HANMI FINANCIAL CORP
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

or

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

For the Transition Period From _________ To _________

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4788120**
(State or Other Jurisdiction of 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 x No ¨

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

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

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

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

As of July 31, 2013, there were 31,607,087 outstanding shares of the Registrant s Common Stock.

Hanmi Financial Corporation and Subsidiaries

Quarterly Report on Form 10-Q

Three and Six Months Ended June 30, 2013

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Part I Financial Information

Item 1. Financial Statements

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets *(Unaudited)*

(In thousands, except share data)

	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 72,429	$ 92,350
Interest-bearing deposits in other banks	5,431	175,697
Cash and cash equivalents	77,860	268,047
Restricted cash		5,350
Securities available-for-sale, at fair value (amortized cost of $399,900 as of June 30, 2013 and $443,712 as of December 31, 2012)	400,815	451,060
Loans held for sale, at the lower of cost or fair value	2,553	8,306
Loans receivable, net of allowance for loan losses of $59,876 as of June 30, 2013 and $63,305 as of December 31, 2012	2,128,208	1,986,051
Accrued interest receivable	7,441	7,581
Premises and equipment, net	14,463	15,150
Other real estate owned, net	900	774
Customers liability on acceptances	1,372	1,336
Servicing assets	6,383	5,542
Other intangible assets, net	1,253	1,335
Investment in federal home loan bank stock, at cost	14,197	17,800
Investment in federal reserve bank stock, at cost	13,200	12,222
Income tax assets	63,783	60,028
Bank-owned life insurance	29,517	29,054
Prepaid expenses	2,572	2,084
Other assets	8,897	10,800
Total assets	**$ 2,773,414**	**$ 2,882,520**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 736,470	$ 720,931
Interest-bearing	1,625,443	1,675,032
Total deposits	2,361,913	2,395,963
Accrued interest payable	2,570	11,775
Bank s liability on acceptances	1,372	1,336
Federal home loan bank advances	2,743	2,935
Junior subordinated debentures		82,406
Accrued expenses and other liabilities	9,420	9,741
Total liabilities	**2,378,018**	**2,504,156**

Stockholders equity:

Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,182,731 shares (31,604,837 shares outstanding) and 32,074,434 shares (31,496,540 shares outstanding) as of June 30, 2013 and December 31, 2012	257	257
Additional paid-in capital	551,286	550,123
Unearned compensation	(33)	(57)
Accumulated other comprehensive income, net of tax (benefit) expense of ($702) as of June 30, 2013 and $1,946 as of December 31, 2012	1,634	5,418
Accumulated deficit	(87,890)	(107,519)
Less: treasury stock, at cost; 577,894 shares as of June 30, 2013 and December 31, 2012	(69,858)	(69,858)
Total stockholders equity	**395,396**	**378,364**
Total liabilities and stockholders equity	**$ 2,773,414**	**$ 2,882,520**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Operations *(Unaudited)*

(In thousands, except share and per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest and Dividend Income:				
Interest and fees on loans	$ 27,839	$ 27,241	$ 54,638	$ 54,783
Taxable interest on investment securities	2,100	2,190	4,216	4,288
Tax-exempt interest on investment securities	73	99	168	201
Interest on term federal funds sold		168		493
Interest on federal funds sold		31	6	33
Interest on interest-bearing deposits in other banks	24	59	112	127
Dividends on federal reserve bank stock	196	148	379	276
Dividends on federal home loan bank stock	147	29	255	58
Total interest and dividend income	30,379	29,965	59,774	60,259
Interest Expense:				
Interest on deposits	3,100	3,953	6,259	8,872
Interest on federal home loan bank advances	41	43	79	86
Interest on junior subordinated debentures	84	797	678	1,596
Total interest expense	3,225	4,793	7,016	10,554
Net interest income before provision for credit losses	27,154	25,172	52,758	49,705
Provision for credit losses		4,000		6,000
Net interest income after provision for credit losses	27,154	21,172	52,758	43,705
Non-Interest Income:				
Service charges on deposit accounts	2,884	2,936	5,932	6,104
Insurance commissions	1,418	1,294	2,631	2,530
Remittance fees	541	487	1,038	941
Trade finance fees	276	292	553	584
Other service charges and fees	335	380	733	744
Bank-owned life insurance income	233	238	463	637
Gain on sales of SBA loans guaranteed portion	2,378	5,473	5,070	5,473
Net loss on sales of other loans	(460)	(5,326)	(557)	(7,719)
Net gain on sales of investment securities	303	1,381	312	1,382
Other-than-temporary impairment loss on investment securities		(116)		(116)
Other operating income	242	150	332	262
Total non-interest income	8,150	7,189	16,507	10,822
Non-Interest Expense:				
Salaries and employee benefits	9,415	9,449	18,766	18,559
Occupancy and equipment	2,555	2,621	5,111	5,216
Deposit insurance premiums and regulatory assessments	517	1,498	751	2,899
Data processing	1,142	1,298	2,312	2,551
Other real estate owned expense	(20)	69	12	25

Professional fees	2,365	1,089	4,521	1,838
Directors and officers liability insurance	219	295	439	592
Supplies and communications	630	576	1,125	1,134
Advertising and promotion	1,005	1,009	1,677	1,610
Loan-related expense	91	88	237	288
Amortization of other intangible assets	41	45	82	116
Other operating expenses	2,004	1,726	4,098	3,681
Total non-interest expense	19,964	19,763	39,131	38,509
Income before provision (benefit) for income taxes	15,340	8,598	30,134	16,018
Provision (benefit) for income taxes	5,821	(47,177)	10,505	(47,098)
Net income	**$ 9,519**	**$ 55,775**	**$ 19,629**	**$ 63,116**
Earnings per share:				
Basic	$ 0.30	$ 1.77	$ 0.62	$ 2.01
Diluted	$ 0.30	$ 1.77	$ 0.62	$ 2.00
Weighted-average shares outstanding:				
Basic	31,590,760	31,475,610	31,565,013	31,473,065
Diluted	31,655,988	31,499,803	31,633,535	31,489,943

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income *(Unaudited)*

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	$ 9,519	$ 55,775	$ 19,629	$ 63,116
Other comprehensive income (loss), net of tax				
Unrealized (loss) gain on securities				
Unrealized holding (loss) gain arising during period	(5,553)	214	(6,121)	888
Less: reclassification adjustment for gain included in net income	(303)	(1,266)	(312)	(1,266)
Unrealized gain on interest rate swap		8		9
Unrealized gain on interest-only strip of servicing assets	(2)	(3)	1	(1)
Income tax benefit related to items of other comprehensive income	2,397		2,648	
Other comprehensive loss	(3,461)	(1,047)	(3,784)	(370)
Comprehensive Income	**$ 6,058**	**$ 54,728**	**$ 15,845**	**$ 62,746**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity *(Unaudited)*

(In thousands, except share data)

	Common Stock - Number of Shares Gross Shares Issued and Outstanding	Treasury Shares	Net Shares Issued and Outstanding	Common Stock	Additional Paid-in Capital	Unearned Compensation	Stockholders Equity Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock, at Cost	Total Stockholders Equity
Balance at January 1, 2012	**32,066,987**	**(577,786)**	**31,489,201**	**$ 257**	**$ 549,744**	**$ (166)**	**$ 3,524**	**$ (197,893)**	**$ (69,858)**	**$ 285,608**
Share-based compensation expense					77	25				102
Restricted stock awards					(25)	25				
Comprehensive income:										
Net income								63,116		63,116
Change in unrealized gain on securities Available-for-sale and interest-only strips, net of income taxes							(370)			(370)
Total comprehensive income										62,746
Balance at June 30, 2012	**32,066,987**	**(577,786)**	**31,489,201**	**$ 257**	**$ 549,796**	**$ (116)**	**$ 3,154**	**$ (134,777)**	**$ (69,858)**	**$ 348,456**
Balance at January 1, 2013	32,074,434	(577,894)	31,496,540	$ 257	$ 550,123	$ (57)	$ 5,418	$ (107,519)	$ (69,858)	$ 378,364
Share-based compensation expense					165	24				189
Exercises of stock options	2,241		2,241		(291)					(291)
Exercises of stock warrants	106,056		106,056		1,289					1,289
Comprehensive income:										
Net income								19,629		19,629
Change in unrealized gain on securities Available-for-sale and interest-only strips, net of income taxes							(3,784)			(3,784)
Total comprehensive income										15,845
Balance at June 30, 2013	**32,182,731**	**(577,894)**	**31,604,837**	**$ 257**	**$ 551,286**	**$ (33)**	**$ 1,634**	**$ (87,890)**	**$ (69,858)**	**$ 395,396**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows *(Unaudited)*

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 19,629	$ 63,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	997	1,087
Amortization of premiums and accretion of discounts on investment securities, net	1,443	2,005
Amortization of other intangible assets	82	116
Amortization of servicing assets	739	419
Share-based compensation expense	189	102
Provision for credit losses		6,000
Other-than-temporary loss on investment securities		116
FRB and FHLB stock dividends		334
Net gain on sales of investment securities	(312)	(1,382)
Net (gain) loss on sales of loans	(4,513)	465
Loss on investment in affordable housing partnership	378	440
Gain on bank-owned life insurance settlement		(163)
Valuation adjustment on other real estate owned	7	57
Valuation adjustment for loans held for sale		1,781
Origination of loans held for sale	(45,978)	(60,589)
Proceeds from sales of SBA loans guaranteed portion	60,562	72,223
Change in restricted cash	5,350	(2,001)
Change in accrued interest receivable	140	661
Change in cash surrender value of bank-owned life insurance	(463)	(473)
Change in prepaid expenses	(488)	(1,128)
Change in other assets	1,489	(7,909)
Change in income tax assets	(1,425)	(52,063)
Change in accrued interest payable	(9,205)	(1,150)
Change in stock warrants payable	82	137
Change in other liabilities	1,239	882
Net cash provided by operating activities	**29,942**	**23,083**
Cash flows from investing activities:		
Proceeds from matured term federal funds		160,000
Proceeds from redemption of federal home loan bank and federal reserve bank stock	3,603	2,109
Proceeds from matured or called securities available-for-sale	40,247	71,339
Proceeds from sales of securities available-for-sale	24,764	88,538
Proceeds from matured or called securities held to maturity		6,338
Proceeds from sales of other real estate owned	548	
Proceeds from sales of loans held for sale	5,380	65,470
Proceeds from insurance settlement on bank-owned life insurance		344
Purchases of term federal fund		(155,000)
Change in loans receivable	(154,739)	(16,160)
Purchases of securities available-for-sale	(22,329)	(98,311)
Purchases of premises and equipment	(310)	(396)
Purchases of loans receivable		(82,669)
Purchases of federal reserve bank stock	(978)	(1,979)

Net cash (used in) provided by investing activities	**(103,814)**	**39,623**
Cash flows from financing activities:		
Change in deposits	(34,050)	40,197
Repayment of long-term federal home loan bank advances	(192)	(181)
Redemption of junior subordinated debentures	(82,406)	
Proceeds from exercise of stock options	28	
Proceeds from exercise of stock warrants	305	
Net cash (used in) provided by financing activities	**(116,315)**	**40,016**
Net (decrease) increase in cash and cash equivalents	**(190,187)**	**102,722**
Cash and cash equivalents at beginning of year	268,047	201,683
Cash and cash equivalents at end of period	**$ 77,860**	**$ 304,405**

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Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest paid	$ 12,430	$ 11,704
Income taxes paid	$ 11,910	$ 4,912
Non-cash activities:		
Transfer of loans receivable to other real estate owned	$ 800	$ 948
Transfer of loans receivable to loans held for sale	$ 8,010	$ 64,471
Transfer of loans held for sale to loans receivable	$	$ 1,779
Conversion of stock warrants into common stock	$ 983	$
Income tax benefit related to items of other comprehensive income	$ 2,648	$
Change in unrealized loss in accumulated other comprehensive income	$ 6,120	$

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements *(Unaudited)*

Three and Six Months Ended June 30, 2013 and 2012

Note 1 Basis of Presentation

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

In management s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial Corporation and Subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended June 30, 2013, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Annual Report on Form 10-K).

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

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

Note 2 Investment Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In thousands)		
June 30, 2013:				
Mortgage-backed securities [1]	$ 125,177	$ 1,312	$ 1,871	$ 124,618
Collateralized mortgage obligations [1]	83,955	1,414	521	84,848
U.S. government agency securities	98,853	18	1,267	97,604
Municipal bonds-tax exempt	10,166	485		10,651
Municipal bonds-taxable	44,053	1,679	186	45,546
Corporate bonds	20,475	176	276	20,375
SBA loan pool securities	13,842		341	13,501
Other securities	3,025	1	93	2,933
Equity securities	354	385		739
Total securities available-for-sale	**$ 399,900**	**$ 5,470**	**$ 4,555**	**$ 400,815**
December 31, 2012:				
Mortgage-backed securities [1]	$ 157,185	$ 3,327	$ 186	$ 160,326
Collateralized mortgage obligations [1]	98,821	1,775	109	100,487

U.S. government agency securities	92,990	222	94	93,118
Municipal bonds-tax exempt	12,209	603		12,812
Municipal bonds-taxable	44,248	2,029	135	46,142
Corporate bonds	20,470	176	246	20,400
SBA loan pool securities	14,104	4	82	14,026
Other securities	3,331	73	47	3,357
Equity securities	354	78	40	392
Total securities available-for-sale	**$ 443,712**	**$ 8,287**	**$ 939**	**$ 451,060**

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

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The amortized cost and estimated fair value of investment securities at June 30, 2013, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2042, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Within one year	$	$
Over one year through five years	29,404	29,406
Over five years through ten years	111,880	111,811
Over ten years	49,130	49,393
Mortgage-backed securities	125,177	124,618
Collateralized mortgage obligations	83,955	84,848
Equity securities	354	739
Total	**$ 399,900**	**$ 400,815**

FASB ASC 320, *Investments Debt and Equity Securities*, requires us to periodically evaluate our investments for other-than-temporary impairment (OTTI). There was no OTTI charge during the six months ended June 30, 2013.

