2004 CEO Stock Option Plan and with the Year 2000 Stock Option Plan, the Plans ).

***Year 2000 Stock Option Plan***

Under the Year 2000 Stock Option Plan, we may grant options for up to 5,430,742 shares of common stock. As of September 30, 2006, 2,475,297 shares were still available for issuance.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005** (Continued)

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION** (Continued)

All stock options granted under the Year 2000 Stock Option Plan have an exercise price equal to the fair market value of the underlying common stock on the date of grant. Stock options granted under the Year 2000 Stock Option Plan generally vest based on five years of continuous service and expire ten years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Year 2000 Stock Option Plan). New shares of common stock may be issued or treasury shares may be utilized upon the exercise of stock options.

For the three and nine months ended September 30, 2006 and 2005, the estimated weighted-average fair value per share of options granted under the Year 2000 Stock Option Plan was as follows:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
| Estimated Weighted-Average Fair Value Per Share of Options Granted | \$ 7.16                   | \$ 5.34     | \$ 6.64                  | \$ 4.95     |

The weighted-average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                               | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|-------------------------------|---------------------------|-------------|--------------------------|-------------|
|                               | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                               | <b>2006</b>               | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
| Weighted-Average Assumptions: |                           |             |                          |             |
| Dividend Yield                | 1.27%                     | 1.10%       | 1.32%                    | 1.18%       |
| Expected Volatility           | 36.32%                    | 32.95%      | 36.61%                   | 32.62%      |
| Expected Term                 | 5.7 years                 | 4.1 years   | 5.4 years                | 4.1 years   |
| Risk-Free Interest Rate       | 4.95%                     | 4.13%       | 4.92%                    | 4.14%       |

Expected volatility is determined based on the historical daily volatility of our stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period of time that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with previous option grants. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

The following information under the Year 2000 Stock Option Plan is presented for the three and nine months ended September 30, 2006 and 2005:

|  | <b>Three Months</b>   |             | <b>Nine Months Ended</b> |             |
|--|-----------------------|-------------|--------------------------|-------------|
|  | <b>Ended</b>          |             | <b>September 30,</b>     |             |
|  | <b>September 30,</b>  |             | <b>September 30,</b>     |             |
|  | <b>2006</b>           | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
|  | <i>(In Thousands)</i> |             |                          |             |
| Grant Date Fair Value of Options Granted                             | \$ 330                | \$ 27       | \$ 4,415                 | \$ 621      |
| Total Intrinsic Value of Options Exercised <sup>(1)</sup>            | \$ 859                | \$ 2,129    | \$ 2,348                 | \$ 3,843    |
| Cash Received from Options Exercised                                 | \$ 719                | \$ 737      | \$ 1,698                 | \$ 1,840    |
| Actual Tax Benefit Realized from Tax Deductions on Options Exercised | \$                    | \$          | \$ 329                   | \$ 333      |

(1)



*Intrinsic value represents the difference between the closing stock price on the exercise date and the exercise price, multiplied by the number of options.*

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005** (Continued)

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION** (Continued)

The following is a summary of the transactions under the Year 2000 Stock Option Plan for the three months ended September 30, 2006 and 2005:

|                            |                                     | Three Months Ended September 30, |  |                        |  |
|----------------------------|-------------------------------------|----------------------------------|--|------------------------|--|
|                            |                                     | 2006                             |  | 2005                   |  |
|                            |                                     | Number<br>of<br>Shares           | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share | Number<br>of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share |
| Options Outstanding        | Beginning of Period                 | 1,587,982                        | \$ 13.58   | 1,419,449              | \$ 10.07   |
|                            | Options Granted During the Period   | 46,000                           | \$ 18.95   | 15,000                 | \$ 17.66   |
|                            | Options Exercised During the Period | (82,566)                         | \$ 8.71  | (117,768)              | \$ 6.26  |
|                            | Options Forfeited During the Period | (22,400)                         | \$ 16.28   | (71,435)               | \$ 3.21  |
| <b>Options Outstanding</b> | <b>End of Period</b>                | <b>1,529,016</b>                 | <b>\$ 13.96</b>  | <b>1,245,246</b>       | <b>\$ 10.44</b>  |
| Options Exercisable        | End of Period                       | 512,706                          | \$ 8.52  | 572,755                | \$ 6.92  |

The following is a summary of the transactions under the Year 2000 Stock Option Plan for the nine months ended September 30, 2006 and 2005:

|                            |                                     | Nine Months Ended September 30, |  |                        |  |
|----------------------------|-------------------------------------|---------------------------------|--|------------------------|--|
|                            |                                     | 2006                            |  | 2005                   |  |
|                            |                                     | Number<br>of<br>Shares          | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share | Number<br>of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price Per<br>Share |
| Options Outstanding        | Beginning of Period                 | 1,173,712                       | \$ 10.55   | 1,618,836              | \$ 9.33  |
|                            | Options Granted During the Period   | 665,000                         | \$ 18.10   | 135,554                | \$ 17.10   |
|                            | Options Exercised During the Period | (216,956)                       | \$ 7.83  | (338,541)              | \$ 6.48  |
|                            | Options Forfeited During the Period | (91,140)                        | \$ 14.90   | (170,603)              | \$ 13.04   |
|                            | Options Expired During the Period   | (1,600)                         | \$ 14.03   |                        | \$   |
| <b>Options Outstanding</b> | <b>End of Period</b>                | <b>1,529,016</b>                | <b>\$ 13.96</b>  | <b>1,245,246</b>       | <b>\$ 10.44</b>  |
| Options Exercisable        | End of Period                       | 512,706                         | \$ 8.52  | 572,755                | \$ 6.92  |

The following is a summary of the transactions for non-vested stock options under the Year 2000 Stock Option Plan for the three months ended September 30, 2006 and 2005:

|                                       |                                     | <b>Three Months Ended September 30,</b> |  |                |  |
|---------------------------------------|-------------------------------------|---|--|----------------|--|
|                                       |                                     | <b>2006</b>                             |  |                | <b>2005</b>  |
|                                       |                                     | <b>Number</b>                           | <b>Weighted-<br/>Average<br/>Grant<br/>Date<br/>Fair<br/>Value<br/>Per Share</b> | <b>Number</b>  | <b>Weighted-<br/>Average<br/>Grant<br/>Date<br/>Fair<br/>Value<br/>Per Share</b> |
|                                       |                                     | <b>of<br/>Shares</b>                    |  |                | <b>of<br/>Shares</b>   |
| Non-Vested Options Outstanding        | Beginning of<br>Period              | 1,067,593                               | \$ 5.31  | 997,717        | \$ 3.05  |
|                                       | Options Granted During the Period   | 46,000                                  | \$ 7.16  | 15,000         | \$ 5.13  |
|                                       | Options Forfeited During the Period | (22,400)                                | \$ 5.34  | (71,435)       | \$ 3.21  |
|                                       | Options Vested During the Period    | (74,883)                                | \$ 2.41  | (268,791)      | \$ 1.51  |
| <b>Non-Vested Options Outstanding</b> | <b>End of<br/>Period</b>            | <b>1,016,310</b>                        | <b>\$ 5.60</b>   | <b>672,491</b> | <b>\$ 3.69</b>   |

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION (Continued)**

The following is a summary of the transactions for non-vested stock options under the Year 2000 Stock Option Plan for the nine months ended September 30, 2006 and 2005:

|   | <b>Nine Months Ended September 30,</b> |  |                |  |
|---|--|--|----------------|--|
|   | <b>2006</b>                            |  | <b>2005</b>    |  |
|   | Number                                 | Weighted-Average Grant Date Fair Value Per Share | Number         | Weighted-Average Grant Date Fair Value Per Share |
| Non-Vested Options Outstanding Beginning of Period  | 653,110                                | \$ 3.68  | 1,131,594      | \$ 2.93  |
| Options Granted During the Period                   | 665,000                                | \$ 6.63  | 135,554        | \$ 4.96  |
| Options Forfeited During the Period                 | (91,140)                               | \$ 4.62  | (170,603)      | \$ 3.55  |
| Options Expired During the Period                   | (1,600)                                | \$ 3.66  |                | \$   |
| Options Vested During the Period                    | (209,060)                              | \$ 3.30  | (424,054)      | \$ 2.13  |
| <b>Non-Vested Options Outstanding End of Period</b> | <b>1,016,310</b>                       | <b>\$ 5.60</b>                                   | <b>672,491</b> | <b>\$ 3.69</b>                                   |

As of September 30, 2006, the total compensation cost not yet recognized under the Year 2000 Stock Option Plan was \$4.9 million with a weighted-average recognition period of 4.2 years.

As of September 30, 2006, stock options outstanding under the Year 2000 Stock Option Plan were as follows:

| Exercise Price Range | Number of Shares | Intrinsic Value <sup>(1)</sup> | Options Outstanding                       |   | Number of Shares | Intrinsic Value <sup>(1)</sup> | Options Exercisable                       |   |
|----------------------|------------------|--------------------------------|---|---|------------------|--------------------------------|---|---|
|                      |                  |                                | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life |                  |                                | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life |
|                      |                  |                                |   |   |                  |                                |   |   |
|                      |                  |                                |   |   |                  |                                |   |   |
| \$3.27 to \$4.99     | 156,666          | \$ 2,479                       | \$ 3.78                                   | 4.0 years                                   | 156,666          | \$ 2,479                       | \$ 3.78                                   | 4.0 years                                   |
| \$5.00 to \$9.99     | 175,196          | 2,185                          | \$ 7.13                                   | 4.6 years                                   | 175,196          | 2,185                          | \$ 7.13                                   | 4.6 years                                   |
| \$10.00 to \$14.99   | 443,600          | 2,704                          | \$ 13.50                                  | 7.5 years                                   | 156,733          | 957                            | \$ 13.50                                  | 7.5 years                                   |
| \$15.00 to \$19.52   | 753,554          | 1,257                          | \$ 17.94                                  | 9.4 years                                   | 24,111           | 62                             | \$ 17.03                                  | 8.6 years                                   |

*(Dollars in Thousands, Except Per Share Data)*

|           |          |          |       |         |          |         |       |     |
|-----------|----------|----------|-------|---------|----------|---------|-------|-----|
|           |          |          |       | 7.8     |          |         |       | 5.5 |
| 1,529,016 | \$ 8,625 | \$ 13.96 | years | 512,706 | \$ 5,683 | \$ 8.52 | years |     |

(1) *Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was \$19.60 as of September 29, 2006, and the exercise price, multiplied by the number of options.*

**2004 CEO Stock Option Plan**

Under the 2004 CEO Stock Option Plan, a total of 350,000 stock options were granted to our Chief Executive Officer. As of September 30, 2006, there were no additional shares available for issuance.

All stock options granted under the 2004 CEO Stock Option Plan have an exercise price equal to the fair market value of the underlying common stock on the date of grant. Stock options granted under the 2004 CEO Stock Option Plan vest based on six years of continuous service and expire ten years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2004 CEO Stock Option Plan). New shares of common stock may be issued or treasury shares may be utilized upon the exercise of stock options.

There were no stock options granted under the 2004 CEO Stock Option Plan during the three and nine months ended September 30, 2006 and 2005.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005** *(Continued)*

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION** *(Continued)*

The following is a summary of the transactions under the 2004 CEO Stock Option Plan for the three months ended September 30, 2006 and 2005:

|                            |                      | <b>Three Months Ended September 30,</b> |   |                                 |   |
|----------------------------|----------------------|---|---|---------------------------------|---|
|                            |                      | <b>2006</b>                             |   | <b>2005</b>                     |   |
|                            |                      | <b>Number<br/>of<br/>Shares</b>         | <b>Exercise<br/>Price Per<br/>Share</b> | <b>Number<br/>of<br/>Shares</b> | <b>Exercise<br/>Price Per<br/>Share</b> |
| Options Outstanding        | Beginning of Period  | 350,000                                 | \$ 17.17                                | 350,000                         | \$ 17.17                                |
| <b>Options Outstanding</b> | <b>End of Period</b> | <b>350,000</b>                          | <b>\$ 17.17</b>                         | <b>350,000</b>                  | <b>\$ 17.17</b>                         |
| Options Exercisable        | End of Period        | 58,333                                  | \$ 17.17                                |                                 | \$                                      |

The following is a summary of the transactions under the 2004 CEO Stock Option Plan for the nine months ended September 30, 2006 and 2005:

|                            |                      | <b>Nine Months Ended September 30,</b> |   |                                 |   |
|----------------------------|----------------------|--|---|---------------------------------|---|
|                            |                      | <b>2006</b>                            |   | <b>2005</b>                     |   |
|                            |                      | <b>Number<br/>of<br/>Shares</b>        | <b>Exercise<br/>Price Per<br/>Share</b> | <b>Number<br/>of<br/>Shares</b> | <b>Exercise<br/>Price Per<br/>Share</b> |
| Options Outstanding        | Beginning of Period  | 350,000                                | \$ 17.17                                | 350,000                         | \$ 17.17                                |
| <b>Options Outstanding</b> | <b>End of Period</b> | <b>350,000</b>                         | <b>\$ 17.17</b>                         | <b>350,000</b>                  | <b>\$ 17.17</b>                         |
| Options Exercisable        | End of Period        | 58,333                                 | \$ 17.17                                |                                 | \$                                      |