Gross unrealized losses on investment securities available-for-sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2013 and December 31, 2012:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(In thousands, except number of securities)								
June 30, 2013:									
Mortgage-backed securities	$ 1,871	$ 79,024	26	$	$		$ 1,871	$ 79,024	26
Collateralized mortgage obligations	521	25,134	10				521	25,134	10
U.S. government agency securities	1,267	89,068	31				1,267	89,068	31
Municipal bonds-taxable	183	7,485	6	3	444	1	186	7,929	7
Corporate bonds	108	4,880	1	168	10,819	3	276	15,699	4
SBA loan pool securities	341	13,501	4				341	13,501	4
Other securities	10	2,016	4	83	918	1	93	2,934	5
Total	**$ 4,301**	**$ 221,108**	**82**	**$ 254**	**$ 12,181**	**5**	**$ 4,555**	**$ 233,289**	**87**
December 31, 2012:									
Mortgage-backed securities	$ 186	$ 28,354	10	$	$		$ 186	$ 28,354	10
Collateralized mortgage obligations	109	14,344	5				109	14,344	5
U.S. government agency securities	94	26,894	9				94	26,894	9
Municipal bonds-taxable	126	4,587	4	9	1,964	3	135	6,551	7
Corporate bonds				246	10,738	3	246	10,738	3
SBA loan pool securities	82	11,004	3				82	11,004	3
Other securities	1	12	1	46	953	1	47	965	2
Equity securities	40	96	1				40	96	1

Total	**$ 638**	**$ 85,291**	**33**	**$ 301**	**$ 13,655**	**7**	**$ 939**	**$ 98,946**	**40**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2013 and December 31, 2012 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of June 30, 2013. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment securities to be written down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

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The Company does not intend to sell these securities and it is not more likely than not that we will be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management s opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2013 and December 31, 2012 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2013 and December 31, 2012 were warranted.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Gross realized gains on sales of investment securities	$ 304	$ 1,431	$ 313	$ 1,432
Gross realized losses on sales of investment securities	(1)	(50)	(1)	(50)
Net realized gains on sales of investment securities	**$ 303**	**$ 1,381**	**$ 312**	**$ 1,382**
Proceeds from sales of investment securities	$ 15,764	$ 85,538	$ 24,764	$ 88,538
Tax expense on sales of investment securities	$ 127	$ 581	$ 131	$ 581

For the three months ended June 30, 2013, there was a $303,000 net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $812,000 in comprehensive income. For the three months ended June 30, 2012, there was a $1.4 million net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $1.9 million in comprehensive income.

For the six months ended June 30, 2013, there was a $312,000 net gain in earnings resulting from the redemption and sale of investment securities that had previously been recognized as net unrealized gains of $856,000 in comprehensive income. For the six months ended June 30, 2012, there was a $1.4 million net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $1.7 million in comprehensive income.

Investment securities available-for-sale with carrying values of $55.7 million and $18.2 million as of June 30, 2013 and December 31, 2012, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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Note 3 Loans

The Board of Directors and management review and approve the Bank s loan policy and procedures on a regular basis to reflect issues such as regulatory and organizational structure changes, strategic planning revisions, concentrations of credit, loan delinquencies and non-performing loans, problem loans, and policy adjustments.

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and SBA loans. Consumer loans consist of auto loans, credit cards, personal loans, and home equity lines of credit. We maintain management loan review and monitoring departments that review and monitor pass graded loans as well as problem loans to prevent further deterioration.

Concentrations of Credit: The majority of the Bank s loan portfolio consists of commercial real estate and commercial and industrial loans. The Bank has been diversifying and monitoring commercial real estate loans based on property types, tightening underwriting standards, and portfolio liquidity and management, and has not exceeded certain specified limits set forth in the Bank s loan policy. Most of the Bank s lending activity occurs within Southern California.

Loans Receivable

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Commercial property	$ 887,782	$ 787,094
Residential property	88,654	101,778
Total real estate loans	976,436	888,872
Commercial and industrial loans:		
Commercial term [1]	940,555	884,364
Commercial lines of credit [2]	45,195	56,121
SBA loans [3]	157,240	148,306
International loans	32,583	34,221
Total commercial and industrial loans	1,175,573	1,123,012
Consumer loans	35,380	36,676
Total gross loans	**2,187,389**	**2,048,560**
Allowance for loans losses	(59,876)	(63,305)
Deferred loan fees	695	796
Loans receivable, net	**$ 2,128,208**	**$ 1,986,051**

(1) Includes owner-occupied property loans of $838.5 million and $774.2 million as of June 30, 2013 and December 31, 2012, respectively.
(2) Includes owner-occupied property loans of $1.0 million and $1.4 million as of June 30, 2013 and December 31, 2012, respectively.
(3) Includes owner-occupied property loans of $142.9 million and $128.4 million as of June 30, 2013 and December 31, 2012, respectively.

Accrued interest on loans receivable was $5.7 million and $5.4 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, loans receivable totaling $691.6 million and $524.0 million, respectively, were pledged to secure advances from the FHLB and the FRB s federal discount window.

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The following table details the information on the sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the three months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In thousands)		
June 30, 2013				
Balance at beginning of period	$	$ 6,043	$	$ 6,043
Origination of loans held for sale		22,834		22,834
Reclassification from loans receivable to loans held for sale	780	3,857		4,637
Sales of loans held for sale		(30,956)		(30,956)
Principal payoffs and amortization		(5)		(5)
Balance at end of period	**$ 780**	**$ 1,773**	**$**	**$ 2,553**
June 30, 2012				
Balance at beginning of period	$ 10,879	$ 45,114	$	$ 55,993
Origination of loans held for sale		34,723		34,723
Reclassification from loans receivable to loans held for sale	15,148	11,842		26,990
Reclassification from loans held for sale to loans receivable	(1,647)	(132)		(1,779)
Sales of loans held for sale	(21,909)	(87,552)		(109,461)
Principal payoffs and amortization	(58)	(146)		(204)
Valuation adjustments	(1,124)			(1,124)
Balance at end of period	**$ 1,289**	**$ 3,849**	**$**	**$ 5,138**

For the three months ended June 30, 2013, loans receivable of $4.6 million were reclassified as loans held for sale, and loans held for sale of $31.0 million were sold. For the three months ended June 30, 2012, loans receivable of $27.0 million were reclassified as loans held for sale, and loans held for sale of $109.5 million were sold.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the six months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In thousands)		
June 30, 2013				
Balance at beginning of period	$	$ 8,306	$	$ 8,306
Origination of loans held for sale		45,978		45,978
Reclassification from loans receivable to loans held for sale	780	7,230		8,010
Sales of loans held for sale		(59,721)		(59,721)
Principal payoffs and amortization		(20)		(20)
Balance at end of period	**$ 780**	**$ 1,773**	**$**	**$ 2,553**
June 30, 2012				
Balance at beginning of period	$ 11,068	$ 11,519	$	$ 22,587
Origination of loans held for sale		60,589		60,589
Reclassification from loans receivable to loans held for sale	32,224	32,247		64,471
Reclassification from loans held for sale to other real estate owned	(360)			(360)

Reclassification from loans held for sale to loans receivable	(1,647)	(132)		(1,779)
Sales of loans held for sale	(38,703)	(99,455)		(138,158)
Principal payoffs and amortization	(169)	(262)		(431)
Valuation adjustments	(1,124)	(657)		(1,781)
Balance at end of period	**$ 1,289**	**$ 3,849**	**$**	**$ 5,138**

For the six months ended June 30, 2013, loans receivable of $8.0 million were reclassified as loans held for sale, and loans held for sale of $59.7 million were sold. For the six months ended June 30, 2012, loans receivable of $64.5 million were reclassified as loans held for sale, and loans held for sale of $138.2 million were sold.

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

In the first quarter of 2010, the look-back period was reduced from twelve quarters to eight quarters, with 60 percent weighting given to the most recent four quarters and 40 percent to the oldest four quarters, to place greater emphasis on losses taken by the Bank during the economic downturn. In the second quarter of 2013, management reevaluated the look-back period and restored the twelve quarter look-back period in order to capture a period of higher losses that would have otherwise been excluded. Risk factor calculations are weighted at 50 percent for the most recent four quarters, 33 percent for the next four quarters, and 17 percent for the oldest four quarters. As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis. The change in methodology maintained the Bank s allowance at a level consistent with prior quarter. Under the previous methodology, the Bank would have recognized a negative provision of $5.9 million, which the Bank did not consider to be prudent, given the uncertainty in the economy.

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

	As of and for the Three Months Ended			As of and for the Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
			(In thousands)		
Allowance for loan losses:					
Balance at beginning of period	$ 61,191	$ 63,305	$ 81,052	$ 63,305	$ 89,936
Actual charge-offs	(3,490)	(3,024)	(14,716)	(6,514)	(27,037)
Recoveries on loans previously charged off	1,867	714	1,324	2,581	2,361
Net loan charge-offs	(1,623)	(2,310)	(13,392)	(3,933)	(24,676)
Provision charged to operating expense	308	196	4,233	504	6,633
Balance at end of period	**$ 59,876**	**$ 61,191**	**$ 71,893**	**$ 59,876**	**$ 71,893**
Allowance for off-balance sheet items:					
Balance at beginning of period	$ 1,628	$ 1,824	$ 2,581	$ 1,822	$ 2,981
Provision charged to operating expense	(308)	(196)	(233)	(504)	(633)
Balance at end of period	**$ 1,320**	**$ 1,628**	**$ 2,348**	**$ 1,318**	**$ 2,348**

The following table details the information on the allowance for loan losses by portfolio segment for the three months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
			(In thousands)		
June 30, 2013					
Allowance for loan losses:					
Beginning balance	$ 17,832	$ 39,560	$ 1,795	$ 2,004	$ 61,191
Charge-offs	(146)	(3,308)	(36)		(3,490)
Recoveries on loans previously charged off	1,042	819	6		1,867
Provision	(248)	1,963	119	(1,526)	308
Ending balance	**$ 18,480**	**$ 39,034**	**$ 1,884**	**$ 478**	**$ 59,876**
Ending balance: individually evaluated for impairment	$ 28	$ 5,011	$ 385	$	$ 5,424
Ending balance: collectively evaluated for impairment	$ 18,452	$ 34,023	$ 1,499	$ 478	$ 54,452

Loans receivable:					
Ending balance	**$ 976,436**	**$ 1,175,573**	**$ 35,380**	**$**	**$ 2,187,389**
Ending balance: individually evaluated for impairment	$ 6,972	$ 37,055	$ 1,647	$	$ 45,674
Ending balance: collectively evaluated for impairment	$ 969,464	$ 1,138,518	$ 33,733	$	$ 2,141,715
June 30, 2012					
Allowance for loan losses:					
Beginning balance	$ 22,230	$ 54,638	$ 2,244	$ 1,940	$ 81,052
Charge-offs	(5,243)	(9,393)	(80)		(14,716)
Recoveries on loans previously charged off	517	789	18		1,324
Provision	3,902	776	(425)	(20)	4,233
Ending balance	**$ 21,406**	**$ 46,810**	**$ 1,757**	**$ 1,920**	**$ 71,893**
Ending balance: individually evaluated for impairment	$ 437	$ 7,224	$	$	$ 7,661
Ending balance: collectively evaluated for impairment	$ 20,969	$ 39,586	$ 1,757	$ 1,920	$ 64,232
Loans receivable:					
Ending balance	**$ 839,816**	**$ 1,070,469**	**$ 39,339**	**$**	**$ 1,949,624**
Ending balance: individually evaluated for impairment	$ 16,619	$ 42,087	$ 1,401	$	$ 60,107
Ending balance: collectively evaluated for impairment	$ 823,197	$ 1,028,382	$ 37,938	$	$ 1,889,517

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The following table details the information on the allowance for loan losses by portfolio segment for the six months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
			(In thousands)		
June 30, 2013					
Allowance for loan losses:					
Beginning balance	$ 18,180	$ 41,928	$ 2,280	$ 917	$ 63,305
Charge-offs	(359)	(5,955)	(200)		(6,514)
Recoveries on loans previously charged off	1,050	1,476	55		2,581
Provision	(391)	1,585	(251)	(439)	504
Ending balance	**$ 18,480**	**$ 39,034**	**$ 1,884**	**$ 478**	**$ 59,876**
Ending balance: individually evaluated for impairment	$ 28	$ 5,011	$ 385	$	$ 5,424
Ending balance: collectively evaluated for impairment	$ 18,452	$ 34,023	$ 1,499	$ 478	$ 54,452
Loans receivable:					
Ending balance	**$ 976,436**	**$ 1,175,573**	**$ 35,380**	**$**	**$ 2,187,389**
Ending balance: individually evaluated for impairment	$ 6,972	$ 37,055	$ 1,647	$	$ 45,674
Ending balance: collectively evaluated for impairment	$ 969,464	$ 1,138,518	$ 33,733	$	$ 2,141,715
June 30, 2012					
Allowance for loan losses:					
Beginning balance	$ 19,637	$ 66,005	$ 2,243	$ 2,051	$ 89,936
Charge-offs	(8,085)	(18,508)	(444)		(27,037)
Recoveries on loans previously charged off	517	1,802	42		2,361
Provision	9,337	(2,489)	(84)	(131)	6,633
Ending balance	**$ 21,406**	**$ 46,810**	**$ 1,757**	**$ 1,920**	**71,893**
Ending balance: individually evaluated for impairment	$ 437	$ 7,224	$	$	7,661
Ending balance: collectively evaluated for impairment	$ 20,969	$ 39,586	$ 1,757	$ 1,920	64,232
Loans receivable:					
Ending balance	**$ 839,816**	**$ 1,070,469**	**$ 39,339**	**$**	**1,949,624**
Ending balance: individually evaluated for impairment	$ 16,619	$ 42,087	$ 1,401	$	60,107
Ending balance: collectively evaluated for impairment	$ 823,197	$ 1,028,382	$ 37,938	$	1,889,517

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade (from (0) to (8)) for each and every loan in our loan portfolio. All loans are reviewed by a third-party loan reviewer on a semi-annual basis. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:

Pass: Pass loans, grades (0) to (4), are in compliance in all respects with the Bank s credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention (5), Substandard (6) or Doubtful (7). This category is the strongest level of the Bank s loan grading system. It incorporates all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans. The following are sub categories within the Pass category, or grades (0) to (4):

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

Pass (1): Loans or commitments requiring a very strong, well-structured credit relationship with an established borrower. The relationship should be supported by audited financial statements indicating cash flow well in excess of debt service requirements, excellent liquidity, and very strong capital.

Pass (2): Loans or commitments requiring a well-structured credit that may not be as seasoned or as high quality as grade (1). Capital, liquidity, debt service capacity, and collateral coverage must all be well above average. This grade includes individuals with substantial net worth supported by liquid assets and strong income.

Pass (3): Loans or commitments to borrowers exhibiting a fully acceptable credit risk. These borrowers should have sound balance sheets and significant cash flow coverage, although they may be somewhat more leveraged and exhibit greater fluctuations in earning and financing but generally would be considered very attractive to the Bank as a borrower. The borrower has historically demonstrated the ability to manage economic adversity. Real estate and asset-based loans with this grade must have characteristics that place them well above the minimum underwriting requirements. Asset-based borrowers assigned this grade must exhibit extremely favorable leverage and cash flow characteristics and consistently demonstrate a high level of unused borrowing capacity.

Pass (4): Loans or commitments to borrowers exhibiting either somewhat weaker balance sheets or positive, but inconsistent, cash flow coverage. These borrowers may exhibit somewhat greater credit risk, and as a result, the Bank may have secured its exposure to mitigate the risk. If so, the collateral taken should provide an unquestionable ability to repay the indebtedness in full through liquidation, if necessary. Cash flows should be adequate to cover debt service and fixed obligations, although there may be a question about the borrower s ability to provide alternative sources of funds in emergencies. Better quality real estate and asset-based borrowers who fully comply with all underwriting standards and are performing according to projections would be assigned this grade.

Special Mention: A Special Mention credit, grade (5), has potential weaknesses that deserve management s close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.

Substandard: A Substandard credit, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A credit graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

Doubtful: A Doubtful credit, grade (7), is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the credit, and therefore the amount or timing of a possible loss cannot be determined at the current time.

Loss: A loan classified as Loss, grade (8), is considered uncollectible and of such little value that their continuance as active bank assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans classified Loss will be charged off in a timely manner.

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As of June 30, 2013 and December 31, 2012, pass (grade 0-4), criticized (grade 5) and classified (grade 6-7) loans, disaggregated by loan class, were as follows:

	Pass (Grade 0-4)	Criticized (Grade 5)	Classified (Grade 6-7)	Total Loans
		(In thousands)		
June 30, 2013				
Real estate loans:				
Commercial property				
Retail	$ 433,954	$ 3,755	$ 2,362	$ 440,071
Land	5,465		7,981	13,446
Other	419,664	12,026	2,575	434,265
Residential property	86,677		1,977	88,654
Commercial and industrial loans:				
Commercial term				
Unsecured	84,786	631	16,612	102,029
Secured by real estate	779,408	16,105	43,013	838,526
Commercial lines of credit	42,914	608	1,673	45,195
SBA loans	146,716	884	9,640	157,240
International loans	31,303		1,280	32,583
Consumer loans	32,617	181	2,582	35,380
Total gross loans	**$ 2,063,504**	**$ 34,190**	**$ 89,695**	**$ 2,187,389**
December 31, 2012				
Real estate loans:				
Commercial property				
Retail	$ 386,650	$ 3,971	$ 2,324	$ 392,945
Land	5,491		8,516	14,007
Other	366,518	12,132	1,492	380,142
Residential property	99,250		2,528	101,778
Commercial and industrial loans:				
Commercial term				
Unsecured	87,370	663	22,139	110,172
Secured by real estate	710,723	13,038	50,431	774,192
Commercial lines of credit	53,391	863	1,867	56,121
SBA loans	136,058	1,119	11,129	148,306
International loans	34,221			34,221
Consumer loans	33,707	201	2,768	36,676
Total gross loans	**$ 1,913,379**	**$ 31,987**	**$ 103,194**	**$ 2,048,560**

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The following is an aging analysis of past due loans, disaggregated by loan class, as of June 30, 2013 and December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing 90 Days or More Past Due
				(In thousands)			
June 30, 2013							
Real estate loans:							
Commercial property							
Retail	$	$	$	$	$ 440,071	$ 440,071	$
Land					13,446	13,446	
Other					434,265	434,265	
Residential property		219	810	1,029	87,625	88,654	
Commercial and industrial loans:							
Commercial term							
Unsecured	416	455	1,885	2,756	99,273	102,029	
Secured by real estate			122	122	838,404	838,526	
Commercial lines of credit		146	188	334	44,861	45,195	
SBA loans	2,376	2,707	3,718	8,801	148,439	157,240	
International loans					32,583	32,583	
Consumer loans	492	962	413	1,867	33,513	35,380	
Total gross loans	**$ 3,284**	**$ 4,489**	**$ 7,136**	**$ 14,909**	**$ 2,172,480**	**$ 2,187,389**	**$**
December 31, 2012							
Real estate loans:							
Commercial property							
Retail	$	$ 111	$	$ 111	$ 392,834	$ 392,945	$
Land			335	335	13,672	14,007	
Other					380,142	380,142	
Residential property		588	311	899	100,879	101,778	
Commercial and industrial loans:							
Commercial term							
Unsecured	918	1,103	1,279	3,300	106,872	110,172	
Secured by real estate	1,949		926	2,875	771,317	774,192	
Commercial lines of credit		188	416	604	55,517	56,121	
SBA loans	3,759	1,039	2,800	7,598	140,708	148,306	
International loans					34,221	34,221	
Consumer loans	61	146	538	745	35,931	36,676	
Total gross loans	**$ 6,687**	**$ 3,175**	**$ 6,605**	**$ 16,467**	**$ 2,032,093**	**$ 2,048,560**	**$**

Impaired Loans

Loans are considered impaired when non-accrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructuring (TDR) loans to offer terms not typically granted by the Bank; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

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

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance
			(In thousands)		
June 30, 2013					
Real estate loans:					
Commercial property					
Retail	$ 1,818	$ 1,818	$ 1,818	$	$
Land	1,612	1,902	1,612		
Other	523	523		523	28
Residential property	3,019	3,091	3,019		
Commercial and industrial loans:					
Commercial term					
Unsecured	12,689	13,742	3,440	9,249	3,863
Secured by real estate	16,492	17,649	15,887	605	119
Commercial lines of credit	1,052	1,259	1,052		
SBA loans	5,541	8,832	3,363	2,178	998
International loans	1,281	1,280	572	709	31
Consumer loans	1,647	1,718	457	1,190	385
Total gross loans	**$ 45,674**	**$ 51,814**	**$ 31,220**	**$ 14,454**	**$ 5,424**
December 31, 2012					
Real estate loans:					
Commercial property					
Retail	$ 2,930	$ 3,024	$ 2,930	$	$
Land	2,097	2,307	2,097		
Other	527	527		527	67
Residential property	3,265	3,308	1,866	1,399	94
Commercial and industrial loans:					
Commercial term					
Unsecured	14,532	15,515	6,826	7,706	2,144
Secured by real estate	22,050	23,221	9,520	12,530	2,319
Commercial lines of credit	1,521	1,704	848	673	230
SBA loans	6,170	10,244	4,294	1,876	762
International loans					
Consumer loans	1,652	1,711	449	1,203	615
Total gross loans	**$ 54,744**	**$ 61,561**	**$ 28,830**	**$ 25,914**	**$ 6,231**

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

	Average Recorded Investment for the Three Months Ended	Interest Income Recognized for the Three Months Ended	Average Recorded Investment for the Six Months Ended	Interest Income Recognized for the Six Months Ended
		(In thousands)		
June 30, 2013				
Real estate loans:				
Commercial property				
Retail	$ 1,823	$ 18	$ 2,309	$ 44
Land	1,637	40	1,674	80
Other	524	6	525	10
Residential property	3,027	31	3,043	59
Commercial and industrial loans:				
Commercial term				
Unsecured	12,933	221	13,093	406
Secured by real estate	16,539	305	17,026	618
Commercial lines of credit	1,060	9	1,286	24
SBA loans	5,595	281	6,034	554
International loans	1,330		1,414	
Consumer loans	1,649	15	1,646	27
Total gross loans	**$ 46,117**	**$ 926**	**$ 48,050**	**$ 1,822**
June 30, 2012				
Real estate loans:				
Commercial property				
Retail	$ 2,546	$ 19	$ 1,945	$ 48
Land	2,137	45	2,175	91
Other	878	11	1,138	33
Construction	7,983	89	8,090	178
Residential property	3,177	48	3,259	84
Commercial and industrial loans:				
Commercial term				
Unsecured	13,474	192	14,257	430
Secured by real estate	19,021	525	22,756	958
Commercial lines of credit	1,788	22	1,835	30
SBA loans	8,336	286	8,150	483
Consumer loans	1,402	2	903	10
Total gross loans	**$ 60,742**	**$ 1,239**	**$ 64,508**	**$ 2,345**

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
		(In thousands)		
	$ 1,057	$ 1,505	$ 2,125	$ 2,933

Interest income that would have been recognized had impaired loans performed in accordance with their original terms				
Less: Interest income recognized on impaired loans	(926)	(1,239)	(1,822)	(2,345)
Interest foregone on impaired loans	**$ 131**	**$ 266**	**$ 303**	**$ 588**

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

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Non-Accrual Loans

Loans are placed on non-accrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on non-accrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest payments become current and full repayment is expected.

The following table details non-accrual loans, disaggregated by loan class, as of the dates indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Commercial property		
Retail	$	$ 1,079
Land	1,612	2,097
Residential property	1,620	1,270
Commercial and industrial loans:		
Commercial term		
Unsecured	6,209	8,311
Secured by real estate	5,389	8,679
Commercial lines of credit	1,052	1,521
SBA loans	10,596	12,563
Consumer loans	1,497	1,759
Total non-accrual loans	**$ 27,975**	**$ 37,279**

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Non-accrual loans	$ 27,975	$ 37,279
Loans 90 days or more past due and still accruing		
Total non-performing loans	27,975	37,279
Other real estate owned	900	774
Total non-performing assets	**$ 28,875**	**$ 38,053**

Loans on non-accrual status, excluding loans held for sale, totaled $28.0 million as of June 30, 2013, compared to $37.3 million as of December 31, 2012, representing a 25.0 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were $14.9 million as of June 30, 2013, compared to $16.5 million as of December 31, 2012, representing a 9.5 percent decrease.

As of June 30, 2013, other real estate owned consisted of two properties in Virginia and California with a combined carrying value of $900,000, and a valuation adjustment of $126,000 was recorded. As of December 31, 2012, there were two properties located in Illinois and Virginia with a combined carrying value of $774,000 and no valuation adjustment.

Troubled Debt Restructuring

In April 2011, the FASB issued ASU 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which clarifies the guidance for evaluating whether a restructuring constitutes a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the purposes of measuring impairment of loans that are newly considered impaired, the guidance should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011.

As a result of the amendments in ASU 2011-02, we reassessed all restructurings that occurred on or after the beginning of the annual period and identified certain receivables as TDRs. Upon identifying those receivables as TDRs, we considered them impaired and applied the impairment measurement guidance prospectively for those receivables newly identified as impaired.

During the three months ended June 30, 2013, we restructured monthly payments on 9 loans, with a net carrying value of $787,000 as of June 30, 2013, through temporary payment structure modifications or re-amortization. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

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The following table details troubled debt restructurings, disaggregated by concession type and by loan type, as of June 30, 2013 and December 31, 2012:

	Non-Accrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
					(In thousands)					
June 30, 2013										
Real estate loans:										
Commercial property										
Retail	$	$	$	$	$	$ 342	$	$	$ 174	$ 516
Other						523				523
Residential property	811				811					
Commercial and industrial loans:										
Commercial term										
Unsecured		570	2,830	926	4,326	906		1,848	2,671	5,425
Secured by real estate	2,221	1,035	279		3,535	2,116		579	4,510	7,205
Commercial lines of credit	656		188	208	1,052					
SBA loans	1,641	1,191	811		3,643	450		75		525
International loans								1,280		1,280
Consumer loans								149		149
Total	**$ 5,329**	**$ 2,796**	**$ 4,108**	**$ 1,134**	**$ 13,367**	**$ 4,337**	**$**	**$ 3,931**	**$ 7,355**	**$ 15,623**
December 31, 2012										
Real estate loans:										
Commercial property										
Retail	$	$	$	$ 1,080	$ 1,080	$ 357	$	$	$ 175	$ 532
Other						527				527
Residential property	827				827		572			572
Commercial and industrial loans:										
Commercial term										
Unsecured		658	4,558	1,413	6,629	976		1,090	3,260	5,326
Secured by real estate	2,317	1,343	318		3,978	4,444		448	4,547	9,439
Commercial lines of credit	673		188	244	1,105					
SBA loans	2,831	1,287	1,032		5,150	484		100		584
Total	**$ 6,648**	**$ 3,288**	**$ 6,096**	**$ 2,737**	**$ 18,769**	**$ 6,788**	**$ 572**	**$ 1,638**	**$ 7,982**	**$ 16,980**

The following table details troubled debt restructuring, disaggregated by loan class, for the three months ended June 30, 2013 and 2012:

	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
			(In thousands, except number of loans)			
Commercial and industrial loans:						
Commercial term						
Unsecured [(1)]	6	$ 518	$ 498	10	$ 1,640	$ 1,588
Secured by real estate [(2)]				1	378	358
Commercial lines of credit [(3)]	1			1	196	192
SBA loans [(4)]	1	148	140	4	681	653

Consumer loans [5]	1	149		149					
Total	**9**	**$ 815**	**$**	**787**	**16**	**$**	**2,895**	**$**	**2,791**

(1) Includes modifications of $42,000 through a reduction of principal or accrued interest and $456,000 through extensions of maturity for the three months ended June 30, 2013, and modifications of $1.2 million through payment deferrals and $394,000 through extensions of maturity for the three months ended June 30, 2012.

(2) Includes a modification of $358,000 through a reduction of principal or accrued interest for the three months ended June 30, 2012.

(3) Includes a modification of zero through a reduction of principal or accrued interest for the three months ended June 30, 2013 and a modification of $192,000 through a reduction of principal or accrued interest for the three months ended June 30, 2012.

(4) Includes a modification of $140,000 through a reduction of principal or accrued interest for the three months ended June 30, 2013, and modifications of $362,000 through payment deferrals and $291,000 through reductions of principal or accrued interest for the three months ended June 30, 2012.

(5) Includes a modification of $149,000 through a reduction of principal or accrued interest for the three months ended June 30, 2013.

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The following table details troubled debt restructuring, disaggregated by loan class, for the six months ended June 30, 2013 and 2012:

	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands, except number of loans)					
Commercial and industrial loans:						
Commercial term						
Unsecured [1]	7	764	692	27	4,696	4,426
Secured by real estate [2]				3	2,211	2,144
Commercial lines of credit [3]	1			1	202	192
SBA loans [4]	2	161	147	9	975	934
International loans [5]	2	1,584	1,280			
Consumer loans [6]	1	149	149			
Total	**13**	**$ 2,658**	**$ 2,268**	**40**	**$ 8,084**	**$ 7,696**

(1) Includes modifications of $42,000 through a reduction of principal or accrued interest and $650,000 through extensions of maturity for the six months ended June 30, 2013, and modifications of $893,000 through payment deferrals, $1.9 million through reductions of principal or accrued interest and $1.6 million through extensions of maturity for the six months ended June 30, 2012.

(2) Includes modifications of $1.6 million through reductions of principal or accrued interest and $497,000 through an extension of maturity for the six months ended June 30, 2012.

(3) Includes a modification of zero through a reduction of principal or accrued interest for the three months ended June 30, 2013 and a modification of $192,000 through a reduction of principal or accrued interest for the six months ended June 30, 2012.

(4) Includes modifications of $7,000 through a payment deferral and $140,000 through a reduction of principal or accrued interest for the six months ended June 30, 2013, and modifications of $503,000 through payments deferral and $442,000 through reductions of principal or accrued interest for the six months ended June 30, 2012.

(5) Includes a modification of $1.3 million through reductions of principal or accrued interest for the six months ended June 30, 2013.

(6) Includes a modification of $149,000 through a reduction of principal or accrued interest for the six months ended June 30, 2013.

As of June 30, 2013 and December 31, 2012, total TDRs, excluding loans held for sale, were $29.0 million and $35.7 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower s financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan s effective interest rate; (2) the loan s observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At June 30, 2013 and December 31, 2012, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and $3.3 million and $3.6 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

The following table details troubled debt restructurings that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for the three and six months ended June 30, 2013 and 2012, respectively:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012

	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
				(In thousands, except number of loans)				
Commercial and industrial loans:								
Commercial term								
Unsecured	4	$ 311	6	$ 636	4	$ 311	7	$ 677
Secured by real estate					1	1,274		
Commercial lines of credit			1	273			1	273
SBA loans	2	170	12	1,042	2	170	12	1,042
Total	**6**	**$ 481**	**19**	**$ 1,951**	**7**	**$ 1,755**	**20**	**$ 1,992**

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Servicing Assets

The changes in servicing assets for the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
Balance at beginning of period	$ 5,542	$ 3,720
Additions	1,580	1,702
Amortization	(739)	(419)
Balance at end of period	**$ 6,383**	**$ 5,003**

At June 30, 2013 and 2012, we serviced loans sold to unaffiliated parties in the amounts of $330.4 million and $268.8 million, respectively. These represented loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans being serviced were SBA loans.