The following is a summary of the transactions for non-vested stock options under the 2004 CEO Stock Option Plan for the three months ended September 30, 2006 and 2005:

|                                |                     | <b>Three Months Ended September 30,</b> |  |                                 |  |
|--------------------------------|---------------------|---|--|---------------------------------|--|
|                                |                     | <b>2006</b>                             |  | <b>2005</b>                     |  |
|                                |                     | <b>Number<br/>of<br/>Shares</b>         | <b>Grant<br/>Date<br/>Fair Value<br/>Per Share</b> | <b>Number<br/>of<br/>Shares</b> | <b>Grant<br/>Date<br/>Fair Value<br/>Per Share</b> |
| Non-Vested Options Outstanding | Beginning of Period | 291,667                                 | \$ 5.93  | 350,000                         | \$ 5.93  |

**Non-Vested Options Outstanding    End of Period            291,667            \$ 5.93            350,000            \$ 5.93**

The following is a summary of the transactions for non-vested stock options under the 2004 CEO Stock Option Plan for the nine months ended September 30, 2006 and 2005:

|                                       |                      | <b>Nine Months Ended September 30,</b> |  |                                 |  |
|---------------------------------------|----------------------|--|--|---------------------------------|--|
|                                       |                      | <b>2006</b>                            |  | <b>2005</b>                     |  |
|                                       |                      | <b>Number<br/>of<br/>Shares</b>        | <b>Grant<br/>Date<br/>Fair Value<br/>Per Share</b> | <b>Number<br/>of<br/>Shares</b> | <b>Grant<br/>Date<br/>Fair Value<br/>Per Share</b> |
| Non-Vested Options Outstanding        | Beginning of Period  | 350,000                                | \$ 5.93  | 350,000                         | \$ 5.93  |
| Options Vested During the Period      |                      | (58,333)                               | \$ 5.93  |                                 | \$   |
| <b>Non-Vested Options Outstanding</b> | <b>End of Period</b> | <b>291,667</b>                         | <b>\$ 5.93</b>                                     | <b>350,000</b>                  | <b>\$ 5.93</b>                                     |

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 2 EMPLOYEE SHARE-BASED COMPENSATION (Continued)**

As of September 30, 2006, the total compensation cost not yet recognized under the 2004 CEO Stock Option Plan was \$1.4 million with a recognition period of 4.1 years.

As of September 30, 2006, stock options outstanding under the 2004 CEO Stock Option Plan were as follows:

| Number<br>of Shares                                  | Options Outstanding       |                                |                                  | Number<br>of Shares | Options Exercisable       |                                |                                  |
|--|---------------------------|--------------------------------|----------------------------------|---------------------|---------------------------|--------------------------------|----------------------------------|
|  | Intrinsic<br>Value<br>(1) | Exercise<br>Price Per<br>Share | Remaining<br>Contractual<br>Life |                     | Intrinsic<br>Value<br>(1) | Exercise<br>Price Per<br>Share | Remaining<br>Contractual<br>Life |
| <i>(Dollars in Thousands, Except Per Share Data)</i> |                           |                                |                                  |                     |                           |                                |                                  |
| 350,000  | \$ 852                    | \$17.17                        | 8.2 years                        | 58,333              | \$ 142                    | \$17.17                        | 8.2 years                        |

(1) *Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was \$19.60 as of September 30, 2006, and the exercise price, multiplied by the number of options.*

**Restricted Stock Award**

In February 2005, 100,000 shares of restricted stock were granted to Dr. Sung Won Sohn, our Chief Executive Officer. 20,000 of these shares vested immediately, and an additional 20,000 shares vest each year over the next four years on the anniversary date of the grant. The market value of the shares awarded totaled \$1,815,000. For the three months ended September 30, 2006 and 2005, compensation expense of \$91,000 and \$91,000, respectively, was recognized in the Consolidated Statements of Income. For the nine months ended September 30, 2006 and 2005, compensation expense of \$272,000 and \$575,000, respectively, was recognized in the Consolidated Statements of Income.

**NOTE 3 EARNINGS PER SHARE**

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

Unvested restricted stock is excluded from the calculation of weighted-average common shares for basic EPS. For diluted EPS, weighted-average common shares include the impact of restricted stock under the treasury method.





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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 3 EARNINGS PER SHARE (Continued)**

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

|   | <b>Income<br/>(Numerator)</b>                        | <b>Weighted-<br/>Average<br/>Shares<br/>(Denominator)</b> | <b>Per<br/>Share<br/>Amount</b> |
|---|--|---|---------------------------------|
|   | <i>(Dollars in Thousands, Except Per Share Data)</i> |   |                                 |
| <b>Three Months Ended September 30, 2006:</b> |  |   |                                 |
| Basic EPS                                     | \$ 17,597  | 48,890,662  | \$ 0.36                         |
| Effect of Dilutive Securities                 |  | 559,939   |                                 |
| Diluted EPS                                   | \$ 17,597  | 49,450,601  | \$ 0.36                         |
| <b>Three Months Ended September 30, 2005:</b> |  |   |                                 |
| Basic EPS                                     | \$ 14,969  | 49,144,508  | \$ 0.30                         |
| Effect of Dilutive Securities                 |  | 769,924   |                                 |
| Diluted EPS                                   | \$ 14,969  | 49,914,432  | \$ 0.30                         |
| <b>Nine Months Ended September 30, 2006:</b>  |  |   |                                 |
| Basic EPS                                     | \$ 48,339  | 48,809,921  | \$ 0.99                         |
| Effect of Dilutive Securities                 |  | 585,231   | (0.01)                          |
| Diluted EPS                                   | \$ 48,339  | 49,395,152  | \$ 0.98                         |
| <b>Nine Months Ended September 30, 2005:</b>  |  |   |                                 |
| Basic EPS                                     | \$ 43,339  | 49,386,112  | \$ 0.88                         |
| Effect of Dilutive Securities                 |  | 771,094   | (0.02)                          |
| Diluted EPS                                   | \$ 43,339  | 50,157,206  | \$ 0.86                         |

For the three months ended September 30, 2006 and 2005, there were 1,103,554 and 45,554 options outstanding, respectively, that were not included in the computation of diluted EPS because their exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the nine months ended September 30, 2006 and 2005, there were 1,103,554 and 60,554 options outstanding, respectively, that were not included in the computation of diluted EPS.

**NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS**

***Interest Rate Swap***

During 2004, to hedge interest rate risk, the Bank entered into an interest rate swap agreement maturing in 2009, wherein the Bank received a fixed rate of 7.29 percent at quarterly intervals, and paid Prime-based floating rates at quarterly intervals on a total notional amount of \$10.0 million. During 2003, to hedge interest rate risk, the Bank entered into four interest rate swap agreements maturing in 2008, wherein the Bank received fixed rates of 5.77 percent, 6.37 percent, 6.51 percent and 6.76 percent, at quarterly intervals, and paid Prime-based floating rates, at quarterly intervals, on a total notional amount of \$60.0 million. These swaps were designated as cash flow hedges for accounting purposes.

In 2005, the Bank terminated these swaps. At such time, the swaps were in an unfavorable position of \$2,139,000. Such amount is being amortized in amounts proportional to the interest income associated with the hedged loan pools over the remaining terms of the swaps or the lives of the hedged loans, whichever is shorter. For the three and nine months ended September 30, 2006, amortization expense of \$300,000 and \$708,000, respectively, was recognized in Other Operating Expenses on the Consolidated Statements of Income.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)*****Equity Swap***

In 2004, the Bank offered a certificate of deposit ( CD ) product that paid interest tied to the movement in the Standard & Poor's 500 Index plus 1.00 percent annual interest. The CD will mature in November 2009. The economic characteristics and risks of the embedded option were not clearly and closely related to the CD. Therefore, the embedded option was separated from the CD and accounted for separately in liabilities. As of September 30, 2006 and December 31, 2005, the fair value of the embedded option was \$1,351,000 and \$1,280,000, respectively, and the change in the liability during the three months ended September 30, 2006 and 2005 was \$79,000 and \$173,000, respectively, and during the nine months ended September 30, 2006 and 2005 was \$71,000 and (\$112,000), respectively. The changes were recognized in earnings.

To economically hedge the market risk described above, the Bank entered into an agreement to purchase an equity swap with a notional amount of \$9,340,000. As of September 30, 2006 and December 31, 2005, the fair value of the equity swap was \$521,000 and \$88,000, respectively, and the change in the asset during the three months ended September 30, 2006 and 2005 was \$388,000 and \$80,000, respectively, and during the nine months ended September 30, 2006 and 2005 was \$433,000 and (\$115,000), respectively. The changes were recognized in earnings.

***Currency Swap***

In 2005, the Bank offered a CD product that pays interest based on the increase in the weighted-average value of five Asian currencies (Korean Won, Singapore Dollar, Taiwan Dollar, Thai Baht and Chinese Yuan) against the U.S. Dollar plus 0.25 percent annual interest. The economic characteristics and risks of the embedded option were not clearly and closely related to the CD. Therefore, the embedded option was separated from the CD and accounted for separately in liabilities. The currency swap matured in February 2006. As of September 30, 2006 and December 31, 2005, the fair value of the embedded option was \$0 and \$5,000, respectively, and the change in the liability during the three months ended September 30, 2006 and 2005 was \$0 and (\$82,000), respectively, and during the nine months ended September 30, 2006 and 2005 was (\$5,000) and (\$402,000), respectively. The changes were recognized in earnings.

To economically hedge the market risk described above, the Bank entered into an agreement to purchase a currency swap with a notional amount of \$14,274,000. As of September 30, 2006 and December 31, 2005, the fair value of the currency swap was \$0 and (\$105,000), respectively, and the change in the asset during the three months ended September 30, 2006 and 2005 was \$0 and \$15,000, respectively, and during the nine months ended September 30, 2006 and 2005 was \$63,000 and (\$182,000), respectively. The changes were recognized in earnings.

**NOTE 5 OFF-BALANCE SHEET COMMITMENTS**

As part of the service to our small- and medium-sized business customers, Hanmi Bank issues formal loan 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 Hanmi Bank to guarantee the performance of a customer to a third party.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

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

The following table shows the distribution of Hanmi Bank's undisbursed loan commitments as of the dates indicated.

|   | <b>September<br/>30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|---|-----------------------------------|----------------------------------|
|   | <i>(In Thousands)</i>             |                                  |
| Commitments to Extend Credit              | \$ 624,119                        | \$ 555,736                       |
| Commercial Letters of Credit              | 66,597                            | 58,036                           |
| Standby Letters of Credit                 | 39,127                            | 42,768                           |
| Unused Credit Card Lines                  | 20,922                            | 14,892                           |
| <b>Total Undisbursed Loan Commitments</b> | <b>\$ 750,765</b>                 | <b>\$ 671,432</b>                |

**NOTE 6 SEGMENT REPORTING**

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

**NOTE 7 RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement, which amends FASB Statements Nos. 87, 88, 106 and 132R, requires employers to recognize the overfunded and underfunded status of a defined benefit postretirement plan as an asset or a liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income, net of tax. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The requirement to initially recognize the funded status of the plan and to provide the required disclosures for Hanmi is December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of Hanmi's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We do not expect the adoption of SFAS No. 158 to have a material impact on our financial condition or results of operation.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within that fiscal year. We are currently assessing the impact that the adoption of SFAS No. 157 will have on our financial condition and results of operations.

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**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (Continued)**

**NOTE 7 RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)**

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB No. 108 ), expressing the SEC staff's views regarding the process of quantifying financial statement misstatements and the build up of improper amounts on the balance sheet. The built up misstatements, while not considered material in the individual years in which the misstatements were built up, may be considered material in a subsequent year if a company were to correct those misstatements through current period earnings. Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year. Registrants will need to disclose the nature and amount of each item, when and how each error being corrected arose, and the fact that the errors were previously considered immaterial. We are currently assessing the impact that the adoption of SAB No. 108 will have on our financial condition and results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We will be required to adopt FIN No. 48 in the first quarter of 2007. We are currently assessing the impact that the adoption of FIN No. 48 will have on our financial condition and results of operations.

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

**FORWARD-LOOKING STATEMENTS**

Some of the statements under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or the negative of such terms and comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: general economic and business conditions in those areas in which we operate; demographic changes; competition for loans and deposits; fluctuations in interest rates; risks of natural disasters related to our real estate portfolio; risks associated with SBA loans; changes in governmental regulation; credit quality; the availability of capital to fund the expansion of our business; and changes in securities markets. For additional information concerning these factors, see our Form 10-K filed with the Securities and Exchange Commission on March 16, 2006 under Risk Factors, 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.

The following is management's discussion and analysis of the major factors that influenced our results of operations and financial condition for the three and nine months ended September 30, 2006. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 and with the unaudited consolidated financial statements and notes thereto set forth in this Report.

**CRITICAL ACCOUNTING POLICIES**

We have established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005. 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.

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. See Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items and Results of Operations Provision for Credit Losses for a description of the methodology used to determine the allowance for loan losses and allowance for off-balance sheet items.