Note 4 Income Taxes

The Company s income tax expenses were $5.8 million and $10.5 million for the three and six months ended June 30, 2013, respectively, compared to income tax benefits of $47.2 million and $47.1 million for the three and six months ended June 30, 2012, respectively. The effective income tax rate was 37.95 percent and 34.86 percent for the three and six months ended June 30, 2013, respectively, as compared to (548.7) percent and (294.0) percent for the three and six months ended June 30, 2012. The change in the effective tax rate for the three and six months ended June 30, 2013, as compared to the three and six months ended June 30, 2012, was primarily due to a net tax benefit of $47.1 million resulting from the reversal of $53.1 million of valuation allowance on the Company s deferred tax asset in the quarter ended June 30, 2012. The income tax expenses for the three and six months ended June 30, 2013 include discrete items of $11,000 and ($768,000), respectively, related mainly to the revision of deferred tax estimate from stock options and state tax attributes. Management concluded that deferred tax assets were more likely than not to be realized, and therefore, maintaining a valuation allowance was not required as of June 30, 2013.

As of June 30, 2013, the Company was subject to examination by various federal and state tax authorities for the years ended December 31, 2004 through 2011. The Company was subjected to audits by the Internal Revenue Service for the 2009 tax year, by the California FTB for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements due to the results of those audits.

Note 5 Stockholders Equity

Stock Warrants

As part of the agreement dated as of July 27, 2010 with Cappello Capital Corp., the placement agent in connection with our best efforts offering and the financial advisor in connection with our completed rights offering, we issued warrants to purchase 250,000 shares of our common stock for services performed. The warrants have an exercise price of $9.60 per share. According to the agreement, the warrants vested on October 14, 2010 and are exercisable until its expiration on October 14, 2015. The Company followed the guidance of FASB ASC Topic 815- 40, *Derivatives and Hedging Contracts in Entity s Own Stock* , which establishes a framework for determining whether certain freestanding and embedded instruments are indexed to a company s own stock for purposes of evaluation of the accounting for such instruments under existing accounting literature. Under GAAP, the issuer is required to measure the fair value of the equity instruments in the transaction as of earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty s performance is complete. The fair value of the warrants at the date of issuance totaling $2.0 million was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing model. The expected stock volatility was based on historical volatility of our common stock over the expected term of the warrants. We used a weighted average expected stock volatility of 111.46 percent. The expected life assumption was based on the contract term of five years. The dividend yield of zero was based on the fact that we had no intention to pay cash dividends for the term at the grant date. The risk free rate of 2.07 percent used for the warrants was equal to the zero coupon rate in effect at the time of the grant.

Upon re-measuring the fair value of the stock warrants at June 30, 2013, the fair value increased by $9,000, which we have included in other operating expenses for the three months ended June 30, 2013. We used a weighted average expected stock volatility of 30.37 percent and a remaining contractual life of 2.1 years based on the contract terms. We also used a dividend yield of zero as we have no present intention to pay cash dividends. The risk free rate of 0.58 percent used for the warrants was equal to the zero coupon rate in effect at the end of the measurement period.

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Note 6 Regulatory Matters

Risk-Based Capital

Federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent.

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

The capital ratios of Hanmi Financial and the Bank as of June 30, 2013 and 2012 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
June 30, 2013						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 399,496	17.08%	$ 187,087	8.00%	N/A	N/A
Hanmi Bank	$ 386,124	16.53%	$ 186,833	8.00%	$ 233,541	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 369,737	15.81%	$ 93,544	4.00%	N/A	N/A
Hanmi Bank	$ 356,485	15.26%	$ 93,417	4.00%	$ 140,125	6.00%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 369,737	13.35%	$ 110,786	4.00%	N/A	N/A
Hanmi Bank	$ 356,485	12.88%	$ 110,705	4.00%	$ 138,382	5.00%
June 30, 2012						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 422,301	20.02%	$ 168,754	8.00%	N/A	N/A
Hanmi Bank	$ 401,456	19.06%	$ 168,467	8.00%	$ 210,584	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 395,342	18.74%	$ 84,377	4.00%	N/A	N/A
Hanmi Bank	$ 374,540	17.79%	$ 84,234	4.00%	$ 126,351	6.00%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 395,342	14.70%	$ 107,587	4.00%	N/A	N/A
Hanmi Bank	$ 374,540	13.95%	$ 107,361	4.00%	$ 134,201	5.00%

Regulatory Capital Rule Adjustments

In July 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The rules also revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Additionally, the rules implement a new capital conservation buffer. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The rules will become effective January 1, 2015 for smaller, non-complex banking organizations with full implementation of the capital conservation buffer and certain deductions and adjustments to regulatory capital through January 1, 2019. The Company will continue to evaluate the new changes, and expects that the Company and the Bank will meet the capital requirements.

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Note 7 Fair Value Measurements

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

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

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes.

We record investment securities available-for-sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, other real estate owned, and other intangible assets, are recorded at fair value on a non-recurring basis. Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

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

Investment securities available-for-sale The fair values of investment securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve, prepayment speeds, and default rates. Level 1 investment securities include U.S. government and agency debentures and equity securities that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 investment securities primarily include mortgage-backed securities, municipal bonds, collateralized mortgage obligations, and SBA loan pool securities. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security held as of each reporting date. The broker-dealers use prices obtained from nationally recognized pricing services to value our fixed income securities. The fair value of the municipal bonds is determined based on a proprietary model maintained by the broker-dealers. We review the prices obtained for reasonableness based on our understanding of the marketplace, and also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 investment securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available, which necessitates the use of significant unobservable inputs.

As of June 30, 2013, we had a zero coupon tax credit municipal bond of $762,000 compared to $779,000 as of December 31, 2012. This bond was recorded at estimated fair value using a discounted cash flow method, and was measured on a recurring basis with Level 3 inputs. Key assumptions used in measuring the fair value of the tax credit bond as of June 30, 2013 were discount rate and cash flows. The discount rate was derived from the term structure of Bank Qualified (BQ) A- rated municipal bonds, as the tax credit bond s guarantee had the similar credit strength. The contractual future cash flows were the tax credits to be received for a remaining life of 1.7 years. If the discount rate is adjusted down to the term structure of BQ BBB- rating municipal bonds, the tax credit bond s value would decline by 0.89 percent. We do not anticipate a significant deterioration of the tax credit bond s credit quality. Management reviews the discount rate on an ongoing basis based on current market rates.

SBA loans held for sale Small Business Administration (SBA) loans held for sale are carried at the lower of cost or fair value. As of June 30, 2013 and December 31, 2012, we had zero and $7.8 million of SBA loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At December 31, 2012, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

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Non-performing loans held for sale We reclassify certain non-performing loans as held for sale when we decide to sell those loans. The fair value of non-performing loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Non-performing loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of June 30, 2013 and December 31, 2012, we had $2.6 million and $484,000 of non-performing loans held for sale, respectively, which are measured on a nonrecurring basis with Level 2 inputs.

Stock warrants The Company followed the guidance of FASB ASC Topic 815- 40, *Derivatives and Hedging Contracts in Entity s Own Stock* , which establishes a framework for determining whether certain freestanding and embedded instruments are indexed to a company s own stock for purposes of evaluation of the accounting for such instruments under existing accounting literature. Under GAAP, the issuer is required to measure the fair value of the equity instruments in the transaction as of earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty s performance is complete. The fair value of the warrants was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing modeling and was measured on a recurring basis with Level 3 inputs.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the three months ended June 30, 2013. As of June 30, 2013 and December 31, 2012, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs with No Active Market with Identical Characteristics	Level 3 Significant Unobservable Inputs	Balance
		(In thousands)		
As of June 30, 2013				
Assets:				
Debt securities available-for-sale:				
Mortgage-backed securities	$	$ 124,618	$	$ 124,618
Collateralized mortgage obligations		84,848		84,848
U.S. government agency securities	97,604			97,604
Municipal bonds-tax exempt		9,889	762	10,651
Municipal bonds-taxable		45,546		45,546
Corporate bonds		20,375		20,375
SBA loan pools securities		13,501		13,501
Other securities		2,933		2,933
Total debt securities available-for-sale	97,604	301,710	762	400,076
Equity securities available-for-sale:				
Financial services industry	739			739
Total equity securities available-for-sale	739			739
Total securities available-for-sale	$ 98,343	$ 301,710	$ 762	$ 400,815
Liabilities:				
Stock warrants	$	$	$ 5	$ 5
December 31, 2012:				
Assets:				
Debt securities available-for-sale:				
Mortgage-backed securities	$	$ 160,326	$	$ 160,326
Collateralized mortgage obligations		100,487		100,487
U.S. government agency securities	93,118			93,118
Municipal bonds-tax exempt		12,033	779	12,812
Municipal bonds-taxable		46,142		46,142
Corporate bonds		20,400		20,400
SBA loan pools securities		14,026		14,026
Other securities		3,357		3,357
Total debt securities available-for-sale	93,118	356,771	779	450,668
Equity securities available-for-sale:				

Financial services industry	392			392
Total equity securities available-for-sale	392			392
Total securities available-for-sale	$ 93,510	$ 356,771	$ 779	$ 451,060
Liabilities:				
Stock warrants	$	$	$ 906	$ 906

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The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2013:

	Beginning Balance as of January 1, 2013	Purchases Issuances, and Settlement	Realized Gains or Losses In Earnings	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of June 30, 2013
	(In thousands)				
Assets:					
Municipal bonds-tax exempt [1]	$ 779	$	$	$ (17)	$ 762
Liabilities:					
Stock warrants [2]	$ 906	$ (841)	$ (60)	$	$ 5

(1) Reflects a zero coupon tax credit municipal bond. As the Company was not able to obtain a price from independent external pricing service providers, the discounted cash flow method was used to determine its fair value. The bond carried a par value of $700,000 and an amortized value of $698,000 with a remaining life of 1.7 years at June 30, 2013.

(2) Reflects warrants for our common stock issued in connection with services Cappello Capital Corp. provided to us as a placement agent in connection with our best efforts public offering and as our financial adviser in connection with our completed rights offering. The warrants were immediately exercisable when issued at an exercise price of $9.60 per share of our common stock and expire on October 14, 2015. See Note 5 Stockholders Equity for more details.

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

As of June 30, 2013 and December 31, 2012, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs	Loss During The Six Months Ended June 30, 2013
	(In thousands)			
As of June 30, 2013				
Assets:				
Non-performing loans held for sale [1]	$	$ 2,553	$	$
Impaired loans [2]		30,444	187	1,343
Other real estate owned [3]		900		7

	Level 1 Quoted Prices in	Level 2 Significant Observable Inputs With No	Level 3 Significant	Loss During The

	Active Markets for Identical Assets	Active Market With Identical Characteristics	Unobservable Inputs	Twelve Months Ended December 31, 2012
			(In thousands)	
As of December 31, 2012:				
Assets:				
Non-performing loans held for sale [4]	$	$ 484	$	$ 3,747
Impaired loans [5]		27,844	8,888	580
Other real estate owned [6]		774		301

(1) Includes commercial and industrial loans of $1.8 million and real estate loans of $780,000
(2) Includes real estate loans of $6.9 million, commercial and industrial loans of $22.4 million, and consumer loans of $1.3 million
(3) Includes properties from the foreclosure of a residential property loan of $513,000 and a SBA loan of $387,000
(4) Includes a SBA loan of $484,000
(5) Includes real estate loans of $8.7 million, commercial and industrial loans of $27.0 million, and consumer loans of $1.0 million
(6) Includes properties from the foreclosure of real estate loans of $774,000

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FASB ASC 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis or non-recurring basis are discussed above.

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of financial instruments were as follows:

	June 30, 2013		December 31, 2012	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 77,860	$ 77,860	$ 268,047	$ 268,047
Restricted cash			5,350	5,350
Investment securities available-for-sale	400,815	400,815	451,060	451,060
Loans receivable, net of allowance for loan losses	2,128,208	2,104,321	1,986,051	1,981,669
Loans held for sale	2,553	2,553	8,306	8,306
Accrued interest receivable	7,441	7,441	7,581	7,581
Investment in federal home loan bank stock	14,197	14,197	17,800	17,800
Investment in federal reserve bank	13,200	13,200	12,222	12,222
Financial liabilities:				
Noninterest-bearing deposits	736,470	736,470	720,931	720,931
Interest-bearing deposits	1,625,443	1,629,944	1,675,032	1,680,211
Borrowings	2,743	2,784	85,341	85,414
Accrued interest payable	2,570	2,570	11,775	11,775
Off-balance sheet items:				
Commitments to extend credit	177,955	151	182,746	146
Standby letters of credit	9,694	25	10,588	24

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value are explained below:

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

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

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

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

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

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

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

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

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

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

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

Stock warrants The fair value of stock warrants is determined by the Black-Scholes option pricing model. The expected stock volatility is based on historical volatility of our common stock over expected term of the warrants. The expected life assumption is based on the contract term. The dividend yield of zero is based on the fact that we have no present intention to pay cash dividends. The risk free rate used for the warrants is equal to the zero coupon rate in effect at the time of the grant (Level 3).

Commitments to extend credit and standby letters of credit The fair values of commitments to extend credit and standby letters of credit are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans (Level 3).

Note 8 Share-Based Compensation

Share-Based Compensation Expense

For the three months ended June 30, 2013 and 2012, share-based compensation expense was $92,000 and $10,000, respectively, and the related tax benefits on non-qualified stock options were $21,000 and $4,000, respectively. For the six months ended June 30, 2013 and 2012, share-based compensation expense was $189,000 and $102,000, respectively, and the related tax benefits on non-qualified stock options were $32,000 and $43,000, respectively.

Unrecognized Share-Based Compensation Expense

As of June 30, 2013, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	(In thousands)	
Stock option awards	$ 768	2.5 years
Restricted stock awards	33	0.8 years
Total unrecognized share-based compensation expense	**$ 801**	2.4 years

The table below provides stock option information for the three months ended June 30, 2013:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options
	(In thousands, except share and per share data)			
Options outstanding at beginning of period	335,320	$ 37.78	7.7 years	$ 359(1)
Options exercised	(562)	$ 12.54	9.5 years	
Options forfeited	(1,125)	$ 12.54	9.5 years	
Options expired	(3,663)	$ 81.22	4.3 years	
Options outstanding at end of period	**329,970**	**$ 37.43**	**7.5 years**	**$ 1,015(2)**
Options exercisable at end of period	171,407	$ 60.50	5.8 years	$ 572(2)

(1) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $16.00 as of March 31, 2013, over the exercise price, multiplied by the number of options.

(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $17.67 as of June 30, 2013, over the exercise price, multiplied by the number of options.

The table below provides stock option information for the six months ended June 30, 2013:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options
	(In thousands, except share and per share data)			
Options outstanding at beginning of period	342,950	$ 37.44	8.0 years	$ 359(1)
Options exercised	(2,241)	$ 12.54	9.5 years	
Options forfeited	(6,376)	$ 12.54	9.5 years	
Options expired	(4,363)	$ 87.60	3.8 years	
Options outstanding at end of period	**329,970**	**$ 37.43**	**7.5 years**	**$ 1,015(2)**
Options exercisable at end of period	171,407	$ 60.50	5.8 years	$ 572(2)

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

(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $17.67 as of June 30, 2013, over the exercise price, multiplied by the number of options.

There were 562 and 2,241 stock options exercised during the three and six months ended June 30, 2013, respectively, compared to none during the same periods in 2012.

Restricted Stock Awards

Restricted stock awards under the 2007 Plan generally become fully vested after three to five years of continued employment from the date of grant. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock awards when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock awards are treated as cancelled shares.

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The table below provides information for restricted stock awards for the three and six months ended June 30, 2013:

	Three Months Ended		Six Months Ended	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	8,000	$ 10.97	10,500	$ 10.83
Restricted stock vested	(4,500)	$ 10.95	(7,000)	$ 10.75
Restricted stock at end of period	**3,500**	**$ 10.99**	**3,500**	**$ 10.99**

Note 9 Earnings Per Share

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

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

	2013			2012		
	(Numerator) Net Income	*(Denominator)* Weighted-Average Shares	Per Share Amount	*(Numerator)* Net Income	*(Denominator)* Weighted-Average Shares	Per Share Amount
	(In thousands, except share and per share data)					
Three months ended June 30:						
Basic EPS	$ 9,519	31,590,760	$ 0.30	$ 55,775	31,475,610	$ 1.77
Effect of dilutive securities - options, warrants and unvested restricted stock		65,228			24,193	
Diluted EPS	$ 9,519	31,655,988	$ 0.30	$ 55,775	31,499,803	$ 1.77
Six months ended June 30:						
Basic EPS	$ 19,629	31,565,013	$ 0.62	$ 63,116	31,473,065	$ 2.01
Effect of dilutive securities - options, warrants and unvested restricted stock		68,522			16,878	(0.01)
Diluted EPS	$ 19,629	31,633,535	$ 0.62	$ 63,116	31,489,943	$ 2.00

For the three months ended June 30, 2013 and 2012, there were 74,275 and 123,650 options, warrants and shares of unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive. For the six months ended June 30, 2013 and 2012, there were 74,275 and 373,650 options, warrants and shares of unvested restricted stock outstanding, respectively, that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

Note 10 Off-Balance Sheet Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved with on-balance sheet items recognized in the Consolidated Balance Sheets.

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

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Commitments to extend credit	$ 177,955	$ 182,746
Standby letters of credit	9,694	10,588
Commercial letters of credit	4,150	6,092
Unused credit card lines	11,805	13,459
Total undisbursed loan commitments	**$ 203,604**	**$ 212,885**

Note 11 Liquidity

Hanmi Financial

Management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through June 30, 2014. Hanmi Financial redeemed $30.9 million of trust preferred securities (TPS) in March 2013, and fully paid the remaining $51.5 million of TPS in April 2013.

Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank s ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank s primary funding source will continue to be deposits originating from its branch platform. The Bank s wholesale funds historically consisted of FHLB advances and brokered deposits. As of June 30, 2013, the Bank had no brokered deposits, and had FHLB advances of $2.7 million compared to $2.9 million as of December 31, 2012.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank s primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30 percent of its total assets. As of June 30, 2013, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $429.2 million and $426.5 million, respectively, compared to $275.1 million and $272.2 million, respectively, as of December 31, 2012. The Bank s FHLB borrowings as of June 30, 2013 and December 31, 2012 totaled $2.7 million and $2.9 million, respectively, which represented 0.10 percent of total assets as of both dates.

The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $99.5 million from the Federal Reserve Discount Window (the Fed Discount Window), to which the Bank pledged loans with a carrying value of $138.6 million, and had no borrowings as of June 30, 2013. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for reverse repurchase agreements up to a maximum of $100.0 million.

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

Note 12 Segment Reporting

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

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Note 13 Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the three months periods ended June 30, 2013 and 2012 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest Rate Swap	Unrealized Gains and Losses on Interest-Only Strip *(In thousands)*	Tax (Expense) Benefit	Total
For the three months ended June 30, 2013					
Balance at beginning of period	$ 6,771	$	$ 19	$ (1,695)	$ 5,095
Other comprehensive (loss) income before reclassification	(5,553)		(2)	2,397	(3,158)
Reclassification from accumulated other comprehensive income	(303)				(303)
Period change	(5,856)		(2)	2,397	(3,461)
Balance at end of period	**$ 915**	**$**	**$ 17**	**$ 702**	**$ 1,634**
For the three months ended June 30, 2012					
Balance at beginning of period	$ 4,789	$ (9)	$ 23	$ (602)	$ 4,201
Other comprehensive (loss) income before reclassification	(82)	9	(9)	300	218
Reclassification from accumulated other comprehensive income	(1,265)				(1,265)
Period change	(1,347)	9	(9)	300	(1,047)
Balance at end of period	**$ 3,442**	**$**	**$ 14**	**$ (302)**	**$ 3,154**

For the three months ended June 30, 2013, there was a $303,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $303,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under non-interest income. The securities were previously recorded as unrealized gains of $812,000 in accumulated other comprehensive income.

For the three months ended June 30, 2012, there was a $1.3 million reclassification from accumulated other comprehensive income to gains in earnings, which resulted from the redemption and sale of available-for-sale securities. The $1.3 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under non-interest income. The securities were previously recorded as unrealized gains of $1.9 million in accumulated other comprehensive income.

Activity in accumulated other comprehensive income for the six months periods ended June 30, 2013 and 2012 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest Rate Swap	Unrealized Gains and Losses on Interest-Only Strip *(In thousands)*	Tax (Expense) Benefit	Total

For the six months ended June 30, 2013					
Balance at beginning of period	$ 7,348	$	$ 16	$ (1,946)	$ 5,418
Other comprehensive (loss) income before reclassification	(6,121)		1	2,648	(3,472)
Reclassification from accumulated other comprehensive income	(312)				(312)
Period change	(6,433)		1	2,648	(3,784)
Balance at end of period	**$ 915**	**$**	**$ 17**	**$ 702**	**$ 1,634**
For the six months ended June 30, 2012					
Balance at beginning of period	$ 4,115	$ (9)	$ 20	$ (602)	$ 3,524
Other comprehensive (loss) income before reclassification	593	9	(6)	300	896
Reclassification from accumulated other comprehensive income	(1,266)				(1,266)
Period change	(673)	9	(6)	300	(370)
Balance at end of period	**$ 3,442**	**$**	**$ 14**	**$ (302)**	**$ 3,154**

For the six months ended June 30, 2013, there was a $312,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $312,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under non-interest income. The securities were previously recorded as unrealized gains of $856,000 in accumulated other comprehensive income.

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For the six months ended June 30, 2012, there was a $1.3 million reclassification from accumulated other comprehensive income to gains in earnings, which resulted from the redemption and sale of available-for-sale securities. The $1.3 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under non-interest income. The securities were previously recorded as an unrealized gain of $1.7 million in accumulated other comprehensive income.

Note 14 Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial data included herein. Other than the foregoing, there have been no subsequent events that occurred during such period that would require disclosure in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of June 30, 2013.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and six months ended June 30, 2013. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Annual Report on Form 10-K) and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (this Report).

Forward-Looking Statements

Some of the statements under *Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this Report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements in this Report other than statements of historical fact are forward looking statements for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plan and availability, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes predicts, potential, or continue, or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following:

- failure to maintain adequate levels of capital to support our operations;
- a significant number of customers failing to perform under their loans or other extensions of credit;
- fluctuations in interest rates and a decline in the level of our interest rate spread;
- failure to attract or retain deposits and restrictions on taking brokered deposits;
- sources of liquidity available to us and to Hanmi Bank becoming limited or our potential inability to access sufficient sources of liquidity when needed or the requirement that we obtain government waivers to do so;
- adverse changes in domestic or global financial markets, economic conditions or business conditions;
- regulatory restrictions on Hanmi Bank s ability to pay dividends to us and on our ability to make payments on our obligations;
- significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;
- our use of appraisals in deciding whether to make loans secured by real property, which does not ensure that the value of the real property collateral will be sufficient to pay our loans;

failure to attract or retain our key employees;

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

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

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

competition and demographic changes in our primary market areas;

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

the effects of litigation against us;

significant government regulations, legislation and potential changes thereto, including as a result of the Dodd-Frank Act; and

other risks described herein and in the other reports we file with the Securities and Exchange Commission;

For a discussion of some of the other factors that might cause such a difference, see the discussion contained in this Report under the heading Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Also see Item 1A. Risk Factors, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Interest Rate Risk Management and Capital Resources and Liquidity in our 2012 Annual Report on Form 10-K, as well as other factors we identify from time to time in our periodic reports, including our Quarterly Reports on Form 10-Q, filed pursuant to the Exchange Act. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date, on which such statements were made, except as required by law.

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Critical Accounting Policies

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

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Selected Financial Data

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

	As of and For the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except share and per share data)			
Average balances:				
Average gross loans, net of deferred loan fees [1]	$ 2,165,741	$ 2,003,475	$ 2,119,881	$ 1,994,273
Average investment securities	423,562	417,202	433,263	420,735
Average interest-earning assets	2,657,629	2,642,428	2,675,425	2,659,085
Average total assets	2,793,505	2,723,432	2,811,614	2,732,485
Average deposits	2,365,887	2,308,193	2,357,389	2,322,733
Average borrowings	19,154	86,509	48,937	86,087
Average interest-bearing liabilities	1,663,951	1,720,781	1,695,406	1,748,995
Average stockholders equity	393,741	300,578	388,402	294,092
Per share data:				
Earnings per share - basic	$ 0.30	$ 1.77	$ 0.62	$ 2.01
Earnings per share - diluted	$ 0.30	$ 1.77	$ 0.62	$ 2.00
Common shares outstanding	31,604,837	31,489,201	31,604,837	31,489,201
Book value per share [2]	$ 12.51	$ 11.07	$ 12.51	$ 11.07
Performance ratios:				
Return on average assets [3] [4]	1.37%	8.24%	1.41%	4.65%
Return on average stockholders equity [3] [5]	9.70%	74.63%	10.19%	43.16%
Efficiency ratio [6]	56.55%	61.07%	56.49%	63.62%
Net interest spread [7]	3.81%	3.45%	3.68%	3.36%
Net interest margin [8]	4.10%	3.84%	3.98%	3.77%
Average stockholders equity to average total assets	14.09%	11.04%	13.81%	10.76%
Selected capital ratios: [9]				
Total risk-based capital ratio:				
Hanmi Financial	16.50%	20.02%	16.50%	20.02%
Hanmi Bank	16.53%	19.06%	16.53%	19.06%
Tier 1 risk-based capital ratio:				
Hanmi Financial	15.23%	18.74%	15.23%	18.74%
Hanmi Bank	15.26%	17.79%	15.26%	17.79%
Tier 1 leverage ratio:				
Hanmi Financial	12.90%	14.70%	12.90%	14.70%
Hanmi Bank	12.88%	13.95%	12.88%	13.95%
Asset quality ratios:				
Non-performing loans to gross loans [10]	1.28%	2.32%	1.28%	2.32%
Non-performing assets to total assets [11]	1.04%	1.62%	1.04%	1.62%
Net loan charge-offs to average gross loans [12]	0.30%	2.67%	0.37%	2.47%
Allowance for loan losses to gross loans	2.74%	3.69%	2.74%	3.69%
Allowance for loan losses to total non-performing loans	214.03%	159.26%	214.03%	159.26%

(1) Loans are net of deferred fees and related direct costs
(2) Total stockholders equity divided by common shares outstanding
(3) Calculation based on annualized net income
(4) Net income divided by average total assets
(5) Net income divided by average stockholders equity
(6) Total non-interest expenses divided by the sum of net interest income before provision for credit losses and total non-interest income
(7)

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

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

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

(10) *Non-performing loans consist of non-accrual loans and loans past due 90 days or more and still accruing interest*

(11) *Non-performing assets consist of non-performing loans (see footnote (10) above) and other real estate owned*

(12) *Calculation based on annualized net loan charge-offs*

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Non-GAAP Financial Measures

Tangible Stockholders Equity to Tangible Assets Ratio

The ratio of tangible stockholders equity to tangible assets 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 Bank s capital strength. Tangible equity is calculated by subtracting goodwill and other intangible assets from total stockholders equity. Banking and financial institution regulators also exclude goodwill and other intangible assets from total stockholders equity when assessing the capital adequacy of a financial institution. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the capital strength of Hanmi Financial and the Bank. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

	As of June 30,	
	2013	2012
	(In thousands, except share and per share data)	
Hanmi Financial Corporation		
Total assets	$ 2,773,414	$ 2,846,652
Less other intangible assets	(1,253)	(1,417)
Tangible assets	$ 2,772,161	$ 2,845,235
Total stockholders equity	$ 395,396	$ 348,456
Less other intangible assets	(1,253)	(1,417)
Tangible stockholders equity	$ 394,143	$ 347,039
Total stockholders equity to total assets	14.26%	12.24%
Tangible common equity to tangible assets	14.22%	12.20%
Common shares outstanding	31,604,837	31,489,201
Tangible common equity per common share	$ 12.47	$ 11.02

	As of June 30,	
	2013	2012
	(In thousands)	
Hanmi Bank		
Total assets	$ 2,768,581	$ 2,841,441
Less other intangible assets		
Tangible assets	$ 2,768,581	$ 2,841,441
Total stockholders equity	$ 378,116	$ 407,407
Less other intangible assets		
Tangible stockholders equity	$ 378,116	$ 407,407
Total stockholders equity to total assets	13.66%	14.34%
Tangible common equity to tangible assets	13.66%	14.34%

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Executive Overview

For the second quarter ended June 30, 2013, we recognized consolidated net income of $9.5 million, or $0.30 per diluted share, compared to consolidated net income of $55.8 million, or $1.77 per diluted share, for the second quarter ended June 30, 2012.

Net interest margin increased to 4.10 percent in the second quarter of 2013, up 24 basis points from 3.86 percent in the first quarter of 2013 and up 26 basis points from 3.84 percent in the second quarter of 2012. Yields on earning assets improved 16 basis points to 4.59 percent, while the cost of interest-bearing liabilities continued to improve by 11 basis points to 0.78 percent during the second quarter of 2013.

New loan production during the second quarter of 2013 totaled $163.8 million, consisting of $119.5 million of commercial real estate loans including $43.9 million of owner-occupied property loans, $31.2 million of Small Business Administration (SBA) loans, $11.9 million of commercial term and lines of credit loans, and $1.2 million of consumer loans.

Asset quality improved during the second quarter of 2013, with non-performing assets declining to 1.04 percent of total assets. Net charge offs also continued to improve, totaling $1.6 million, or 0.30 percent of average gross loans on an annualized basis.

The redemption of the remaining $50 million in trust preferred securities (TPS) in April 2013 resulted in an interest cost reduction of $510,000 in the second quarter of 2013.