**Table of Contents****SELECTED FINANCIAL DATA**

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

|   | <b>As of and for the<br/>Three Months Ended<br/>September 30,</b> |              |
|---|---|--------------|
|   | <b>2006</b>   | <b>2005</b>  |
|   | <i>(Dollars in Thousands, Except Per Share<br/>Data)</i>          |              |
| <b>AVERAGE BALANCES:</b>  |   |              |
| Average Gross Loans, Net of Deferred Loan Fees                    | \$ 2,828,972  | \$ 2,456,033 |
| Average Securities  | \$ 401,039  | \$ 408,092   |
| Average Interest-Earning Assets                                   | \$ 3,287,581  | \$ 2,913,198 |
| Average Total Assets  | \$ 3,675,091  | \$ 3,299,551 |
| Average Deposits  | \$ 2,927,956  | \$ 2,650,581 |
| Average Interest-Bearing Liabilities                              | \$ 2,427,883  | \$ 2,075,091 |
| Average Shareholders' Equity                                      | \$ 463,011  | \$ 427,535   |
| Average Tangible Equity <sup>(1)</sup>                            | \$ 248,147  | \$ 208,729   |
| <b>PER SHARE DATA:</b>  |   |              |
| Earnings Per Share - Basic  | \$ 0.36   | \$ 0.30      |
| Earnings Per Share - Diluted                                      | \$ 0.36   | \$ 0.30      |
| Common Shares Outstanding   | 48,991,146  | 48,606,245   |
| Book Value Per Share <sup>(2)</sup>                               | \$ 9.62   | \$ 8.56      |
| Tangible Book Value Per Share <sup>(3)</sup>                      | \$ 5.24   | \$ 4.07      |
| Cash Dividends Per Share  | \$ 0.06   | \$ 0.05      |
| <b>SELECTED PERFORMANCE RATIOS:</b>                               |   |              |
| Return on Average Assets <sup>(4) (5)</sup>                       | 1.90%   | 1.80%        |
| Return on Average Shareholders' Equity <sup>(4) (6)</sup>         | 15.08%  | 13.89%       |
| Return on Average Tangible Equity <sup>(4) (7)</sup>              | 28.13%  | 28.45%       |
| Net Interest Spread <sup>(8)</sup>                                | 3.49%   | 3.86%        |
| Net Interest Margin <sup>(9)</sup>                                | 4.73%   | 4.78%        |
| Efficiency Ratio <sup>(10)</sup>                                  | 40.14%  | 38.34%       |
| Dividend Payout Ratio <sup>(11)</sup>                             | 16.70%  | 16.67%       |
| Average Shareholders' Equity to Average Total Assets              | 12.60%  | 12.96%       |
| <b>SELECTED CAPITAL RATIOS: <sup>(12)</sup></b>                   |   |              |
| Total Risk-Based Capital Ratio:                                   |   |              |
| Hanmi Financial   | 12.02%  | 11.55%       |
| Hanmi Bank  | 12.00%  | 11.49%       |
| Tier 1 Risk-Based Capital Ratio:                                  |   |              |
| Hanmi Financial   | 11.03%  | 10.55%       |
| Hanmi Bank  | 11.01%  | 10.48%       |
| Tier 1 Leverage Ratio:  |   |              |
| Hanmi Financial   | 9.78%   | 9.07%        |
| Hanmi Bank  | 9.76%   | 9.01%        |
| <b>SELECTED ASSET QUALITY RATIOS:</b>                             |   |              |
| Non-Performing Loans to Total Gross Loans <sup>(13)</sup>         | 0.47%   | 0.32%        |
| Non-Performing Assets to Total Assets <sup>(14)</sup>             | 0.36%   | 0.23%        |
| Net Loan Charge-Offs to Average Total Gross Loans <sup>(15)</sup> | 0.09%   | 0.10%        |
| Allowance for Loan Losses to Total Gross Loans                    | 0.99%   | 0.99%        |



|  |         |         |
|--|---------|---------|
| Allowance for Loan Losses to Non-Performing Loans  | 209.82% | 310.73% |
| (1) <i>Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average shareholders equity. See Non-GAAP Financial Measures.</i> |         |         |
| (2) <i>Shareholders equity divided by common shares outstanding.</i>   |         |         |
| (3) <i>Tangible equity divided by common shares outstanding.</i>   |         |         |
| (4) <i>Calculation based upon annualized net income.</i>   |         |         |
| (5) <i>Net income divided by average total assets.</i>   |         |         |
| (6) <i>Net income divided by average shareholders equity.</i>  |         |         |
| (7) <i>Net income divided by average tangible equity. See Non-GAAP Financial</i>   |         |         |

*Measures.*

- (8) *Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities.*
- (9) *Net interest income before provision for credit losses divided by average interest-earning assets.*
- (10) *Total non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income.*
- (11) *Cash dividends per share times common shares outstanding divided by net income.*
- (12) *The required ratios for a well-capitalized institution, as defined by regulations of the Board of Governors of the Federal Reserve System, are 10 percent for Total Risk-Based*

*Capital Ratio*  
*(total capital*  
*divided by*  
*risk-weighted*  
*assets);*  
*6 percent for*  
*Tier 1*  
*Risk-Based*  
*Capital Ratio*  
*(Tier 1 capital*  
*divided by*  
*risk-weighted*  
*assets); and*  
*5 percent for*  
*Tier 1 Leverage*  
*Ratio (Tier 1*  
*capital divided*  
*by average*  
*assets).*

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

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

*(15) Calculation*  
*based upon*  
*annualized net*  
*loan*  
*charge-offs.*

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|   | <b>As of and for the<br/>Nine Months Ended<br/>September 30,</b> |              |
|---|--|--------------|
|   | <b>2006</b>  | <b>2005</b>  |
|   | <i>(Dollars in Thousands, Except Per Share<br/>Data)</i>         |              |
| <b>AVERAGE BALANCES:</b>                                  |  |              |
| Average Gross Loans, Net of Deferred Loan Fees            | \$ 2,702,902   | \$ 2,344,123 |
| Average Securities  | \$ 421,195   | \$ 415,467   |
| Average Interest-Earning Assets                           | \$ 3,169,215   | \$ 2,815,192 |
| Average Total Assets                                      | \$ 3,557,227   | \$ 3,191,373 |
| Average Deposits  | \$ 2,857,260   | \$ 2,571,380 |
| Average Interest-Bearing Liabilities                      | \$ 2,329,135   | \$ 1,988,038 |
| Average Shareholders' Equity                              | \$ 450,069   | \$ 416,737   |
| Average Tangible Equity <sup>(1)</sup>                    | \$ 233,671   | \$ 197,060   |
| <b>PER SHARE DATA:</b>                                    |  |              |
| Earnings Per Share - Basic                                | \$ 0.99  | \$ 0.88      |
| Earnings Per Share - Diluted                              | \$ 0.98  | \$ 0.86      |
| Cash Dividends Per Share                                  | \$ 0.18  | \$ 0.15      |
| <b>SELECTED PERFORMANCE RATIOS:</b>                       |  |              |
| Return on Average Assets <sup>(2) (3)</sup>               | 1.82%  | 1.82%        |
| Return on Average Shareholders' Equity <sup>(2) (4)</sup> | 14.36%   | 13.90%       |
| Return on Average Tangible Equity <sup>(2) (5)</sup>      | 27.66%   | 29.40%       |
| Net Interest Spread <sup>(6)</sup>                        | 3.62%  | 3.98%        |
| Net Interest Margin <sup>(7)</sup>                        | 4.78%  | 4.80%        |
| Efficiency Ratio <sup>(8)</sup>                           | 40.29%   | 40.88%       |
| Dividend Payout Ratio <sup>(9)</sup>                      | 18.24%   | 17.05%       |
| Average Shareholders' Equity to Average Total Assets      | 12.65%   | 13.06%       |

<sup>(1)</sup> Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average shareholders equity. See Non-GAAP Financial Measures.

<sup>(2)</sup> Calculation based upon annualized net

*income.*

- (3) *Net income divided by average total assets.*
- (4) *Net income divided by average shareholders equity.*
- (5) *Net income divided by average tangible equity. See Non-GAAP Financial Measures.*
- (6) *Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities.*
- (7) *Net interest income before provision for credit losses divided by average interest-earning assets.*
- (8) *Total non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income.*
- (9)

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

**Non-GAAP Financial Measures**

***Return on Average Tangible Equity***

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

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

|   | <b>Three Months Ended</b>     |                   | <b>Nine Months Ended</b> |                   |
|---|-------------------------------|-------------------|--------------------------|-------------------|
|   | <b>September 30,</b>          |                   | <b>September 30,</b>     |                   |
|   | <b>2006</b>                   | <b>2005</b>       | <b>2006</b>              | <b>2005</b>       |
|   | <i>(Dollars in Thousands)</i> |                   |                          |                   |
| Average Shareholders' Equity                                  | \$ 463,011                    | \$ 427,535        | \$ 450,069               | \$ 416,737        |
| Less Average Goodwill and Core Deposit Intangible Assets      | (214,864)                     | (218,806)         | (216,398)                | (219,677)         |
| <b>Average Tangible Equity</b>                                | <b>\$ 248,147</b>             | <b>\$ 208,729</b> | <b>\$ 233,671</b>        | <b>\$ 197,060</b> |
| Return on Average Shareholders' Equity                        | 15.08%                        | 13.89%            | 14.36%                   | 13.90%            |
| Effect of Average Goodwill and Core Deposit Intangible Assets | 13.05%                        | 14.56%            | 13.30%                   | 15.50%            |
| <b>Return on Average Tangible Equity</b>                      | <b>28.13%</b>                 | <b>28.45%</b>     | <b>27.66%</b>            | <b>29.40%</b>     |

***Tangible Book Value Per Share***

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

The following table reconciles this non-GAAP performance measure to the GAAP performance measure as of the dates indicated:

|   | <b>September 30,</b>          |                   |
|---|-------------------------------|-------------------|
|   | <b>2006</b>                   | <b>2005</b>       |
|   | <i>(Dollars in Thousands)</i> |                   |
| Total Shareholders' Equity                            | \$ 471,361                    | \$ 416,006        |
| Less Goodwill and Core Deposit Intangible Assets      | (214,522)                     | (218,394)         |
| <b>Tangible Equity</b>                                | <b>\$ 256,839</b>             | <b>\$ 197,612</b> |
| Book Value Per Share                                  | \$ 9.62                       | \$ 8.56           |
| Effect of Goodwill and Core Deposit Intangible Assets | (4.38)                        | (4.49)            |

|                                      |           |             |           |             |
|--------------------------------------|-----------|-------------|-----------|-------------|
| <b>Tangible Book Value Per Share</b> | <b>\$</b> | <b>5.24</b> | <b>\$</b> | <b>4.07</b> |
|--------------------------------------|-----------|-------------|-----------|-------------|

## **RESULTS OF OPERATIONS**

### **Overview**

For the three months ended September 30, 2006, net income was \$17.6 million, or \$0.36 per diluted share, compared to \$15.0 million, or \$0.30 per diluted share, for the three months ended September 30, 2005. The 17.6 percent increase in net income for 2006 as compared to 2005 was attributable to an increase in net interest income, arising from an increase in average interest-earning assets, partially offset by a decline in the net interest margin due to a higher cost of funds as customers placed their funds in certificates of deposit instead of core deposits. Average interest-earning assets increased \$374.4 million, or 12.9 percent, due to ongoing growth in the loan portfolio. The net interest margin was 4.73 percent for the three months ended September 30, 2006, compared to 4.78 percent for the same period in 2005.

Our results of operations are significantly affected by the provision for credit losses. The provision for credit losses was \$1.7 million and \$3.2 million for the three months ended September 30, 2006 and 2005, respectively, reflecting the migration of loan classifications among criticized and classified loans and an increase in the specific allocation for impaired loans.



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For the three months ended September 30, 2006, non-interest income increased by \$122,000, or 1.3 percent, primarily due to increases in the value of derivatives as well as increased service charges on deposit accounts and trade finance fees, partially offset by a lower gain on sales of loans. Non-interest expenses increased by \$2.5 million or 14.6 percent, due to increases in salaries and employee benefits and other operating expenses. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and non-interest income) for the third quarter of 2006 was 40.14 percent, compared to 38.34 percent for the same quarter in 2005.

The annualized return on average assets was 1.90 percent for the three months ended September 30, 2006, compared to 1.80 percent for the same period in 2005. The annualized return on average shareholders' equity was 15.08 percent for the three months ended September 30, 2006, and the annualized return on average tangible equity was 28.13 percent, compared to 13.89 percent and 28.45 percent, respectively, for the same period in 2005.

For the nine months ended September 30, 2006, net income was \$48.3 million, or \$0.98 per diluted share, compared to \$43.3 million, or \$0.86 per diluted share, for the nine months ended September 30, 2005. The 11.5 percent increase in net income for 2006 as compared to 2005 was attributable to an increase in net interest income, arising from an increase in average interest-earning assets, while the net interest margin remained flat due to a higher cost of funds as customers placed their funds in certificates of deposit instead of core deposits. Average interest-earning assets increased \$354.0 million, or 12.6 percent, due to ongoing growth in the loan portfolio. The net interest margin was 4.78 percent for the nine months ended September 30, 2006, compared to 4.80 percent for the same period in 2005.

The provision for credit losses was \$5.5 million and \$3.7 million for the nine months ended September 30, 2006 and 2005, respectively, reflecting the migration of loan classifications among criticized and classified loans and an increase in the specific allocation for impaired loans.

For the nine months ended September 30, 2006, non-interest income increased by \$2.6 million, or 10.8 percent, primarily due to an increase in service charges on deposit accounts and a higher gain on sales of loans. Non-interest expenses increased by \$5.7 million or 11.3 percent, due to increases in salaries and employee benefits and other operating expense. The efficiency ratio for the nine months ended September 30, 2006 was 40.29 percent, compared to 40.88 percent for the same period in 2005.