Results of Operations

Net Interest Income

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

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

	Three Months Ended					
	June 30, 2013			June 30, 2012		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(In thousands)					
Assets						
Interest-earning assets:						
Gross loans, net of deferred loan fees (1)	$ 2,165,741	$ 27,839	5.16%	$ 2,003,475	$ 27,241	5.47%
Municipal securities-taxable	46,102	454	3.94%	44,867	442	3.94%
Municipal securities-tax exempt (2)	10,707	112	4.20%	13,011	152	4.68%
Obligations of other U.S. government agencies	93,432	432	1.85%	77,390	380	1.96%
Other debt securities	273,321	1,214	1.78%	281,934	1,368	1.94%
Equity securities	28,729	343	4.78%	31,107	176	2.26%
Federal funds sold	341		0.00%	29,844	31	0.42%
Term federal funds sold			0.00%	70,384	168	0.95%
Interest-bearing deposits in other banks	39,256	24	0.25%	90,416	59	0.26%
Total interest-earning assets	2,657,629	30,418	4.59%	2,642,428	30,017	4.57%
Noninterest-earning assets:						
Cash and cash equivalents	66,643			71,162		
Allowance for loan losses	(61,026)			(79,089)		
Other assets	130,259			88,931		
Total noninterest-earning assets	135,876			81,004		
Total assets	**$ 2,793,505**			**$ 2,723,432**		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Deposits:						
Savings	$ 115,685	$ 466	1.62%	$ 111,685	$ 586	2.11%
Money market checking and NOW accounts	591,317	769	0.52%	514,662	769	0.60%
Time deposits of $100,000 or more	565,927	1,057	0.75%	659,176	1,763	1.08%
Other time deposits	371,868	808	0.87%	348,749	835	0.96%
FHLB advances	9,188	41	1.79%	4,103	43	4.22%
Junior subordinated debentures	9,966	84	3.38%	82,406	797	3.89%
Total interest-bearing liabilities	1,663,951	3,225	0.78%	1,720,781	4,793	1.12%
Noninterest-bearing liabilities:						
Demand deposits	721,090			673,921		
Other liabilities	14,723			28,152		
Total noninterest-bearing liabilities	735,813			702,073		
Total liabilities	2,399,764			2,422,854		
Stockholders equity	393,741			300,578		

Total liabilities and stockholders equity	**$ 2,793,505**		**$ 2,723,432**	
Net interest income		**$ 27,193**		**$ 25,224**
Cost of deposits		**0.53%**		**0.69%**
Net interest spread [3]		**3.81%**		**3.45%**
Net interest margin [4]		**4.10%**		**3.84%**

(1) *Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $205,000 and $433,000 for the three months ended June 30, 2013 and 2012, respectively.*

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

(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.

	Three Months Ended June 30, 2013 vs. Three Months Ended June 30, 2012 Increases (Decreases) Due to Change In		
	Volume	Rate	Total
		(In thousands)	
Interest and dividend income:			
Gross loans, net of deferred loan fees	$ 2,184	$ (1,586)	$ 598
Municipal securities-taxable	12	(0)	12
Municipal securities-tax exempt	(25)	(15)	(40)
Obligations of other U.S. government agencies	74	(22)	52
Other debt securities	(41)	(113)	(154)
Equity securities	(14)	181	167
Federal funds sold	(15)	(16)	(31)
Term federal funds sold	(84)	(84)	(168)
Interest-bearing deposits in other banks	(32)	(3)	(35)
Total interest and dividend income	**$ 2,059**	**$ (1,658)**	**$ 401**
Interest expense:			
Savings	$ 21	$ (141)	$ (120)
Money market checking and NOW accounts	108	(108)	
Time deposits of $100,000 or more	(225)	(481)	(706)
Other time deposits	54	(81)	(27)
FHLB advances	32	(34)	(2)
Junior subordinated debentures	(621)	(92)	(713)
Total interest expense	$ (631)	$ (937)	$ (1,568)
Change in net interest income	**$ 2,690**	**$ (721)**	**$ 1,969**

Interest income increased 1.3 percent to $30.4 million for the three months ended June 30, 2013 from $30.0 million for the same period in 2012. Interest expense decreased $1.6 million, or 32.7 percent, to $3.2 million for the three months ended June 30, 2013 compared to $4.8 million for the same period in 2012. For the three months ended June 30, 2013 and 2012, net interest income before credit losses on a tax-equivalent basis was $27.2 million and $25.2 million, respectively. The increase in net interest income before credit losses was primarily attributable to lower deposit costs resulting from the replacement of high-cost time deposits with low-cost deposits and a decrease in interest expense from the redemption of $50 million of TPS. The net interest spread and net interest margin for the three months ended June 30, 2013 were 3.81 percent and 4.10 percent, respectively, compared to 3.45 percent and 3.84 percent, respectively, for the three months ended June 30, 2012.

Average gross loans increased by $162.3 million, or 8.1 percent, to $2.17 billion for the three months ended June 30, 2013 from $2.00 billion for the same period in 2012. Average investment securities increased by $6.4 million, or 1.5 percent, to $423.6 million for the three months ended June 30, 2013 from $417.2 million for the same period in 2012. Average interest-earning assets increased by $15.2 million, or 0.6 percent, to $2.66 billion for the three months ended June 30, 2013 from $2.64 billion for the same period in 2012. The increase in average interest-earning assets was due mainly to an increase in new loan production. Average interest-bearing liabilities decreased $56.8 million to $1.66 billion for the three months ended June 30, 2013, compared to $1.72 billion for the same period in 2012. The decrease in average interest-bearing liabilities resulted primarily from the redemption of $50 million of TPS and the reduction of high-cost time deposits.

The average yield on loans decreased to 5.16 percent for the three months ended June 30, 2013 from 5.47 percent for the same period in 2012. The decrease in loan yields was attributable to new loans originated at lower rates due to high competition in the market. The average yield on investment securities decreased to 2.09 percent for the three months ended June 30, 2013 from 2.25 percent for the same period in 2012. The decrease was mainly attributable to new securities purchased with lower rates. The average yield on interest-earning assets increased by 2 basis points to 4.59 percent for the three months ended June 30, 2013, from 4.57 percent for the same period in 2012, due primarily to on-going investment of funds to higher yielding loans. The average cost on interest-bearing liabilities decreased by 34 basis points to 0.78 percent for the three months ended June 30, 2013 from 1.12 percent for the same period in 2012. This decrease was due primarily to a continued shift in funding sources toward lower-cost funds through disciplined deposit pricing, while reducing wholesale funds and rate sensitive deposits.

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

	Six Months Ended June 30, 2013			June 30, 2012		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(In thousands)					
Assets						
Interest-earning assets:						
Gross loans, net of deferred loan fees [(1)]	$ 2,119,881	$ 54,638	5.20%	$ 1,994,273	$ 54,783	5.52%
Municipal securities-taxable	46,106	908	3.94%	44,427	888	4.00%
Municipal securities-tax exempt [(2)]	11,749	258	4.40%	13,147	310	4.72%
Obligations of other U.S. government agencies	91,219	854	1.87%	75,418	705	1.87%
Other debt securities	284,189	2,454	1.73%	287,743	2,696	1.87%
Equity securities	29,528	634	4.29%	31,789	333	2.10%
Federal funds sold	3,136	6	0.39%	15,847	33	0.37%
Term federal funds sold			0.00%	98,434	493	0.94%
Interest-bearing deposits in other banks	89,617	112	0.25%	98,007	127	0.26%
Total interest-earning assets	2,675,425	59,864	4.51%	2,659,085	60,368	4.57%
Noninterest-earning assets:						
Cash and cash equivalents	66,406			70,204		
Allowance for loan losses	(61,828)			(83,557)		
Other assets	131,611			86,753		
Total noninterest-earning assets	136,189			73,400		
Total assets	**$ 2,811,614**			**$ 2,732,485**		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Deposits:						
Savings	$ 114,937	$ 924	1.62%	$ 108,681	$ 1,159	2.14%
Money market checking and NOW accounts	579,711	1,489	0.52%	490,163	1,454	0.60%
Time deposits of $100,000 or more	580,485	2,232	0.78%	720,869	4,511	1.26%
Other time deposits	371,336	1,614	0.88%	343,195	1,747	1.02%
FHLB advances	6,056	79	2.63%	3,681	86	4.70%
Other Borrowings			0.00%		1	0.00%
Junior subordinated debentures	42,881	678	3.19%	82,406	1,597	3.89%
Total interest-bearing liabilities	1,695,406	7,016	0.83%	1,748,995	10,555	1.21%
Noninterest-bearing liabilities:						
Demand deposits	710,920			659,825		
Other liabilities	16,886			29,573		
Total noninterest-bearing liabilities	727,806			689,398		
Total liabilities	2,423,212			2,438,393		
Stockholders equity	388,402			294,092		

Total liabilities and stockholders equity	**$ 2,811,614**		**$ 2,732,485**	
Net interest income	**$ 52,848**		**$ 49,813**	
Cost of deposits		**0.54%**		**0.77%**
Net interest spread [(3)]		**3.68%**		**3.36%**
Net interest margin [(4)]		**3.98%**		**3.77%**

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(1) Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were $426,000 and $740,000 for the six months ended June 30, 2013 and 2012, respectively.
(2) Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.
(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.

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.

	Six Months Ended June 30, 2013 vs. Six Months Ended June 30, 2012 Increases (Decreases) Due to Change In		
	Volume	**Rate**	**Total**
		(In thousands)	
Interest and dividend income:			
Gross loans, net of deferred loan fees	$ 1,586	$ (1,731)	$ (145)
Municipal securities-taxable	24	(4)	20
Municipal securities-tax exempt	(31)	(21)	(52)
Obligations of other U.S. government agencies	148	1	149
Other debt securities	(34)	(208)	(242)
Equity securities	(3)	304	301
Federal funds sold	(27)	(0)	(27)
Term federal funds sold	(247)	(246)	(493)
Interest-bearing deposits in other banks	(11)	(4)	(15)
Total interest and dividend income	**$ 1,405**	**$ (1,909)**	**$ (504)**
Interest expense:			
Savings	$ 9	$ (244)	$ (235)
Money market checking and NOW accounts	135	(100)	35
Time deposits of $100,000 or more	(767)	(1,512)	(2,279)
Other time deposits	41	(174)	(133)
FHLB advances	18	(25)	(7)
Junior subordinated debentures	(668)	(251)	(919)
Total interest expense	$ (1,232)	$ (2,306)	$ (3,538)
Change in net interest income	**$ 2,637**	**$ 397**	**$ 3,034**

Interest income decreased 0.8 percent to $59.9 million for the six months ended June 30, 2013 from $60.4 million for the same period in 2012. Interest expense decreased $3.5 million, or 33.5 percent, to $7.0 million for the six months ended June 30, 2013 compared to $10.6 million for the same period in 2012. For the six months ended June 30, 2013 and 2012, net interest income before credit losses on a tax-equivalent basis was $52.8 million and $49.8 million, respectively. The increase in net interest income before credit losses was primarily attributable to lower deposit costs resulting from the replacement of high-cost time deposits with low-cost deposit and a decrease in interest expense from the full redemption of $80 million of TPS. The net interest spread and net interest margin for the six months ended June 30, 2013 were 3.68 percent and 3.98 percent, respectively, compared to 3.36 percent and 3.77 percent, respectively, for the six months ended June 30, 2012.

Average gross loans increased by $125.6 million, or 6.3 percent, to $2.12 billion for the six months ended June 30, 2013 from $1.99 billion for the same period in 2012. Average investment securities increased by $12.5 million, or 3.0 percent, to $433.3 million for the six months ended June 30, 2013 from $420.7 million for the same period in 2012. Average interest-earning assets increased by $16.3 million, or 0.6 percent, to $2.68 billion for the six months ended June 30, 2013 from $2.66 billion for the same period in 2012. The increase in average interest-earning assets was due mainly to an increase in new loan production. Average interest bearing liabilities decreased $53.6 million to $1.70 billion for the six months ended June 30, 2013, compared to $1.75 billion for the same period in 2012. The decrease in average interest-bearing liabilities resulted primarily from the full redemption of $80 million of TPS and the reduction of high-cost time deposits.

The average yield on loans decreased to 5.20 percent for the six months ended June 30, 2013 from 5.52 percent for the same period in 2012. The decrease in loan yields was attributable to new loans originated at lower rates due to high competition in the market. The average yield on investment securities decreased to 2.07 percent for the six months ended June 30, 2013 from 2.19 percent for the same period in 2012. The decrease was due mainly to the decrease in interest income from other debt securities. The average yield on interest-earning assets decreased by 6 basis points to 4.51 percent for the six months ended

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June 30, 2013, from 4.57 percent for the same period in 2012, due primarily to new loans generated with lower rates. The average cost on interest-bearing liabilities decreased by 38 basis points to 0.83 percent for the six months ended June 30, 2013 from 1.21 percent for the same period in 2012. This decrease was due primarily to a continued shift in funding sources toward lower-cost funds through disciplined deposit pricing, while reducing wholesale funds and rate sensitive deposits.

Provision for Credit Losses

For the three months ended June 30, 2013 and 2012, the provisions for credit losses were zero and $4.0 million, respectively. For the six months ended June 30, 2013 and 2012, the provisions for credit losses were zero and $6.0 million, respectively. Net charge-offs decreased by $11.8 million, or 87.9 percent, to $1.6 million for the three months ended June 30, 2013 from $13.4 million for the same period in 2012. Net charge-offs decreased by $20.8 million, or 84.1 percent, to $3.9 million for the six months ended June 30, 2013 from $24.7 million for the same period in 2012. Non-performing loans decreased to $28.0 million at June 30, 2013 from $45.1 million at June 30, 2012, representing 1.28 percent and 2.32 percent of gross loans, respectively. See Financial Condition Non-Performing Assets and Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items for further details.

Non-Interest Income

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

	Three Months Ended June 30,		Increase (Decrease)	
	2013	**2012**	**Amount**	**Percentage**
	(In thousands)			
Service charges on deposit accounts	$ 2,884	$ 2,936	$ (52)	-1.77%
Insurance commissions	1,418	1,294	124	9.58%
Remittance fees	541	487	54	11.09%
Trade finance fees	276	292	(16)	-5.48%
Other service charges and fees	335	380	(45)	-11.84%
Bank-owned life insurance income	233	238	(5)	-2.10%
Gain on sales of SBA loans guaranteed portion	2,378	5,473	(3,095)	-56.55%
Net loss on sales of other loans	(460)	(5,326)	4,866	-91.36%
Net gain on sales of investment securities	303	1,381	(1,078)	-78.06%
Other-than-temporary impairment loss on investment securities		(116)	116	-100.00%
Other operating income	242	150	92	61.33%
Total non-interest income	**$ 8,150**	**$ 7,189**	**$ 961**	13.37%

Non-interest income increased to $8.2 million for the three months ended June 30, 2013, compared to $7.2 million for the same period in 2012. Non-interest income as a percentage of average assets was 1.17 percent for the three months ended June 30, 2013, up from 1.06 percent of average assets for the same period in 2012.