The annualized return on average assets was 1.82 percent for each of the nine-month periods ended September 30, 2006 and 2005. The annualized return on average shareholders' equity was 14.36 percent for the nine months ended September 30, 2006, and the annualized return on average tangible equity was 27.66 percent, compared to 13.90 percent and 29.40 percent, respectively, for the same period in 2005.

**Net Interest Income Before Provision for Credit Losses**

Our earnings depend largely upon the difference between the interest income received from the loan portfolio and other interest-earning assets and the interest paid on deposits and borrowings. The difference is net interest income. 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 changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on 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 Board of Governors of the Federal Reserve System and the Federal Open Market Committee.

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

|  | Three Months Ended            |                                |                           |                     |                                |                           |
|--|-------------------------------|--------------------------------|---------------------------|---------------------|--------------------------------|---------------------------|
|  | September 30, 2006            |                                |                           | September 30, 2005  |                                |                           |
|  | Average<br>Balance            | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate | Average<br>Balance  | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
|  | <i>(Dollars in Thousands)</i> |                                |                           |                     |                                |                           |
| <b>ASSETS</b>                                      |                               |                                |                           |                     |                                |                           |
| Interest-Earning Assets:                           |                               |                                |                           |                     |                                |                           |
| Gross Loans, Net <sup>(1)</sup>                    | \$ 2,828,972                  | \$ 62,854                      | 8.81%                     | \$ 2,456,033        | \$ 47,454                      | 7.67%                     |
| Municipal Securities <sup>(2)</sup>                | 71,301                        | 770                            | 4.32%                     | 75,023              | 784                            | 4.18%                     |
| Obligations of Other U.S.<br>Government Agencies   | 118,365                       | 1,268                          | 4.29%                     | 99,322              | 945                            | 3.81%                     |
| Other Debt Securities                              | 211,373                       | 2,456                          | 4.65%                     | 233,747             | 2,368                          | 4.05%                     |
| Equity Securities                                  | 24,720                        | 342                            | 5.53%                     | 24,172              | 177                            | 2.93%                     |
| Federal Funds Sold                                 | 32,850                        | 436                            | 5.27%                     | 24,801              | 221                            | 3.56%                     |
| Interest-Earning Deposits                          |                               |                                |                           | 100                 | 3                              | 3.57%                     |
| <b>Total Interest-Earning<br/>Assets</b>           | <b>3,287,581</b>              | <b>68,126</b>                  | <b>8.22%</b>              | <b>2,913,198</b>    | <b>51,952</b>                  | <b>7.08%</b>              |
| Noninterest-Earning Assets:                        |                               |                                |                           |                     |                                |                           |
| Cash and Cash Equivalents                          | 93,300                        |                                |                           | 99,130              |                                |                           |
| Allowance for Loan Losses                          | (27,417)                      |                                |                           | (21,923)            |                                |                           |
| Other Assets                                       | 321,627                       |                                |                           | 309,146             |                                |                           |
| <b>Total Noninterest-Earning<br/>Assets</b>        | <b>387,510</b>                |                                |                           | <b>386,353</b>      |                                |                           |
| <b>Total Assets</b>                                | <b>\$ 3,675,091</b>           |                                |                           | <b>\$ 3,299,551</b> |                                |                           |
| <b>LIABILITIES AND<br/>SHAREHOLDERS<br/>EQUITY</b> |                               |                                |                           |                     |                                |                           |
| Interest-Bearing Liabilities:                      |                               |                                |                           |                     |                                |                           |
| Deposits:  |                               |                                |                           |                     |                                |                           |
| Savings  | \$ 102,518                    | 440                            | 1.70%                     | \$ 134,923          | 521                            | 1.53%                     |
| Money Market Checking<br>and NOW Accounts          | 441,880                       | 3,512                          | 3.15%                     | 498,167             | 3,125                          | 2.49%                     |
| Time Deposits of \$100,000<br>or More              | 1,358,908                     | 17,881                         | 5.22%                     | 1,019,296           | 9,328                          | 3.63%                     |
| Other Time Deposits                                | 283,173                       | 3,345                          | 4.69%                     | 237,857             | 1,681                          | 2.80%                     |
| FHLB Advances and Other<br>Borrowings              | 158,998                       | 2,084                          | 5.20%                     | 102,442             | 878                            | 3.40%                     |
|  | 82,406                        | 1,672                          | 8.05%                     | 82,406              | 1,298                          | 6.25%                     |

Junior Subordinated  
Debentures

|  |                     |                  |              |                     |                  |              |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Total Interest-Bearing Liabilities               | 2,427,883           | 28,934           | 4.73%        | 2,075,091           | 16,831           | 3.22%        |
| Noninterest-Bearing Liabilities:                 |                     |                  |              |                     |                  |              |
| Demand Deposits                                  | 741,477             |                  |              | 760,338             |                  |              |
| Other Liabilities                                | 42,720              |                  |              | 36,587              |                  |              |
| Total Noninterest-Bearing Liabilities            | 784,197             |                  |              | 796,925             |                  |              |
| Total Liabilities                                | 3,212,080           |                  |              | 2,872,016           |                  |              |
| Shareholders Equity                              | 463,011             |                  |              | 427,535             |                  |              |
| <b>Total Liabilities and Shareholders Equity</b> | <b>\$ 3,675,091</b> |                  |              | <b>\$ 3,299,551</b> |                  |              |
| <b>Net Interest Income</b>                       |                     | <b>\$ 39,192</b> |              |                     | <b>\$ 35,121</b> |              |
| <b>Net Interest Spread <sup>(3)</sup></b>        |                     |                  | <b>3.49%</b> |                     |                  | <b>3.86%</b> |
| <b>Net Interest Margin <sup>(4)</sup></b>        |                     |                  | <b>4.73%</b> |                     |                  | <b>4.78%</b> |

<sup>(1)</sup> Loans are net of deferred fees and related direct costs, but excluding the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were \$1.4 million and \$1.6 million for the three months ended September 30, 2006 and 2005, respectively.

- (2) *Yields on tax-exempt income, computed on a tax-equivalent basis using an effective marginal rate of 35 percent, were 6.65 percent and 6.43 percent for the three months September 30, 2006 and 2005, respectively.*
- (3) *Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
- (4) *Represents annualized net interest income as a percentage of average interest-earning assets.*

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|  | Nine Months Ended             |                                |                           |                     |                                |                           |
|--|-------------------------------|--------------------------------|---------------------------|---------------------|--------------------------------|---------------------------|
|  | September 30, 2006            |                                |                           | September 30, 2005  |                                |                           |
|  | Average<br>Balance            | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate | Average<br>Balance  | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
|  | <i>(Dollars in Thousands)</i> |                                |                           |                     |                                |                           |
| <b>ASSETS</b>                                      |                               |                                |                           |                     |                                |                           |
| Interest-Earning Assets:                           |                               |                                |                           |                     |                                |                           |
| Gross Loans, Net <sup>(1)</sup>                    | \$ 2,702,902                  | \$ 173,733                     | 8.59%                     | \$ 2,344,123        | \$ 128,430                     | 7.33%                     |
| Municipal Securities <sup>(2)</sup>                | 72,702                        | 2,321                          | 4.26%                     | 74,101              | 2,340                          | 4.21%                     |
| Obligations of Other U.S.<br>Government Agencies   | 123,986                       | 3,887                          | 4.18%                     | 97,838              | 2,812                          | 3.83%                     |
| Other Debt Securities                              | 224,507                       | 7,742                          | 4.60%                     | 243,528             | 7,723                          | 4.23%                     |
| Equity Securities                                  | 24,619                        | 997                            | 5.40%                     | 23,259              | 780                            | 4.47%                     |
| Federal Funds Sold                                 | 20,457                        | 748                            | 4.89%                     | 32,091              | 679                            | 2.83%                     |
| Interest-Earning Deposits                          | 42                            | 1                              | 3.17%                     | 252                 | 4                              | 3.91%                     |
| <b>Total Interest-Earning<br/>Assets</b>           | <b>3,169,215</b>              | <b>189,429</b>                 | <b>7.99%</b>              | <b>2,815,192</b>    | <b>142,768</b>                 | <b>6.78%</b>              |
| Noninterest-Earning Assets:                        |                               |                                |                           |                     |                                |                           |
| Cash and Cash Equivalents                          | 94,221                        |                                |                           | 91,237              |                                |                           |
| Allowance for Loan Losses                          | (26,361)                      |                                |                           | (22,305)            |                                |                           |
| Other Assets                                       | 320,152                       |                                |                           | 307,249             |                                |                           |
| <b>Total Noninterest-Earning<br/>Assets</b>        | <b>388,012</b>                |                                |                           | <b>376,181</b>      |                                |                           |
| <b>Total Assets</b>                                | <b>\$ 3,557,227</b>           |                                |                           | <b>\$ 3,191,373</b> |                                |                           |
| <b>LIABILITIES AND<br/>SHAREHOLDERS<br/>EQUITY</b> |                               |                                |                           |                     |                                |                           |
| Interest-Bearing Liabilities:                      |                               |                                |                           |                     |                                |                           |
| Deposits:  |                               |                                |                           |                     |                                |                           |
| Savings  | \$ 110,817                    | 1,402                          | 1.69%                     | \$ 142,988          | 1,625                          | 1.52%                     |
| Money Market Checking<br>and NOW Accounts          | 481,564                       | 10,864                         | 3.02%                     | 542,858             | 9,218                          | 2.27%                     |
| Time Deposits of \$100,000<br>or More              | 1,250,467                     | 45,534                         | 4.87%                     | 898,059             | 20,797                         | 3.10%                     |
| Other Time Deposits                                | 276,517                       | 8,890                          | 4.30%                     | 232,838             | 4,171                          | 2.40%                     |
| FHLB Advances and Other<br>Borrowings              | 127,364                       | 4,699                          | 4.93%                     | 88,889              | 2,330                          | 3.50%                     |
| Junior Subordinated<br>Debentures                  | 82,406                        | 4,734                          | 7.68%                     | 82,406              | 3,499                          | 5.68%                     |
| <b>Total Interest-Bearing<br/>Liabilities</b>      | <b>2,329,135</b>              | <b>76,123</b>                  | <b>4.37%</b>              | <b>1,988,038</b>    | <b>41,640</b>                  | <b>2.80%</b>              |

|  |                     |                     |              |
|--|---------------------|---------------------|--------------|
| Noninterest-Bearing Liabilities:                 |                     |                     |              |
| Demand Deposits                                  | 737,895             | 754,637             |              |
| Other Liabilities                                | 40,128              | 31,961              |              |
| Total Noninterest-Bearing Liabilities            | 778,023             | 786,598             |              |
| Total Liabilities                                | 3,107,158           | 2,774,636           |              |
| Shareholders Equity                              | 450,069             | 416,737             |              |
| <b>Total Liabilities and Shareholders Equity</b> | <b>\$ 3,557,227</b> | <b>\$ 3,191,373</b> |              |
| <b>Net Interest Income</b>                       | <b>\$ 113,306</b>   | <b>\$ 101,128</b>   |              |
| <b>Net Interest Spread <sup>(3)</sup></b>        |                     | <b>3.62%</b>        | <b>3.98%</b> |
| <b>Net Interest Margin <sup>(4)</sup></b>        |                     | <b>4.78%</b>        | <b>4.80%</b> |

<sup>(1)</sup> Loans are net of deferred fees and related direct costs, but excluding the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were \$4.0 million and \$4.9 million for the nine months ended September 30, 2006 and 2005, respectively.

<sup>(2)</sup> Yields on tax-exempt income, computed on a

*tax-equivalent basis using an effective marginal rate of 35 percent, were 6.55 percent and 6.48 percent for the nine months ended September 30, 2006 and 2005, respectively.*

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

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

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

|  | <b>Three Months Ended<br/>September 30, 2006 vs. 2005<br/>Increases (Decreases)<br/>Due to Change in</b> |               |                 | <b>Nine Months Ended<br/>September 30, 2006 vs. 2005<br/>Increases (Decreases)<br/>Due to Change in</b> |                 |                  |
|--|--|---------------|-----------------|---|-----------------|------------------|
|  | <b>Volume</b>  | <b>Rate</b>   | <b>Total</b>    | <b>Volume</b>   | <b>Rate</b>     | <b>Total</b>     |
|  | <i>(In Thousands)</i>  |               |                 |   |                 |                  |
| <b>Interest Income:</b>  |  |               |                 |   |                 |                  |
| Gross Loans, Net   | \$ 7,749   | \$ 7,651      | \$ 15,400       | \$ 21,254   | \$ 24,049       | \$ 45,303        |
| Municipal Securities<br>Obligations of Other U.S.<br>Government Agencies | (48)   | 34            | (14)            | (43)  | 24              | (19)             |
| Other Debt Securities  | 199  | 124           | 323             | 797   | 278             | 1,075            |
| Equity Securities  | (242)  | 330           | 88              | (627)   | 646             | 19               |
| Federal Funds Sold   | 4  | 161           | 165             | 47  | 170             | 217              |
| Interest-Earning Deposits  | 85   | 130           | 215             | (306)   | 375             | 69               |
|  | (3)  |               | (3)             | (8)   | 5               | (3)              |
| <b>Total Interest Income</b>   | <b>7,744</b>   | <b>8,430</b>  | <b>16,174</b>   | <b>21,114</b>   | <b>25,547</b>   | <b>46,661</b>    |
| <b>Interest Expense:</b>   |  |               |                 |   |                 |                  |
| Savings  | (135)  | 54            | (81)            | (393)   | 170             | (223)            |
| Money Market Checking and<br>NOW Accounts                                | (381)  | 768           | 387             | (1,128)   | 2,774           | 1,646            |
| Time Deposits of \$100,000 or<br>More                                    | 3,696  | 4,857         | 8,553           | 10,061  | 14,676          | 24,737           |
| Other Time Deposits  | 367  | 1,297         | 1,664           | 901   | 3,818           | 4,719            |
| FHLB Advances and Other<br>Borrowings                                    | 617  | 589           | 1,206           | 1,221   | 1,148           | 2,369            |
| Junior Subordinated<br>Debentures  |  | 374           | 374             |   | 1,235           | 1,235            |
| <b>Total Interest Expense</b>  | <b>4,164</b>   | <b>7,939</b>  | <b>12,103</b>   | <b>10,662</b>   | <b>23,821</b>   | <b>34,483</b>    |
| <b>Change in Net Interest<br/>Income</b>                                 | <b>\$ 3,580</b>  | <b>\$ 491</b> | <b>\$ 4,071</b> | <b>\$ 10,452</b>  | <b>\$ 1,726</b> | <b>\$ 12,178</b> |

For the three months ended September 30, 2006 and 2005, net interest income before provision for credit losses was \$39.2 million and \$35.1 million, respectively. The net interest spread and net interest margin for the three months ended September 30, 2006 were 3.49 percent and 4.73 percent, respectively, compared to 3.86 percent and 4.78 percent, respectively, for the three months ended September 30, 2005.

Average interest-earning assets increased 12.9 percent to \$3.29 billion for the three months ended September 30, 2006 from \$2.91 billion for the same period in 2005. Average gross loans increased 15.2 percent to \$2.83 billion for the three months ended September 30, 2006 from \$2.46 billion for the same period in 2005, and average investment securities decreased 1.7 percent to \$401.0 million for the three months ended September 30, 2006 from \$408.1 million for the same period in 2005. Total loan interest income increased by 32.5 percent for the three months ended



September 30, 2006 due to the increase in average gross loans outstanding and the increase in the average yield on loans from 7.67 percent for the three months ended September 30, 2005 to 8.81 percent for the same period in 2006. The average interest rate charged on loans increased 114 basis points, reflecting the increase in the average Wall Street Journal Prime Rate (the Prime Rate ) of 183 basis points from 6.42 percent for the three months ended September 30, 2005 to 8.25 percent for the same period in 2006 and a decrease in the spread over the Prime Rate on new loans funded. The yield on average interest-earning assets increased by 114 basis points from 7.08 percent for the three months ended September 30, 2005 to 8.22 percent for the three months ended September 30, 2006, reflecting a shift in the mix of average interest-earning assets from 84.3 percent loans, 14.0 percent securities and 1.7 percent other interest-earning assets for the three months ended September 30, 2005 to 86.1 percent loans, 12.2 percent securities and 1.7 percent other interest-earning assets for the same period in 2006.

The majority of interest-earning assets growth was funded by a \$277.4 million, or 10.5 percent, increase in average total deposits. Total average interest-bearing liabilities grew by 17.0 percent to \$2.43 billion for the three months ended September 30, 2006 compared to \$2.08 billion for the same period in 2005. The average interest rate paid for interest-bearing liabilities increased by 151 basis points from 3.22 percent for the three months ended September 30, 2005 to 4.73 percent for the three months ended September 30, 2006. This increase was primarily due to a higher cost of funds as customers placed their funds in higher yielding certificates of deposit instead of core deposits.

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For the nine months ended September 30, 2006 and 2005, net interest income before provision for credit losses was \$113.3 million and \$101.1 million, respectively. The net interest spread and net interest margin for the nine months ended September 30, 2006 were 3.62 percent and 4.78 percent, respectively, compared to 3.98 percent and 4.80 percent, respectively, for the nine months ended September 30, 2005.

Average interest-earning assets increased 12.6 percent to \$3.17 billion for the nine months ended September 30, 2006 from \$2.82 billion for the same period in 2005. Average gross loans increased 15.3 percent to \$2.70 billion for the nine months ended September 30, 2006 from \$2.34 billion for the same period in 2005, and average investment securities increased 1.4 percent to \$421.2 million for the nine months ended September 30, 2006 from \$415.5 million for the same period in 2005. Total loan interest income increased by 35.3 percent for the nine months ended September 30, 2006 due to the increase in average gross loans outstanding and the increase in the average yield on loans from 7.33 percent for the nine months ended September 30, 2005 to 8.59 percent for the same period in 2006. The average interest rate charged on loans increased 126 basis points, reflecting the increase in the average Prime Rate of 193 basis points from 5.93 percent for the nine months ended September 30, 2005 to 7.86 percent for the same period in 2006 and a decrease in the spread over the Prime Rate on new loans funded. The yield on average interest-earning assets increased by 121 basis points from 6.78 percent for the nine months ended September 30, 2005 to 7.99 percent for the nine months ended September 30, 2006, reflecting a shift in the mix of average interest-earning assets from 83.3 percent loans, 14.8 percent securities and 1.9 percent other interest-earning assets for the nine months ended September 30, 2005 to 85.3 percent loans, 13.3 percent securities and 1.4 percent other interest-earning assets for the same period in 2006.

The majority of interest-earning assets growth was funded by a \$285.9 million, or 11.1 percent, increase in average total deposits. Total average interest-bearing liabilities grew by 17.2 percent to \$2.33 billion for the nine months ended September 30, 2006 compared to \$1.99 billion for the same period in 2005. The average interest rate paid for interest-bearing liabilities increased by 157 basis points from 2.80 percent for the nine months ended September 30, 2005 to 4.37 percent for the nine months ended September 30, 2006. This increase was primarily due to a higher cost of funds as customers placed their funds in higher yielding certificates of deposit instead of core deposits.

**Provision for Credit Losses**

For the three months ended September 30, 2006, the provision for credit losses was \$1.7 million, compared to \$3.2 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the provision for credit losses was \$5.5 million, compared to \$3.7 million for the nine months ended September 30, 2005. The allowance for loan losses was 0.99 percent and 1.00 percent of total gross loans at September 30, 2006 and December 31, 2005, respectively, with the increase in the dollar amount allowed for credit losses due to changes in the classification of certain credits as well as growth in the loan portfolio, including growth in loan types that historically have experienced charge-offs. Non-performing assets increased from \$10.1 million, or 0.30 percent of total assets, as of December 31, 2005 to \$13.5 million, or 0.36 percent of total assets, as of September 30, 2006. The \$355.9 million, or 14.2 percent, increase in the gross loan portfolio and the \$3.3 million, or 33.0 percent, increase in non-performing assets required the provision to increase to \$1.7 million for the three months ended September 30, 2006 to maintain the necessary allowance level.

**Table of Contents****Non-Interest Income**

Non-interest income is earned from three major sources: service charges on deposit accounts, fees generated from international trade finance and gain on sales of loans.

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

|   | <b>Three Months<br/>Ended<br/>September 30,</b> |                 | <b>Increase (Decrease)</b> |                   |
|---|---|-----------------|----------------------------|-------------------|
|   | <b>2006</b>                                     | <b>2005</b>     | <b>Amount</b>              | <b>Percentage</b> |
|   | <i>(Dollars in Thousands)</i>                   |                 |                            |                   |
| Service Charges on Deposit Accounts                   | \$ 4,249  | \$ 4,059        | \$ 190                     | 4.7%              |
| Trade Finance Fees                                    | 1,227   | 1,162           | 65                         | 5.6%              |
| Remittance Fees                                       | 517   | 527             | (10)                       | (1.9%)            |
| Other Service Charges and Fees                        | 591   | 680             | (89)                       | (13.1%)           |
| Bank-Owned Life Insurance Income                      | 221   | 215             | 6                          | 2.8%              |
| Increase in Fair Value of Derivatives                 | 389   | 176             | 213                        | 121.0%            |
| Other Income  | 731   | 648             | 83                         | 12.8%             |
| Gain on Sales of Loans                                | 1,400   | 1,712           | (312)                      | (18.2%)           |
| Gain (Loss) on Sales of Securities Available for Sale | (3)   | 21              | (24)                       | (114.3%)          |
| <b>Total Non-Interest Income</b>                      | <b>\$ 9,322</b>                                 | <b>\$ 9,200</b> | <b>\$ 122</b>              | <b>1.3%</b>       |

For the three months ended September 30, 2006, non-interest income was \$9.3 million, an increase of 1.3 percent from \$9.2 million for the three months ended September 30, 2005. The overall increase in non-interest income is primarily due to increases in the value of derivatives as well as increased service charges on deposit accounts and trade finance fees, partially offset by a lower gain on sales of loans.

Service charges on deposit accounts increased by \$190,000, or 4.7 percent, from \$4.1 million for the three months ended September 30, 2005 to \$4.2 million for three months ended September 30, 2006. Service charge income on deposit accounts increased due to an increase in demand deposit transaction volume. Service charges are regularly reviewed to maximize service charge income while still maintaining a competitive position.

Fees generated from international trade finance increased by \$65,000, or 5.6 percent, to \$1.2 million for the three months ended September 30, 2006 due to slightly higher volume. Trade finance fees related primarily to import and export letters of credit.

The changes in the fair value of derivatives are caused by movements in the index to which interest rates on certain certificates of deposit are tied. In 2005, the Bank offered certificates of deposit tied to 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 increase in the fair value of the swaps of \$389,000 and \$176,000 was recorded in non-interest income for the three months ended September 30, 2006 and 2005, respectively, and was partially offset by changes in the fair value of the embedded derivatives recorded in non-interest expenses.

Gain on sales of loans decreased from \$1.7 million for the three months ended September 30, 2005 to \$1.4 million for the three months ended September 30, 2006. The decrease in gain on sales of loans resulted primarily from a decrease in the average gain recognized on loan sales from 6.3 percent in 2005 to 4.3 percent in 2006, offset by an increase of \$5.8 million in sales activity for SBA loans. The guaranteed portion of a substantial percentage of SBA loan production is sold in the secondary markets, and servicing rights are retained.

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

|  | <b>Nine Months Ended</b> |                      | <b>Increase (Decrease)</b>    |                   |
|--|--------------------------|----------------------|-------------------------------|-------------------|
|  | <b>September 30,</b>     | <b>September 30,</b> | <b>Amount</b>                 | <b>Percentage</b> |
|  | <b>2006</b>              | <b>2005</b>          | <i>(Dollars in Thousands)</i> |                   |
| Service Charges on Deposit Accounts            | \$ 12,663                | \$ 11,657            | \$ 1,006                      | 8.6%              |
| Trade Finance Fees                             | 3,414                    | 3,143                | 271                           | 8.6%              |
| Remittance Fees                                | 1,537                    | 1,545                | (8)                           | (0.5%)            |
| Other Service Charges and Fees                 | 1,739                    | 1,948                | (209)                         | (10.7%)           |
| Bank-Owned Life Insurance Income               | 654                      | 630                  | 24                            | 3.8%              |
| Increase in Fair Value of Derivatives          | 723                      | 965                  | (242)                         | (25.1%)           |
| Other Income                                   | 2,209                    | 1,823                | 386                           | 21.2%             |
| Gain on Sales of Loans                         | 3,550                    | 2,076                | 1,474                         | 71.0%             |
| Gain on Sales of Securities Available for Sale | 2                        | 117                  | (115)                         | (98.3%)           |
| <b>Total Non-Interest Income</b>               | <b>\$ 26,491</b>         | <b>\$ 23,904</b>     | <b>\$ 2,587</b>               | <b>10.8%</b>      |

For the nine months ended September 30, 2006, non-interest income was \$26.5 million, an increase of 10.8 percent from \$23.9 million for the nine months ended September 30, 2005. The overall increase in non-interest income is primarily due to expansion in the Bank's loan and deposit portfolios.

Service charges on deposit accounts increased by \$1.0 million, or 8.6 percent, from \$11.7 million for the nine months ended September 30, 2005 to \$12.7 million for nine months ended September 30, 2006. Service charge income on deposit accounts increased due to an increase in demand deposit transaction volume.

Fees generated from international trade finance increased by \$271,000, or 8.6 percent, from \$3.1 million for the nine months ended September 30, 2005 to \$3.4 million for the nine months ended September 30, 2006 due to higher volume.

Other income increased by \$386,000, or 21.2 percent, from \$1.8 million for the nine months ended September 30, 2005 to \$2.2 million for nine months ended September 30, 2006 due primarily to increases in credit card related fee income and commission fee income from sales of insurance products.

Gain on sales of loans increased from \$2.1 million for the nine months ended September 30, 2005 to \$3.6 million for the nine months ended September 30, 2006, an increase of 71.0 percent. The increase in gain on sales of loans resulted primarily from an increase of \$39.4 million in sales activity for SBA loans, offset by a decrease in the average gain recognized on loan sales from 5.2 percent in 2005 to 4.3 percent in 2006.