One of our largest sources of non-interest income for the three months ended June 30, 2013 was a net gain from selling the guaranteed portions of SBA loans, which totaled $2.4 million, or 29.2 percent of total non-interest income, compared to $5.5 million, or 76.1 percent of total non-interest income for the same period in 2012. The Company sold $26.6 million and $65.2 million of the guaranteed portions of SBA loans during the three months ended June 30, 2013 and 2012, respectively. Net loss on sales of other loans, which includes the valuation adjustment to loans held for sale, decreased to $460,000 for the three months ended June 30, 2013 from $5.3 million for the same period in 2012. The sale of other loans decreased significantly to $4.4 million for the three months ended June 30, 2013 from $44.3 million for the three months ended June 30, 2012. The decrease in net loss on sales of other loans was due primarily to continuing improvement in asset quality.

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Increase (Decrease) Amount	Increase (Decrease) Percentage
	(In thousands)			
Service charges on deposit accounts	$ 5,932	$ 6,104	$ (172)	-2.82%
Insurance commissions	2,631	2,530	101	3.99%
Remittance fees	1,038	941	97	10.31%
Trade finance fees	553	584	(31)	-5.31%
Other service charges and fees	733	744	(11)	-1.48%
Bank-owned life insurance income	463	637	(174)	-27.32%
Gain on sales of SBA loans guaranteed portion	5,070	5,473	(403)	-7.36%
Net loss on sales of other loans	(557)	(7,719)	7,162	-92.78%
Net gain on sales of investment securities	312	1,382	(1,070)	-77.42%
Other-than-temporary impairment loss on investment securities		(116)	116	-100.00%
Other operating income	332	262	70	26.72%
Total non-interest income	**$ 16,507**	**$ 10,822**	**$ 5,685**	52.53%

Non-interest income increased to $16.5 million for the six months ended June 30, 2013, compared to $10.8 million for the same period in 2012. Non-interest income as a percentage of average assets was 1.18 percent for the six months ended June 30, 2013, up from 0.80 percent of average assets for the same period in 2012.

One of our largest sources of non-interest income for the six months ended June 30, 2013 was a net gain from selling the guaranteed portions of SBA loans, which totaled $5.1 million compared to $5.5 million for the same period in 2012. The Company sold $53.8 million and $65.2 million of the guaranteed portions of SBA loans during the six months ended June 30, 2013 and 2012, respectively. Net loss on sales of other loans, which includes the valuation adjustment to loans held for sale, decreased to $557,000 for the six months ended June 30, 2013 from $7.7 million for the same period in 2012. The sale of other loans decreased significantly to $5.9 million for the six months ended June 30, 2013 from $73.0 million for the same period in 2012. The decrease in net loss on sales of other loans was due primarily to a direct result of our management s effort to reduce problem and non-performing assets and continuing improvement in asset quality.

Non-Interest Expense

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Increase (Decrease) Amount	Increase (Decrease) Percentage
	(In thousands)			
Salaries and employee benefits	$ 9,415	$ 9,449	$ (34)	-0.36%
Occupancy and equipment	2,555	2,621	(66)	-2.52%
Deposit insurance premiums and regulatory assessments	517	1,498	(981)	-65.49%
Data processing	1,142	1,298	(156)	-12.02%
Other real estate owned expense	(20)	69	(89)	-128.99%
Professional fees	2,365	1,089	1,276	117.17%
Directors and officers liability insurance	219	295	(76)	-25.76%
Supplies and communications	630	576	54	9.38%
Advertising and promotion	1,005	1,009	(4)	-0.40%
Loan-related expense	91	88	3	3.41%
Amortization of other intangible assets	41	45	(4)	-8.89%
Other operating expenses	2,004	1,726	278	16.11%

Total non-interest expense	**$ 19,964**	**$ 19,763**	**$ 201**	1.02%

Non-interest expense increased to $20.0 million for the three months ended June 30, 2013, compared to $19.8 million for the same period in 2012. Non-interest expense as a percentage of average assets was 2.86 percent for the three months ended June 30, 2013, down from 2.90 percent of average assets for the same period in 2012.

Professional fees increased by $1.3 million, or 117.2 percent, to $2.4 million for the three months ended June 30, 2013, compared to $1.1 million for the same period in 2012, due mainly to legal expenses incurred in defending lawsuits in the ordinary course of business, as well as professional and legal expenses related to reviews of potential strategic transactions. Reflecting lower premium and assessment rates as a result of overall improvement in our financial condition, deposit insurance premiums and regulatory assessments decreased by $981,000, or 65.5 percent, to $517,000 for the three months ended June 30, 2013 compared to $1.5 million for the same period in 2012.

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Increase (Decrease) Amount	Increase (Decrease) Percentage
	(In thousands)			
Salaries and employee benefits	$ 18,766	$ 18,559	$ 207	1.12%
Occupancy and equipment	5,111	5,216	(105)	-2.01%
Deposit insurance premiums and regulatory assessments	751	2,899	(2,148)	-74.09%
Data processing	2,312	2,551	(239)	-9.37%
Other real estate owned expense	12	25	(13)	-52.00%
Professional fees	4,521	1,838	2,683	145.97%
Directors and officers liability insurance	439	592	(153)	-25.84%
Supplies and communications	1,125	1,134	(9)	-0.79%
Advertising and promotion	1,677	1,610	67	4.16%
Loan-related expense	237	288	(51)	-17.71%
Amortization of other intangible assets	82	116	(34)	-29.31%
Other operating expenses	4,098	3,681	417	11.33%
Total non-interest expense	**$ 39,131**	**$ 38,509**	**$ 622**	1.62%

Non-interest expense increased to $39.1 million for the six months ended June 30, 2013, compared to $38.5 million for the same period in 2012. Non-interest expense as a percentage of average assets was 2.80 percent for the six months ended June 30, 2013, down from 2.83 percent of average assets for the same period in 2012.

Professional fees increased by $2.7 million, or 146.0 percent, to $4.5 million for the six months ended June 30, 2013, compared to $1.8 million for the same period in 2012, due mainly to legal expenses incurred in defending lawsuits in the ordinary course of business, as well as professional and legal expenses related to reviews of potential strategic transactions. Reflecting lower premium and assessment rates as a result of overall improvement in our financial condition, deposit insurance premiums and regulatory assessments decreased by $2.1 million, or 74.1 percent, to $751,000 for the six months ended June 30, 2013 compared to $2.9 million for the same period in 2012.

Provision for Income Taxes

For the six months ended June 30, 2013, income tax expenses of $10.5 million were recognized on pre-tax income of $30.1 million, representing an effective tax rate of 34.9 percent, compared to income tax benefit of $47.1 million on pre-tax income of $16.0 million, representing an effective tax rate of (294.0) percent, for the same period in 2012.

Financial Conditions

Investment Portfolio

Investment securities are classified as held-to-maturity or available-for-sale in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held-to-maturity. All other securities are classified as available-for-sale. There were no trading or held-to-maturity securities as of June 30, 2013 and December 31, 2012. Securities classified as held-to-maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available-for-sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. The investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of June 30, 2013, the investment portfolio was composed primarily of mortgage-backed securities, U.S. government agency securities, and collateralized mortgage obligations. Investment securities available-for-sale were 100 percent of the investment portfolio as of June 30, 2013 and December 31, 2012. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders equity as of June 30, 2013 and December 31, 2012.

As of June 30, 2013, securities available-for-sale were $400.8 million, or 14.5 percent of assets, compared to $451.1 million, or 15.6 percent of assets, as of December 31, 2012. For the six months ended June 30, 2013, securities available-for-sale decreased by $50.2 million, or 11.1 percent, from $451.1 million as of December 31, 2012, in the form of sales, calls, prepayments and scheduled amortization.

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The following table summarizes the amortized cost, estimated fair value and unrealized gain (loss) on investment securities as of the dates indicated:

	June 30, 2013			December 31, 2012		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
			(In thousands)			
Securities available-for-sale:						
Mortgage-backed securities [(1)]	$ 125,177	$ 124,618	$ (559)	$ 157,185	$ 160,326	$ 3,141
Collateralized mortgage obligations [(1)]	83,955	84,848	893	98,821	100,487	1,666
U.S. government agency securities	98,853	97,604	(1,249)	92,990	93,118	128
Municipal bonds-tax exempt	10,166	10,651	485	12,209	12,812	603
Municipal bonds-taxable	44,053	45,546	1,493	44,248	46,142	1,894
Corporate bonds	20,475	20,375	(100)	20,470	20,400	(70)
SBA loan pool securities	13,842	13,501	(341)	14,104	14,026	(78)
Other securities	3,025	2,933	(92)	3,331	3,357	26
Equity securities	354	739	385	354	392	38
Total securities available-for-sale:	**$ 399,900**	**$ 400,815**	**$ 915**	**$ 443,712**	**$ 451,060**	**$ 7,348**

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

The amortized cost and estimated fair value of investment securities as of June 30, 2013, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2042, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Within one year	$	$
Over one year through five years	29,404	29,406
Over five years through ten years	111,880	111,811
Over ten years	49,130	49,393
Mortgage-backed securities	125,177	124,618
Collateralized mortgage obligations	83,955	84,848
Equity securities	354	739
Total	**$ 399,900**	**$ 400,815**

FASB ASC 320, *Investments Debt and Equity Securities*, requires us to periodically evaluate our investments for other-than-temporary impairment (OTTI). There was no OTTI charge during the six months ended June 30, 2013.

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Gross unrealized losses on investment securities available-for-sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2013 and December 31, 2012:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(In thousands, except number of securities)								
June 30, 2013:									
Mortgage-backed securities	$ 1,871	$ 79,024	26	$	$		$ 1,871	$ 79,024	26
Collateralized mortgage obligations	521	25,134	10				521	25,134	10
U.S. government agency securities	1,267	89,068	31				1,267	89,068	31
Municipal bonds-taxable	183	7,485	6	3	444	1	186	7,929	7
Corporate bonds	108	4,880	1	168	10,819	3	276	15,699	4
SBA loan pool securities	341	13,501	4				341	13,501	4
Other securities	10	2,016	4	83	918	1	93	2,934	5
Total	**$ 4,301**	**$ 221,108**	**82**	**$ 254**	**$ 12,181**	**5**	**$ 4,555**	**$ 233,289**	**87**
December 31, 2012:									
Mortgage-backed securities	$ 186	$ 28,354	10	$	$		$ 186	$ 28,354	10
Collateralized mortgage obligations	109	14,344	5				109	14,344	5
U.S. government agency securities	94	26,894	9				94	26,894	9
Municipal bonds-taxable	126	4,587	4	9	1,964	3	135	6,551	7
Corporate bonds				246	10,738	3	246	10,738	3
SBA loan pool securities	82	11,004	3				82	11,004	3
Other securities	1	12	1	46	953	1	47	965	2
Equity securities	40	96	1				40	96	1
Total	**$ 638**	**$ 85,291**	**33**	**$ 301**	**$ 13,655**	**7**	**$ 939**	**$ 98,946**	**40**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2013 and December 31, 2012 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of June 30, 2013. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment securities to be written down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

The Company does not intend to sell these securities and it is not more likely than not that we will be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management s opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2013 and December 31, 2012 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2013 and December 31, 2012 were warranted.

Investment securities available-for-sale with carrying values of $55.7 million and $18.2 million as of June 30, 2013 and December 31, 2012, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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Loan Portfolio

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

	June 30, 2013	December 31, 2012	Increase (Decrease) Amount	Percentage
		(In thousands)		
Real estate loans:				
Commercial property	$ 887,782	$ 787,094	$ 100,688	12.8%
Residential property	88,654	101,778	(13,124)	-12.9%
Total real estate loans	976,436	888,872	87,564	9.9%
Commercial and Industrial loans:				
Commercial term	940,555	884,364	56,191	6.4%
Commercial lines of credit	45,195	56,121	(10,926)	-19.5%
SBA loans	157,240	148,306	8,934	6.0%
International loans	32,583	34,221	(1,638)	-4.8%
Total commercial and industrial loans	1,175,573	1,123,012	52,561	4.7%
Consumer loans [1]	35,380	36,676	(1,296)	-3.5%
Total gross loans	**2,187,389**	**2,048,560**	**138,829**	**6.8%**
Allowance for loans losses	(59,876)	(63,305)	3,429	-5.4%
Deferred loan fees	695	796	(101)	-12.7%
Loans receivable, net	**$ 2,128,208**	**$ 1,986,051**	**$ 142,157**	**7.2%**

(1) Consumer loans include home equity line of credit.

As of June 30, 2013 and December 31, 2012, loans receivable (excluding loans held for sale), net of deferred loan fees and allowance for loan losses, totaled $2.13 billion and $1.99 billion, respectively, representing an increase of $142.2 million, or 7.2 percent. Gross loans increased by $138.8 million, or 6.8 percent, to $2.19 billion as of June 30, 2013, from $2.05 billion as of December 31, 2012. The increase was attributable to increases in real estate loans by 9.9 percent, commercial term loans by 6.4 percent, and SBA loans by 6.0 percent from the year ended December 31, 2012. The increase was partially offset by a decline in commercial lines of credit by 19.5 percent.

During the six months ended June 30, 2013, total loan disbursement consisted of $257.6 million in commercial real estate loans, $67.3 million in SBA loans and $16.9 million in commercial and industrial loans. The increase was offset by decreases in loans resulting from $53.2 million of transfers to loans held for sale, $6.5 million of gross charge-offs, $143.9 million of pay-offs and other net amortizations.

As of June 30, 2013, our loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of gross loans outstanding:

Industry	Balance as of June 30, 2013	Percentage of Gross Loans Outstanding
	(In thousands)	
Lessor of non-residential buildings	$ 556,363	25.41%
Accommodation/hospitality	$ 366,743	16.74%

Gasoline stations	$ 300,161	13.71%

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

Non-Performing Assets

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

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Except for non-performing loans set forth below, management is not aware of any loans as of June 30, 2013 and December 31, 2012 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower s ability to pay.

The following table provides information with respect to the components of non-performing assets as of the dates indicated:

	June 30, 2013	December 31, 2012	Increase (Decrease) Amount	Percentage
		(In thousands)		
Non-performing loans:				
Real estate loans:				
Commercial property				
Retail	$	$ 1,079	$ (1,079)	-100.0%
Land	1,612	2,097	(485)	-23.1%
Residential property	1,620	1,270	350	27.6%
Commercial and industrial loans:				
Commercial term				
Unsecured	6,209	8,311	(2,102)	-25.3%
Secured by real estate	5,389	8,679	(3,290)	-37.9%
Commercial lines of credit	1,052	1,521	(469)	-30.8%
SBA loans	10,596	12,563	(1,967)	-15.7%
Consumer loans	1,497	1,759	(262)	-14.9%
Total non-accrual loans	27,975	37,279	(9,304)	-25.0%
Loans 90 days or more past due and still accruing				0.0%
Total non-performing loans (1) (2)	27,975	37,279	(9,304)	-25.0%
Other real estate owned	900	774	126	16.3%
Total non-performing assets	**$ 28,875**	**$ 38,053**	**$ (9,178)**	**-24.1%**
Non-performing loans as a percentage of total gross loans	1.28%	1.82%		
Non-performing assets as a percentage of total assets	1.04%	1.32%		
Total debt restructured performing loans	$ 15,623	$ 16,980		

(1) Includes non-performing troubled debt restructured loans of $13.4.0 million and $18.8 million as of June 30, 2013 and December 31, 2012, respectively

(2) Excludes loans held for sale

Non-accrual loans, excluding loans held for sale, totaled $28.0 million as of June 30, 2013, compared to $37.3 million as of December 31, 2012, representing a 25.0 percent decrease. Delinquent loans (defined as 30 days or more past due) were $14.9 million as of June 30, 2013, compared to $16.5 million as of December 31, 2012, representing a 9.5 percent decrease. As of June 30, 2013, delinquent loans of $12.3 million were included in non-performing loans. The $14.1 million of delinquent loans as of December 31, 2012 was included in non-performing loans. During the six months ended June 30, 2013, loans totaling $6.3 million were placed on non-accrual status. The additions to non-accrual loans were offset by $5.7 million in transfers to loans held for sale, $4.2 million in charge-offs, $2.5 million in principal paydowns and payoffs, $1.4 million in upgrades to accrual, $1.2 million in note sales, and $670,000 in SBA guaranteed portions received.