**Non-Interest Expenses**

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

|   | <b>Three Months Ended</b> |                      | <b>Increase (Decrease)</b>    |                   |
|---|---------------------------|----------------------|-------------------------------|-------------------|
|   | <b>September 30,</b>      | <b>September 30,</b> | <b>Amount</b>                 | <b>Percentage</b> |
|   | <b>2006</b>               | <b>2005</b>          | <i>(Dollars in Thousands)</i> |                   |
| Salaries and Employee Benefits          | \$ 10,357                 | \$ 9,155             | \$ 1,202                      | 13.1%             |
| Occupancy and Equipment                 | 2,596                     | 2,179                | 417                           | 19.1%             |
| Data Processing                         | 1,202                     | 1,253                | (51)                          | (4.1%)            |
| Advertising and Promotion               | 665                       | 726                  | (61)                          | (8.4%)            |
| Supplies and Communications             | 636                       | 559                  | 77                            | 13.8%             |
| Professional Fees                       | 390                       | 393                  | (3)                           | (0.8%)            |
| Amortization of Core Deposit Intangible | 585                       | 694                  | (109)                         | (15.7%)           |

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|  |                  |                  |                 |              |
|--|------------------|------------------|-----------------|--------------|
| Decrease in Fair Value of Embedded Options | 78               | 173              | (95)            | (54.9%)      |
| Other Operating Expenses                   | 2,964            | 1,859            | 1,105           | 59.4%        |
| <b>Total Non-Interest Expenses</b>         | <b>\$ 19,473</b> | <b>\$ 16,991</b> | <b>\$ 2,482</b> | <b>14.6%</b> |

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For the three months ended September 30, 2006 and 2005, non-interest expenses were \$19.5 million and \$17.0 million, respectively. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and non-interest income) for the third quarter of 2006 was 40.14 percent, compared to 38.34 percent for the same quarter in 2005.

Salaries and employee benefits were \$10.4 million for the three months ended September 30, 2006, representing an increase of \$1.2 million, or 13.1 percent, compared to \$9.2 million for the three months ended September 30, 2005. Salaries and employee benefits increased due to annual salary increases and additional share-based compensation reflecting stock options granted.

Occupancy and equipment expense was \$2.6 million for the three months ended September 30, 2006, representing an increase of \$417,000, or 19.1 percent, compared to \$2.2 million for the three months ended September 30, 2005. The increase was due to additional office space leased, including eight loan production offices.

Other operating expenses for the three months ended September 30, 2006 increased \$1.1 million, or 59.4 percent, to \$3.0 million from \$1.9 million for the three months ended September 30, 2005. The increase is primarily attributable to a \$534,000 operating loss related to an international trade transaction, amortization expense of \$300,000 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.

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

|  | <b>Nine Months Ended</b>      |                  | <b>Increase (Decrease)</b>    |                   |
|--|-------------------------------|------------------|-------------------------------|-------------------|
|  | <b>September 30,<br/>2006</b> | <b>2005</b>      | <b>Amount</b>                 | <b>Percentage</b> |
|  |                               |                  | <i>(Dollars in Thousands)</i> |                   |
| Salaries and Employee Benefits             | \$ 30,209                     | \$ 26,867        | \$ 3,342                      | 12.4%             |
| Occupancy and Equipment                    | 7,472                         | 6,581            | 891                           | 13.5%             |
| Data Processing                            | 3,635                         | 3,663            | (28)                          | (0.8%)            |
| Advertising and Promotion                  | 2,122                         | 1,983            | 139                           | 7.0%              |
| Supplies and Communications                | 1,848                         | 1,867            | (19)                          | (1.0%)            |
| Professional Fees                          | 1,550                         | 1,432            | 118                           | 8.2%              |
| Amortization of Core Deposit Intangible    | 1,815                         | 2,140            | (325)                         | (15.2%)           |
| Decrease in Fair Value of Embedded Options | 292                           | 748              | (456)                         | (61.0%)           |
| Other Operating Expenses                   | 7,385                         | 5,836            | 1,549                         | 26.5%             |
| Merger-Related Expenses                    |                               | (509)            | 509                           | (100.0%)          |
| <b>Total Non-Interest Expenses</b>         | <b>\$ 56,328</b>              | <b>\$ 50,608</b> | <b>\$ 5,720</b>               | <b>11.3%</b>      |

For the nine months ended September 30, 2006 and 2005, non-interest expenses were \$56.3 million and \$50.6 million, respectively. The efficiency ratio for the nine months ended September 30, 2006 was 40.29 percent, compared to 40.88 percent for the same period in 2005.

Salaries and employee benefits were \$30.2 million for the nine months ended September 30, 2006, representing an increase of \$3.3 million, or 12.4 percent, compared to \$26.9 million for the nine months ended September 30, 2005. Salaries and employee benefits increased due to annual salary increases, additional share-based compensation reflecting stock options granted and an increase in vacation accruals.

Occupancy and equipment expense was \$7.5 million for the nine months ended September 30, 2006, representing an increase of \$891,000, or 13.5 percent, compared to \$6.6 million for the nine months ended September 30, 2005. The increase was due to additional office space leased.

Other operating expenses for the nine months ended September 30, 2006 increased \$1.5 million, or 26.5 percent, to \$7.4 million from \$5.8 million for the nine months ended September 30, 2005. The increase is primarily attributable to a \$534,000 operating loss related to an international trade transaction and amortization expense of \$708,000 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.

**Table of Contents****Provision for Income Taxes**

For the nine months ended September 30, 2006, income taxes of \$29.6 million were recognized on pre-tax income of \$77.9 million, representing an effective tax rate of 38.0 percent, compared to income taxes of \$27.3 million recognized on pre-tax income of \$70.7 million, representing an effective tax rate of 38.7 percent, for the nine months ended September 30, 2005. We recognized Enterprise Zone tax credits that reduced our effective tax rate by 2.0 percent and 0.9 percent for the nine months ended September 30, 2006 and 2005, respectively, including 0.9 percent and 0.2 percent attributable to the true-up of prior year credits recognized in the third quarters of 2006 and 2005, respectively.

**FINANCIAL CONDITION****Summary of Changes in Balance Sheets September 30, 2006 Compared to December 31, 2005**

As of September 30, 2006, total assets were \$3.74 billion, an increase of \$325.6 million, or 9.5 percent, from the December 31, 2005 balance of \$3.41 billion. The increase in assets was primarily funded by deposits, which increased \$147.7 million, or 5.2 percent, from \$2.83 billion as of December 31, 2005 to \$2.97 billion as of September 30, 2006. In addition, FHLB advances and other borrowings increased by \$123.1 million, or 265.7 percent, to \$169.4 million at September 30, 2006 from \$46.3 million at December 31, 2005. As of September 30, 2006 and December 31, 2005, loans receivable (including loans held for sale), net of deferred loan fees and allowance for loan losses, totaled \$2.82 billion and \$2.47 billion, respectively, an increase of \$352.8 million, or 14.3 percent. Investment securities decreased \$45.0 million, or 10.1 percent, to \$399.0 million at September 30, 2006 from \$443.9 million at December 31, 2005.

**Investment Portfolio**

Securities are classified as held to maturity or available for sale in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Those securities that we have the ability and intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading securities at September 30, 2006 or December 31, 2005. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale securities are stated at fair value. The securities currently held consist primarily of U.S. Government agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal bonds.

As of September 30, 2006, securities held to maturity totaled \$1.0 million and securities available for sale totaled \$398.0 million, compared to \$1.0 million and \$442.9 million, respectively, at December 31, 2005.

|                                      | September 30, 2006 |               |                              | December 31, 2005 |                 |                              |
|--------------------------------------|--------------------|---------------|------------------------------|-------------------|-----------------|------------------------------|
|                                      | Amortized<br>Cost  | Fair<br>Value | Unrealized<br>Gain<br>(Loss) | Amortized<br>Cost | Fair<br>Value   | Unrealized<br>Gain<br>(Loss) |
| <i>(In Thousands)</i>                |                    |               |                              |                   |                 |                              |
| <b>Held to Maturity:</b>             |                    |               |                              |                   |                 |                              |
| Municipal Bonds                      | \$ 693             | \$ 693        | \$                           | \$ 692            | \$ 692          | \$                           |
| Mortgage-Backed<br>Securities        | 282                | 280           | (2)                          | 357               | 359             | 2                            |
| <b>Total Held to Maturity</b>        | <b>\$ 975</b>      | <b>\$ 973</b> | <b>\$ (2)</b>                | <b>\$ 1,049</b>   | <b>\$ 1,051</b> | <b>\$ 2</b>                  |
| <b>Available for Sale:</b>           |                    |               |                              |                   |                 |                              |
| Mortgage-Backed<br>Securities        | \$ 127,036         | \$ 124,736    | \$ (2,300)                   | \$ 149,311        | \$ 147,268      | \$ (2,043)                   |
| U.S. Government Agency<br>Securities | 119,730            | 118,080       | (1,650)                      | 129,589           | 127,813         | (1,776)                      |
|                                      | 71,895             | 70,272        | (1,623)                      | 83,068            | 81,456          | (1,612)                      |



Collateralized Mortgage  
Obligations

|                                 |                   |                   |                   |                   |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Municipal Bonds                 | 69,978            | 71,992            | 2,014             | 71,536            | 73,220            | 1,684             |
| Corporate Bonds                 | 8,127             | 7,933             | (194)             | 8,235             | 8,053             | (182)             |
| Other Securities                | 4,999             | 4,968             | (31)              | 4,999             | 5,053             | 54                |
| <b>Total Available for Sale</b> | <b>\$ 401,765</b> | <b>\$ 397,981</b> | <b>\$ (3,784)</b> | <b>\$ 446,738</b> | <b>\$ 442,863</b> | <b>\$ (3,875)</b> |

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The amortized cost and estimated fair value of investment securities at September 30, 2006, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2036, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                                     | Available for Sale |                       | Held to Maturity  |               |
|-------------------------------------|--------------------|-----------------------|-------------------|---------------|
|                                     | Amortized<br>Cost  | Fair<br>Value         | Amortized<br>Cost | Fair<br>Value |
|                                     |                    | <i>(In Thousands)</i> |                   |               |
| Within One Year                     | \$ 14,999          | \$ 14,878             | \$                | \$            |
| Over One Year Through Five Years    | 119,653            | 117,890               |                   |               |
| Over Five Years Through Ten Years   | 7,749              | 7,889                 | 693               | 693           |
| Over Ten Years                      | 60,433             | 62,316                |                   |               |
|                                     | 202,834            | 202,973               | 693               | 693           |
| Mortgage-Backed Securities          | 127,036            | 124,736               | 282               | 280           |
| Collateralized Mortgage Obligations | 71,895             | 70,272                |                   |               |
|                                     | 198,931            | 195,008               | 282               | 280           |
|                                     | <b>\$ 401,765</b>  | <b>\$ 397,981</b>     | <b>\$ 975</b>     | <b>\$ 973</b> |

Investment securities decreased \$45.0 million, or 10.1 percent, to \$399.0 million at September 30, 2006 from \$443.9 million at December 31, 2005 as the portfolio experienced normal amortization.

**Loan Portfolio**

All loans are carried at face amount, less principal repayments collected, net of deferred loan fees and the allowance for loan losses. Interest on all loans is accrued daily on a simple interest basis. Once a loan is placed on non-accrual status, the accrual of interest is discontinued and previously accrued interest is reversed. Loans are placed on non-accrual status when principal and interest on a loan is past due 90 days or more, unless a loan is both well secured and in the process of collection.

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

|                                     | September<br>30,<br>2006 | December<br>31,<br>2005 | Increase (Decrease)           |            |
|-------------------------------------|--------------------------|-------------------------|-------------------------------|------------|
|                                     |                          |                         | Amount                        | Percentage |
|                                     |                          |                         | <i>(Dollars in Thousands)</i> |            |
| Real Estate Loans:                  |                          |                         |                               |            |
| Commercial Property                 | \$ 753,229               | \$ 733,650              | \$ 19,579                     | 2.7%       |
| Construction                        | 179,402                  | 152,080                 | 27,322                        | 18.0%      |
| Residential Property <sup>(1)</sup> | 81,427                   | 88,442                  | (7,015)                       | (7.9%)     |
| Total Real Estate Loans             | 1,014,058                | 974,172                 | 39,886                        | 4.1%       |
| Commercial and Industrial Loans:    |                          |                         |                               |            |
| Commercial Term Loans               | 1,160,830                | 945,210                 | 215,620                       | 22.8%      |
| Commercial Lines of Credit          | 242,714                  | 224,271                 | 18,443                        | 8.2%       |

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|                                       |                     |                     |                   |              |
|---------------------------------------|---------------------|---------------------|-------------------|--------------|
| SBA Loans <sup>(2)</sup>              | 198,032             | 155,491             | 42,541            | 27.4%        |
| International Loans                   | 137,900             | 106,520             | 31,380            | 29.5%        |
| Total Commercial and Industrial Loans | 1,739,476           | 1,431,492           | 307,984           | 21.5%        |
| Consumer Loans                        | 100,180             | 92,154              | 8,026             | 8.7%         |
| <b>Total Loans Gross</b>              | <b>2,853,714</b>    | <b>2,497,818</b>    | <b>355,896</b>    | <b>14.2%</b> |
| Deferred Loan Fees                    | (3,568)             | (3,775)             | 207               | (5.5%)       |
| Allowance for Loan Losses             | (28,276)            | (24,963)            | (3,313)           | 13.3%        |
| <b>Net Loans Receivable</b>           | <b>\$ 2,821,870</b> | <b>\$ 2,469,080</b> | <b>\$ 352,790</b> | <b>14.3%</b> |

(1) Amount includes loans held for sale, at the lower of cost or market, of \$1.0 million and \$1.1 million at September 30, 2006 and December 31, 2005, respectively.

(2) Amount includes loans held for sale, at the lower of cost or market, of \$6.3 million and \$0 at September 30, 2006 and December 31, 2005, respectively.

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At September 30, 2006 and December 31, 2005, loans receivable (including loans held for sale), net of deferred loan fees and allowance for loan losses, totaled \$2.82 billion and \$2.47 billion, respectively, an increase of \$352.8 million, or 14.3 percent. Real estate loans, composed of commercial property, residential property and construction loans, increased \$39.9 million, or 4.1 percent, to \$1.0 billion at September 30, 2006 from \$974.2 million at December 31, 2005, representing 35.5 percent and 39.0 percent, respectively, of the total loan portfolio. Total commercial and industrial loans, composed of domestic commercial property, trade finance, SBA and lines of credit, increased \$308.0 million, or 21.5 percent, to \$1.74 billion at September 30, 2006 from \$1.43 billion at December 31, 2005, representing 61.0 percent and 57.3 percent, respectively, of the total loan portfolio. Consumer loans increased \$8.0 million, or 8.7 percent, to \$100.2 million at September 30, 2006 from \$92.2 million at December 31, 2005. This activity reflects our emphasis on commercial and industrial lending.

As of September 30, 2006, there was \$345.6 million of loans outstanding, or 12.1 percent of total gross loans outstanding, to borrowers who were involved in the accommodation/hospitality industry. There was no other concentration of loans to any one industry exceeding 10 percent of total gross loans.

**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.

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

|   | <b>September<br/>30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> | <b>Increase (Decrease)</b> |                   |
|---|-----------------------------------|----------------------------------|----------------------------|-------------------|
|   |                                   |                                  | <b>Amount</b>              | <b>Percentage</b> |
|   | <i>(Dollars in Thousands)</i>     |                                  |                            |                   |
| Non-Accrual Loans                                 | \$ 13,470                         | \$ 10,122                        | \$ 3,348                   | 33.1%             |
| Loans 90 Days or More Past Due and Still Accruing | 6                                 | 9                                | (3)                        | (33.3%)           |
| Total Non-Performing Loans                        | 13,476                            | 10,131                           | 3,345                      | 33.0%             |
| Other Real Estate Owned                           |                                   |                                  |                            |                   |
| <b>Total Non-Performing Assets</b>                | <b>\$ 13,476</b>                  | <b>\$ 10,131</b>                 | <b>\$ 3,345</b>            | <b>33.0%</b>      |
| Troubled Debt Restructurings                      | \$ 2,087                          | \$ 642                           | \$ 1,445                   | 225.1%            |

**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 inherent probable losses. The formula is composed of various components. The allowance is determined by assigning specific allowances for all impaired loans. All loans that are not impaired are then given certain allocations according to type with larger percentages applied to loans deemed to be of a higher risk. These

percentages are determined based on the prior loss history by type of loan, adjusted for current economic factors.

The allowance for loan losses and allowance for off-balance sheet items are maintained at levels that management believes are adequate to absorb probable loan losses inherent in various financial instruments. The adequacy of each of the allowance and the reserve 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.

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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 twelve quarters of loan losses to determine historical loss experience in every classification category (i.e., pass, special mention, substandard and doubtful ) for each loan type, except consumer loans (automobile, mortgage and credit cards), which are analyzed as homogeneous loan pools. 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 assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

As of September 30, 2006, the allowance for loan losses was \$28.3 million, an increase of \$3.3 million, or 13.3 percent, compared to \$25.0 million at December 31, 2005. The increase in the allowance for loan losses reflects changes in the classification of certain credits as well as growth in the loan portfolio, including loan types that historically have experienced charge-offs. As of September 30, 2006 and December 31, 2005, the allowance for off-balance sheet items was \$2.1 million.

The loan loss estimation, based on historical losses, and specific allocations of the allowance are performed on a quarterly basis. Adjustments to allowance allocations for specific segments of the loan portfolio may be made as a result thereof, based on the accuracy of forecasted loss amounts and other loan-related or policy-related issues.

We determine the appropriate overall allowance for loan losses and allowance for off-balance sheet items based on the foregoing analysis, 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 September 30, 2006 and December 31, 2005.

|  | <b>As of and for the Three Months Ended</b> |                          |                                  |
|--|---|--------------------------|----------------------------------|
|  | <b>September<br/>30,<br/>2006</b>           | <b>June 30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|  | <i>(Dollars in Thousands)</i>               |                          |                                  |
| <b>Allowance for Loan Losses:</b>                                |   |                          |                                  |
| Balance at Beginning of Period                                   | \$ 27,250                                   | \$ 26,703                | \$ 24,523                        |
| Actual Charge-Offs   | (1,239)                                     | (1,053)                  | (1,356)                          |
| Recoveries on Loans Previously Charged Off                       | 583   | 700                      | 250                              |
| Net Loan Charge-Offs   | (656)                                       | (353)                    | (1,106)                          |
| Provision Charged to Operating Expenses                          | 1,682                                       | 900                      | 1,546                            |
| <b>Balance at End of Period</b>                                  | <b>\$ 28,276</b>                            | <b>\$ 27,250</b>         | <b>\$ 24,963</b>                 |
| <b>Allowance for Off-Balance Sheet Items:</b>                    |   |                          |                                  |
| Balance at Beginning of Period                                   | \$ 2,130                                    | \$ 2,130                 | \$ 2,024                         |
| Provision Charged to Operating Expenses                          |   |                          | 106                              |
| <b>Balance at End of Period</b>                                  | <b>\$ 2,130</b>                             | <b>\$ 2,130</b>          | <b>\$ 2,130</b>                  |
| <b>Ratios:</b>   |   |                          |                                  |
| Net Loan Charge-Offs to Average Total Gross Loans <sup>(1)</sup> | 0.09%                                       | 0.05%                    | 0.18%                            |
|  | 0.09%                                       | 0.05%                    | 0.18%                            |

Net Loan Charge-Offs to Total Gross Loans at End of Period <sup>(1)</sup>

|  |              |              |              |
|--|--------------|--------------|--------------|
| Allowance for Loan Losses to Average Total Gross Loans           | 1.00%        | 1.00%        | 1.00%        |
| Allowance for Loan Losses to Total Gross Loans at End of Period  | 0.99%        | 0.98%        | 1.00%        |
| Net Loan Charge-Offs to Allowance for Loan Losses <sup>(1)</sup> | 9.20%        | 5.20%        | 17.58%       |
| Net Loan Charge-Offs to Provision Charged to Operating Expenses  | 39.00%       | 39.22%       | 66.95%       |
| Allowance for Loan Losses to Non-Performing Loans                | 209.82%      | 224.54%      | 246.40%      |
| <b>Balances:</b>   |              |              |              |
| Average Total Gross Loans Outstanding During Period              | \$ 2,832,624 | \$ 2,733,112 | \$ 2,498,947 |
| Total Gross Loans Outstanding at End of Period                   | \$ 2,853,714 | \$ 2,791,885 | \$ 2,497,818 |
| Non-Performing Loans at End of Period                            | \$ 13,476    | \$ 12,136    | \$ 10,131    |

<sup>(1)</sup> Net loan charge-offs are annualized to calculate the ratios.

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|   | <b>As of and for the<br/>Nine Months Ended</b> |                                   |
|---|--|-----------------------------------|
|   | <b>September<br/>30,<br/>2006</b>              | <b>September<br/>30,<br/>2005</b> |
|   | <i>(Dollars in Thousands)</i>                  |                                   |
| <b>Allowance for Loan Losses:</b>   |  |                                   |
| Balance at Beginning of Period  | \$ 24,963                                      | \$ 22,702                         |
| Actual Charge-Offs  | (3,619)  | (3,842)                           |
| Recoveries on Loans Previously Charged Off                                | 1,390  | 2,144                             |
| Net Loan Charge-Offs  | (2,229)  | (1,698)                           |
| Provision Charged to Operating Expenses                                   | 5,542  | 3,519                             |
| <b>Balance at End of Period</b>   | <b>\$ 28,276</b>                               | <b>\$ 24,523</b>                  |
| <b>Allowance for Off-Balance Sheet Items:</b>                             |  |                                   |
| Balance at Beginning of Period  | \$ 2,130                                       | \$ 1,800                          |
| Provision Charged to Operating Expenses                                   |  | 224                               |
| <b>Balance at End of Period</b>   | <b>\$ 2,130</b>                                | <b>\$ 2,024</b>                   |
| <b>Ratios:</b>  |  |                                   |
| Net Loan Charge-Offs to Average Total Gross Loans <sup>(1)</sup>          | 0.11%  | 0.10%                             |
| Net Loan Charge-Offs to Total Gross Loans at End of Period <sup>(1)</sup> | 0.10%  | 0.09%                             |
| Allowance for Loan Losses to Average Total Gross Loans                    | 1.04%  | 1.04%                             |
| Allowance for Loan Losses to Total Gross Loans at End of Period           | 0.99%  | 0.99%                             |
| Net Loan Charge-Offs to Allowance for Loan Losses <sup>(1)</sup>          | 10.54%   | 9.26%                             |
| Net Loan Charge-Offs to Provision Charged to Operating Expenses           | 40.22%   | 45.36%                            |
| Allowance for Loan Losses to Non-Performing Loans                         | 209.82%  | 310.73%                           |
| <b>Balances:</b>  |  |                                   |
| Average Total Gross Loans Outstanding During Period                       | \$ 2,706,686                                   | \$ 2,348,706                      |
| Total Gross Loans Outstanding at End of Period                            | \$ 2,853,714                                   | \$ 2,487,532                      |
| Non-Performing Loans at End of Period                                     | \$ 13,476                                      | \$ 7,892                          |

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

The ratio of the allowance for loan losses to total gross loans was 0.99 percent and 1.00 percent at September 30, 2006 and December 31, 2005, respectively. The decrease is attributable to relatively rapid loan portfolio growth, compared to slower growth of specific allowances associated with the non-accrual loans. The decrease in allowances associated with non-accrual loans at September 30, 2006 is attributable to stronger collateral arrangements that reduce the loss potential associated with the non-accrual loans.



We concentrate the majority of our interest-earning assets in loans. In all forms of lending, there are inherent risks. We concentrate the preponderance of our loan portfolio in commercial loans and real estate loans. A small part of the portfolio is represented by consumer loans, primarily for the purchase of automobiles. While we believe that our underwriting criteria are prudent, outside factors can adversely impact credit quality.

A portion of the portfolio is represented by loans guaranteed by the SBA, which further reduces the potential for loss. We also utilize credit review in an effort to maintain loan quality. Loans are reviewed throughout the year with special attention given to new loans and those loans that are classified as special mention and worse. In addition to our internal grading system, loans criticized by this credit review are downgraded with appropriate allowances added if required.

As indicated above, we formally assess the adequacy of the allowance on a quarterly basis by:

- reviewing the adversely graded, delinquent or otherwise questionable loans;

- generating an estimate of the loss inherent in each such loan;

- adding a risk factor for industry, economic or other external factors; and

- evaluating the present status of each loan.

Although management believes the allowance is adequate to absorb losses as they arise, no assurance can be given that we will not sustain losses in any given period, which could be substantial in relation to the size of the allowance.

**Table of Contents****Deposits**

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

|  | <b>September<br/>30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> | <b>Increase (Decrease)</b> |                   |
|--|-----------------------------------|----------------------------------|----------------------------|-------------------|
|  |                                   |                                  | <b>Amount</b>              | <b>Percentage</b> |
|  | <i>(Dollars in Thousands)</i>     |                                  |                            |                   |
| Deposits:                              |                                   |                                  |                            |                   |
| Demand Noninterest-Bearing             | \$ 756,901                        | \$ 738,618                       | \$ 18,283                  | 2.5%              |
| Interest-Bearing:                      |                                   |                                  |                            |                   |
| Savings                                | 99,719                            | 121,574                          | (21,855)                   | (18.0%)           |
| Money Market Checking and NOW Accounts | 434,738                           | 526,171                          | (91,433)                   | (17.4%)           |
| Time Deposits of \$100,000 or More     | 1,393,721                         | 1,161,950                        | 231,771                    | 19.9%             |
| Other Time Deposits                    | 288,702                           | 277,801                          | 10,901                     | 3.9%              |
| <b>Total Deposits</b>                  | <b>\$2,973,781</b>                | <b>\$ 2,826,114</b>              | <b>\$ 147,667</b>          | <b>5.2%</b>       |

Demand deposits increased \$18.3 million, or 2.5 percent, to \$756.9 million at September 30, 2006 from \$738.6 million at December 31, 2005. This increase was due to continued efforts to increase the net interest margin by changing the deposit composition mix between interest-bearing and noninterest-bearing accounts. Money market checking and savings decreased \$91.4 million, or 17.4 percent, and \$21.9 million, or 18.0 percent, respectively, to \$434.7 million and \$99.7 million, respectively, at September 30, 2006 from \$526.2 million and \$121.6 million, respectively, at December 31, 2005. These accounts decreased because customers shifted their balances into higher yielding certificates of deposit. Time deposits of \$100,000 or more increased \$231.7 million, or 19.9 percent, to \$1.39 billion at September 30, 2006 from \$1.16 billion at December 31, 2005. 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.

**FHLB Advances and Other Borrowings**

FHLB advances and other borrowings consist primarily of advances from the FHLB and overnight Federal funds. At September 30, 2006 and December 31, 2005, advances from the FHLB were \$168.2 million and \$43.5 million, respectively. There were no overnight Federal funds at September 30, 2006 or December 31, 2005. Among the FHLB advances and other borrowings at September 30, 2006, short-term borrowings with a remaining maturity of less than one year were \$31.2 million, and the weighted-average interest rate thereon was 4.34 percent.

**INTEREST RATE RISK MANAGEMENT**

Interest rate risk refers to 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 fluctuations in market interest rate. The level of interest rate risk can be managed through the changing of gap positions and the volume of fixed-income assets and liabilities. For successful management of interest rate risk, we use various methods to measure existing and future interest rate risk exposures. In addition to regular reports used in business operations, repricing gap analysis, stress testing and simulation modeling are the main measurement techniques used to quantify interest rate risk exposure.

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The following table shows the status of the gap position as of September 30, 2006:

|  | <b>Within<br/>Three<br/>Months</b> | <b>After<br/>Three<br/>Months<br/>But Within<br/>One Year</b> | <b>After<br/>One<br/>Year But<br/>Within<br/>Five<br/>Years</b> | <b>After<br/>Five<br/>Years</b> | <b>Non-<br/>Interest-<br/>Sensitive</b> | <b>Total</b>        |
|--|------------------------------------|---|---|---------------------------------|---|---------------------|
| <b>ASSETS</b>  |                                    |   |   |                                 |   |                     |
| Cash and Due From<br>Banks                             | \$                                 | \$  | \$  | \$                              | \$ 97,609                               | \$ 97,609           |
| Federal Funds Sold                                     | 67,000                             |   |   |                                 |   | 67,000              |
| Securities:  |                                    |   |   |                                 |   |                     |
| Fixed Rate   | 6,825                              | 30,412  | 201,772   | 113,082                         |   | 352,091             |
| Floating Rate  | 10,406                             | 2,589   | 28,902  | 4,968                           |   | 46,865              |
| Loans:   |                                    |   |   |                                 |   |                     |
| Fixed Rate   | 41,047                             | 48,253  | 379,591   | 250,258                         |   | 719,149             |
| Floating Rate  | 1,905,005                          | 22,696  | 189,723   | 3,671                           |   | 2,121,095           |
| Non-Accrual  |                                    |   |   |                                 | 13,470                                  | 13,470              |
| Deferred Loan Fees and<br>Allowance for Loan<br>Losses |                                    |   |   |                                 | (31,844)                                | (31,844)            |
| FRB and FHLB Stock                                     |                                    |   |   | 24,768                          |   | 24,768              |
| Other Assets   |                                    | 23,368  |   | 7,697                           | 298,543                                 | 329,608             |
| <b>Total Assets</b>                                    | <b>\$ 2,030,283</b>                | <b>\$ 127,318</b>   | <b>\$ 799,988</b>   | <b>\$ 404,444</b>               | <b>\$ 377,778</b>                       | <b>\$ 3,739,811</b> |
| <b>LIABILITIES AND<br/>SHAREHOLDERS<br/>EQUITY</b>     |                                    |   |   |                                 |   |                     |
| Liabilities:   |                                    |   |   |                                 |   |                     |
| Deposits:  |                                    |   |   |                                 |   |                     |
| Demand Deposits  | \$ 51,459                          | \$ 151,708  | \$ 364,099  | \$ 189,635                      | \$                                      | \$ 756,901          |
| Savings  | 11,784                             | 32,255  | 44,700  | 10,980                          |   | 99,719              |
| Money Market<br>Checking and NOW<br>Accounts           | 64,579                             | 123,949   | 141,107   | 105,103                         |   | 434,738             |
| Time Deposits:   |                                    |   |   |                                 |   |                     |
| Fixed Rate   | 762,761                            | 908,188   | 10,982  | 346                             |   | 1,682,277           |
| Floating Rate  | 146                                |   |   |                                 |   | 146                 |
| FHLB Advances and<br>Other Borrowings                  | 1,220                              | 30,000  | 133,292   | 4,923                           |   | 169,435             |
| Junior Subordinated<br>Debentures                      | 82,406                             |   |   |                                 |   | 82,406              |
| Other Liabilities                                      |                                    |   |   |                                 | 42,828                                  | 42,828              |
| Shareholders Equity                                    |                                    |   |   |                                 | 471,361                                 | 471,361             |
|  | <b>\$ 974,355</b>                  | <b>\$ 1,246,100</b>   | <b>\$ 694,180</b>   | <b>\$ 310,987</b>               | <b>\$ 514,189</b>                       | <b>\$ 3,739,811</b> |

**Total Liabilities and  
Shareholders Equity**

|   |              |                |            |            |              |    |
|---|--------------|----------------|------------|------------|--------------|----|
| Repricing Gap   | \$ 1,055,928 | \$ (1,118,782) | \$ 105,808 | \$ 93,457  | \$ (136,411) | \$ |
| Cumulative Repricing<br>Gap   | \$ 1,055,928 | \$ (62,854)    | \$ 42,954  | \$ 136,411 | \$           | \$ |
| Cumulative Repricing<br>Gap as a Percentage of<br>Total Assets            | 28.23%       | (1.68%)        | 1.15%      | 3.65%      |              | %  |
| Cumulative Repricing<br>Gap as a Percentage of<br>Interest-Earning Assets | 31.70%       | (1.89%)        | 1.29%      | 4.10%      |              | %  |

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 and money market checking) are assigned to categories based on expected decay rates.

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As of September 30, 2006, the cumulative repricing gap as a percentage of interest-earning assets in the less-than-three month period was 31.70 percent. This was an increase from the previous quarter's figure of 25.78 percent. The increase was caused by an increase of \$65.9 million in Federal funds sold maturing within three months, a decrease of \$129.7 million in floating rate time deposits maturing within three months, and by a decrease of \$77.3 million in FHLB advances and other borrowings maturing within three months, offset by an increase of \$40.2 million in fixed rate time deposits with maturities of three months or less. As of September 30, 2006, the cumulative repricing gap as a percentage of interest-earning assets in the three to twelve-month period was (1.89) percent. This was a decrease from the previous quarter's figure of (2.59) percent. The decrease was caused by an increase of \$69.9 million in FHLB advances with maturities of more than one year and a decrease of \$16.7 million in fixed rate securities with maturities of more than one year, offset by an increase of \$51.6 million in fixed rate loans with maturities of more than one year. In terms of fixed and floating gap positions, which are used internally to control repricing risk, the accumulated fixed gap position between assets and liabilities as a percentage of interest-earning assets was (5.95) percent. The floating gap position in the less-than-one year period was 0.70 percent.

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

|                                       | Less than Three Months        |                  | Less Than Twelve Months<br>September |                  |
|---------------------------------------|-------------------------------|------------------|--------------------------------------|------------------|
|                                       | September 30,<br>2006         | June 30,<br>2006 | 30,<br>2006                          | June 30,<br>2006 |
|                                       | <i>(Dollars in Thousands)</i> |                  |                                      |                  |
| Cumulative Repricing Gap              | \$1,055,928                   | \$829,048        | \$(62,854)                           | \$(83,441)       |
| Percentage of Total Assets            | 28.23%                        | 22.87%           | (1.68%)                              | (2.30%)          |
| Percentage of Interest-Earning Assets | 31.70%                        | 25.78%           | (1.89%)                              | (2.59%)          |

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.

From time to time, the Bank has offered certificate of deposit ( CD ) products that have offered customers CD rates that are tied to market indexes, including the Standard & Poor's 500 Index. In order to hedge the market risk associated with the embedded options inherent in them, the Bank has entered into equity and currency swap contracts that are accounted for at market value. Management believes these swaps effectively hedge the economic risk associated with these CD products, but the swaps do not qualify for hedge accounting treatment under GAAP. The currency swap and related CD's matured during the three months ended March 31, 2006.

**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 its profitability. The Bank's liquidity consists primarily of available cash positions, Federal funds sold and short-term investments categorized as trading and/or 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 an important feature of our liquidity management.

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.

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.

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Core deposits, expressed as a percentage of the Bank's total assets, decreased to 29.9 percent at September 30, 2006 from 35.2 percent at December 31, 2005. Short-term non-core funding as a percentage of the Bank's total assets increased to 45.5 percent at September 30, 2006 from 41.8 percent at December 31, 2005. Off-balance sheet items, primarily unused credit lines, as a percentage of the Bank's total assets, increased to 20.1 percent at September 30, 2006 from 19.7 percent at December 31, 2005. During the nine months ended September 30, 2006, the Bank continued to see strong demand for loans. Net loans as a percentage of the Bank's total assets increased to 75.5 percent at September 30, 2006 from 72.4 percent at December 31, 2005.

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, cash generated from operations, and access to capital from financial markets or the issuance of additional securities, including common stock or notes, to meet our capital needs. Total shareholders' equity was \$471.4 million at September 30, 2006, which represented an increase of \$44.6 million, or 10.4 percent, over total shareholders' equity of \$426.8 million at December 31, 2005.

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

At September 30, 2006, Hanmi Financial's Tier 1 capital (shareholders' equity plus junior subordinated debentures less intangible assets) was \$339.3 million. This represented an increase of \$46.5 million, or 15.9 percent, over Tier 1 capital of \$292.8 million at December 31, 2005. At September 30, 2006, Hanmi Financial had a ratio of total capital to total risk-weighted assets of 12.02 percent and a ratio of Tier 1 capital to total risk-weighted assets of 11.03 percent. The Tier 1 leverage ratio was 9.78 percent at September 30, 2006.

The capital ratios of Hanmi Financial and Hanmi Bank were as follows as of September 30, 2006:

|  | Actual    |        | Minimum<br>Regulatory<br>Requirement |       | Minimum to Be<br>Categorized as<br>Well Capitalized |        |
|--|-----------|--------|--------------------------------------|-------|---|--------|
|  | Amount    | Ratio  | Amount                               | Ratio | Amount  | Ratio  |
|  |           |        | <i>(Dollars in Thousands)</i>        |       |   |        |
| Total Capital (to<br>Risk-Weighted Assets):  |           |        |                                      |       |   |        |
| Hanmi Financial                              | \$369,672 | 12.02% | \$246,089                            | 8.00% | N/A   | N/A    |
| Hanmi Bank                                   | \$368,868 | 12.00% | \$245,850                            | 8.00% | \$307,312   | 10.00% |
| Tier 1 Capital (to<br>Risk-Weighted Assets): |           |        |                                      |       |   |        |
| Hanmi Financial                              | \$339,267 | 11.03% | \$123,044                            | 4.00% | N/A   | N/A    |
| Hanmi Bank                                   | \$338,464 | 11.01% | \$122,925                            | 4.00% | \$184,387   | 6.00%  |
| Tier 1 Capital (to<br>Average Total Assets): |           |        |                                      |       |   |        |
| Hanmi Financial                              | \$339,267 | 9.78%  | \$138,783                            | 4.00% | N/A   | N/A    |
| Hanmi Bank                                   | \$338,464 | 9.76%  | \$138,664                            | 4.00% | \$173,329   | 5.00%  |

**Dividends**

On September 20, 2006, we declared a quarterly cash dividend of \$0.06 per common share for the third quarter of 2006. The dividend was paid on October 13, 2006. Future dividend payments are subject to the future earnings and legal requirements and the discretion of the Board of Directors.

**OFF-BALANCE SHEET ARRANGEMENTS**

For a discussion of off-balance sheet arrangements, see Note 5 Off-Balance Sheet Commitments of Notes to Consolidated Financial Statements (Unaudited), Item 1. Business Small Business Administration Guaranteed Loans and Item 1. Business Off-Balance Sheet Commitments in our Annual Report on Form 10-K for the year ended December 31, 2005.



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**CONTRACTUAL OBLIGATIONS**

There were no material changes to the contractual obligations described in our Annual Report on Form 10-K for the year ended December 31, 2005.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**ITEM 4. CONTROLS AND PROCEDURES**

As of September 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon that evaluation, we concluded that:

Our disclosure controls and procedures were effective as of September 30, 2006; and

No change in our internal controls over financial reporting occurred during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, Hanmi Financial or Hanmi Bank is a party to claims and legal proceedings arising in the ordinary course of business. After taking into consideration information furnished by counsel as to the current status of these claims or proceedings to which Hanmi Financial or Hanmi Bank is a party, management is of the opinion that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on the financial condition or results of operations of Hanmi Financial or Hanmi Bank.

**ITEM 1A. RISK FACTORS**

There were no material changes in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005 that was filed on March 16, 2006.

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

On April 25, 2006, the Board of Directors of Hanmi Financial authorized the repurchase of up to \$50.0 million of common stock. As of September 30, 2006, there have been no shares repurchased.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Document</b>   |
|---------------------------|---|
| 31.1                      | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended         |
| 31.2                      | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended         |
| 32.1                      | Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2                      | Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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**SIGNATURES**

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

**HANMI FINANCIAL CORPORATION**

Date: November 9, 2006

By: /s/ Sung Won Sohn, Ph.D.

Sung Won Sohn, Ph.D.  
*President and Chief Executive Officer*

By: /s/ Michael J. Winiarski

Michael J. Winiarski  
*Senior Vice President and Chief Financial Officer*

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