The ratio of non-performing loans to gross loans also decreased to 1.28 percent at June 30, 2013 from 1.82 percent at December 31, 2012. During the same period, our allowance for loan losses decreased by $3.4 million, or 5.4 percent, to $59.9 million from $63.3 million. Of the $28.0 million non-performing loans, approximately $23.3 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserve of $4.9 million as of June 30, 2013. We calculate our allowance for the collateral-dependent loans as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of June 30, 2013, OREO consisted of two properties in Virginia and California with a combined carrying value of $900,000 and a valuation adjustment of $126,000. As of December 31, 2012, there were two properties located in Illinois and Virginia with a combined carrying value of $774,000 and no valuation adjustment.

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We evaluate loan impairment in accordance with applicable GAAP. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as an expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

The following table provides information on impaired loans as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance
			(In thousands)		
June 30, 2013					
Real estate loans:					
Commercial property					
Retail	$ 1,818	$ 1,818	$ 1,818	$	$
Land	1,612	1,902	1,612		
Other	523	523		523	28
Construction					
Residential property	3,019	3,091	3,019		
Commercial and industrial loans:					
Commercial term					
Unsecured	12,689	13,742	3,440	9,249	3,863
Secured by real estate	16,492	17,649	15,887	605	119
Commercial lines of credit	1,052	1,259	1,052		
SBA loans	5,541	8,832	3,363	2,178	998
International loans	1,281	1,280	572	709	31
Consumer loans	1,647	1,718	457	1,190	385
Total gross loans	**$ 45,674**	**$ 51,814**	**$ 31,220**	**$ 14,454**	**$ 5,424**
December 31, 2012					
Real estate loans:					
Commercial property					
Retail	$ 2,930	$ 3,024	$ 2,930	$	$
Land	2,097	2,307	2,097		
Other	527	527		527	67
Construction					
Residential property	3,265	3,308	1,866	1,399	94
Commercial and industrial loans:					
Commercial term					
Unsecured	14,532	15,515	6,826	7,706	2,144
Secured by real estate	22,050	23,221	9,520	12,530	2,319
Commercial lines of credit	1,521	1,704	848	673	230
SBA loans	6,170	10,244	4,294	1,876	762
International loans					
Consumer loans	1,652	1,711	449	1,203	615
Total gross loans	**$ 54,744**	**$ 61,561**	**$ 28,830**	**$ 25,914**	**$ 6,231**

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	Average Recorded Investment for the Three Months Ended	Interest Income Recognized for the Three Months Ended	Average Recorded Investment for the Six Months Ended	Interest Income Recognized for the Six Months Ended
		(In thousands)		
June 30, 2013				
Real estate loans:				
Commercial property				
Retail	$ 1,823	$ 18	$ 2,309	$ 44
Land	1,637	40	1,674	80
Other	524	6	525	10
Construction				
Residential property	3,027	31	3,043	59
Commercial and industrial loans:				
Commercial term				
Unsecured	12,933	221	13,093	406
Secured by real estate	16,539	305	17,026	618
Commercial lines of credit	1,060	9	1,286	24
SBA loans	5,595	281	6,034	554
International loans	1,330		1,414	
Consumer loans	1,649	15	1,646	27
Total gross loans	**$ 46,117**	**$ 926**	**$ 48,050**	**$ 1,822**
June 30, 2012				
Real estate loans:				
Commercial property				
Retail	$ 2,546	$ 19	$ 1,945	$ 48
Land	2,137	45	2,175	91
Other	878	11	1,138	33
Construction	7,983	89	8,090	178
Residential property	3,177	48	3,259	84
Commercial and industrial loans:				
Commercial term				
Unsecured	13,474	192	14,257	430
Secured by real estate	19,021	525	22,756	958
Commercial lines of credit	1,788	22	1,835	30
SBA loans	8,336	286	8,150	483
Consumer loans	1,402	2	903	10
Total gross loans	**$ 60,742**	**$ 1,239**	**$ 64,508**	**$ 2,345**

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
		(In thousands)		
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$ 1,057	$ 1,505	$ 2,125	$ 2,933
Less: Interest income recognized on impaired loans	(926)	(1,239)	(1,822)	(2,345)

Interest foregone on impaired loans	**$ 131**	**$ 266**	**$ 303**	**$ 588**

For the six months ended June 30, 2013, we restructured monthly payments for 13 loans, with a net carrying value of $2.7 million at the time of modification, which we subsequently classified as troubled debt restructured loans. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly, and/or allowing for interest only monthly payments for six months or less. As of June 30, 2013, troubled debt restructurings on accrual status totaled $15.6 million, all of which were temporary interest rate and payment reductions and extensions of maturity, and a $378,000 reserve relating to these loans is included in the allowance for loan losses. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the

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borrowers past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms is probable. As of June 30, 2013, troubled debt restructuring on non-accrual status totaled $13.4 million, and a $3.0 million reserve relating to these loans is included in the allowance for loan losses.

As of December 31, 2012, troubled debt restructurings on accrual status totaled $17.0 million, all of which were temporary interest rate and payment reductions, and a $1.5 million reserve relating to these loans was included in the allowance for loan losses. As of December 31, 2012, troubled debt restructuring on non-accrual status totaled $18.8 million, and a $2.1 million reserve relating to these loans was included in the allowance for loan losses.

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

In the first quarter of 2010, the look-back period was reduced from twelve quarters to eight quarters, with 60 percent weighting given to the most recent four quarters and 40 percent to the oldest four quarters, to place greater emphasis on losses taken by the Bank during the economic downturn. In the second quarter of 2013, management reevaluated the look-back period and restored the twelve quarter look-back period in order to capture a period of higher losses that would have otherwise been excluded. Risk factor calculations are weighted at 50 percent for the most recent four quarters, 33 percent for the next four quarters, and 17 percent for the oldest four quarters. As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis. The change in methodology maintained the Bank s allowance at a level consistent with prior quarter. Under the previous methodology, the Bank would have recognized a negative provision of $5.9 million, which the Bank did not consider to be prudent, given the uncertainty in the economy.

To determine general reserve requirements, existing loans are divided into 11 general loan pools of risk-rated loans as well as 3 homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current loan portfolio. In addition, specific reserves are allocated for loans deemed impaired.

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated credit losses associated with the Bank s current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

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

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

	June 30, 2013		December 31, 2012	
	Allowance Amount	**Loans Receivable**	**Allowance Amount**	**Loans Receivable**
	(In thousands)			
Real estate loans:				
Commercial property	$ 17,591	$ 887,782	$ 17,109	$ 787,094
Residential property	889	88,654	1,071	101,778
Total real estate loans	18,480	976,436	18,180	888,872
Commercial and industrial loans	39,034	1,175,573	41,928	1,123,012
Consumer loans	1,884	35,380	2,280	36,676
Unallocated	478		917	
Total	**$ 59,876**	**$ 2,187,389**	**$ 63,305**	**$ 2,048,560**

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

	As of and for the Three Months Ended			As of and for the Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
			(In thousands)		
Allowance for loan losses:					
Balance at beginning of period	$ 61,191	$ 63,305	$ 81,052	$ 63,305	$ 89,936
Actual charge-offs	(3,490)	(3,024)	(14,716)	(6,514)	(27,037)
Recoveries on loans previously charged cff	1,867	714	1,324	2,581	2,361
Net loan charge-offs	(1,623)	(2,310)	(13,392)	(3,933)	(24,676)
Provision charged to operating expense	308	196	4,233	504	6,633
Balance at end of period	**$ 59,876**	**$ 61,191**	**$ 71,893**	**$ 59,876**	**$ 71,893**
Allowance for off-balance sheet items:					
Balance at beginning of period	$ 1,628	$ 1,824	$ 2,581	$ 1,822	$ 2,981
Provision charged to operating expense	(308)	(196)	(233)	(504)	(633)
Balance at end of period	**$ 1,320**	**$ 1,628**	**$ 2,348**	**$ 1,318**	**$ 2,348**
Ratios:					
Net loan charge-offs to average gross loans (1)	0.30%	0.45%	2.67%	0.37%	2.47%
Net loan charge-offs to gross loans (1)	0.30%	0.44%	2.75%	0.36%	2.53%
Allowance for loan losses to average gross loans	2.76%	2.95%	3.59%	2.82%	3.60%
Allowance for loan losses to gross loans	2.74%	2.88%	3.69%	2.74%	3.69%
Net loan charge-offs to allowance for loan losses (1)	10.84%	15.10%	74.51%	13.14%	68.65%
Net loan charge-offs to provision charged to operating expenses	526.95%	1178.57%	316.37%	780.36%	372.02%
Allowance for loan losses to non-performing loans	214.03%	186.03%	159.26%	214.03%	159.26%
Balance:					
Average gross loans during period	$ 2,165,741	$ 2,073,514	$ 2,003,475	$ 2,119,881	$ 1,994,273
Gross loans at end of period	$ 2,187,389	$ 2,121,686	$ 1,949,624	$ 2,187,389	$ 1,949,624
Non-performing loans at end of period	$ 27,975	$ 32,893	$ 45,143	$ 27,975	$ 45,143

(1) Net loan charge-offs are annualized to calculate the ratios.

The allowance for loan losses decreased by $3.4 million, or 5.4 percent, to $59.9 million as of June 30, 2013, compared to $63.3 million as of December 31, 2012. The allowance for loan losses as a percentage of gross loans decreased to 2.74 percent as of June 30, 2013 from 3.09 percent as of December 31, 2012. The provision for credit losses decreased by $6.0 million to zero for the six months ended June 30, 2013 from $6.0 million for the six months ended June 30, 2012. The $504,000 provision for credit losses was offset by the reversal in provision for off-balance sheet items, resulting in a zero provision for credit losses for the six months ended June 30, 2013. The $6.6 million provision for credit losses was offset by the $633,000 reversal in provision for off-balance sheet items, resulting in a $6.0 million provision for credit losses for the six months ended June 30, 2012.

The decrease in the allowance for loan losses as of June 30, 2013 was due primarily to decreases in historical loss rates and classified assets. Due to these factors, general and impaired loan reserves decreased by $2.6 million, or 4.6 percent, to $54.5 million and by $807,000, or 13.0 percent, to $5.4 million, respectively, as of June 30, 2013 as compared to $29.1 million and $6.2 million, respectively, at December 31, 2012.

Total impaired loans, excluding loans held for sale, decreased by $9.1 million, or 16.6 percent, to $45.7 million as of June 30, 2013 as compared to $54.7 million at December 31, 2012. Accordingly, specific reserve allocations associated with impaired loans decreased by $807,000, or 13.0 percent, to $5.4 million as of June 30, 2013, as compared to $6.2 million as of December 31, 2012.

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The following table shows a summary of net charge-offs for the periods presented:

	As of and for the Three Months Ended June 30, 2013	June 30, 2012	As of and for the Six Months Ended June 30, 2013	June 30, 2012
	(In thousands)			
Charge-offs:				
Real estate loans	$ 146	$ 5,243	$ 359	$ 8,085
Commercial term	2,448	8,761	4,899	17,614
Commercial lines of credit		631		892
SBA loans	860	1	1,056	2
Consumer loans	36	80	200	444
Total charge-offs	3,490	14,716	6,514	27,037
Recoveries:				
Real estate loans	1,042	517	1,050	517
Commercial term	406	629	792	1,557
Commercial lines of credit	40	148	75	220
SBA loans	372	11	606	22
International loans	1	1	3	3
Consumer loans	6	18	55	42
Total recoveries	1,867	1,324	2,581	2,361
Net charge-offs	$ 1,623	$ 13,392	$ 3,933	$ 24,676

For the six months ended June 30, 2013, total charge-offs were $6.5 million, a decrease of $20.5 million, or 75.9 percent, from $27.0 million for the six months ended June 30, 2012. The decreases in the six months ended June 30, 2013 from the same period in 2012 were due mainly to decreases in charge-offs of commercial term loans by $12.7 million and real estate loans by $7.7 million.

The Bank recorded, in other liabilities, an allowance for off-balance sheet exposure, primarily unfunded loan commitments, of $1.3 million and $1.8 million as of June 30, 2013 and December 31, 2012, respectively. The decrease was due primarily to lower reserve factors based on historical loss rates. The Bank closely monitors the borrower s repayment capabilities while funding existing commitments to ensure losses are minimized. Based on management s evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of June 30, 2013 and December 31, 2012.

Deposits

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

	June 30, 2013	December 31, 2012	Increase (Decrease) Amount	Percentage
		(In thousands)		
Demand noninterest-bearing	$ 736,470	$ 720,931	$ 15,539	2.16%
Interest-bearing:				
Savings	115,318	114,302	1,016	0.89%
Money market checking and NOW accounts	575,471	575,744	(273)	-0.05%
Time deposits of $100,000 or more	564,079	616,187	(52,108)	-8.46%
Other time deposits	370,575	368,799	1,776	0.48%

Total deposits	**$ 2,361,913**	**$ 2,395,963**	**$ (34,050)**	**-1.42%**

Total deposits decreased by $34.1 million, or 1.4 percent, to $2.36 billion as of June 30, 2013 from $2.40 billion as of December 31, 2012. The decrease in total deposits was attributable mainly to decreases in jumbo CDs, offset by increases in demand deposit.

Core deposits (defined as demand, savings, money market checking, NOW accounts and other time deposits) increased by $18.1 million, or 1.0 percent, to $1,798 million at June 30, 2013 from $1,780 million at December 31, 2012. Time deposits of $250,000 or more also increased by $7.6 million, or 3.2 percent, to $245.9 million from $238.2 million at December 31, 2012. However, noninterest-bearing demand deposits as a percentage of deposits grew to 31.2 percent at June 30, 2013 from 30.1 percent at December 31, 2012. We had no brokered deposits as of June 30, 2013 and December 31, 2012.

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Federal Home Loan Bank Advances and Other Borrowings

FHLB advances and other borrowings mostly take the form of advances from the FHLB of San Francisco and overnight federal funds. At June 30, 2013, advances from the FHLB were $2.7 million, a decrease of $192,000 from $2.9 million at December 31, 2012, with a remaining maturity of 0.89 years at 5.27 percent.

Junior Subordinated Debentures

During the second half of 2004, we issued two junior subordinated notes bearing interest at the three-month London Interbank Offered Rate (LIBOR) plus 2.90 percent totaling $61.8 million and one junior subordinated note bearing interest at the three-month LIBOR plus 2.63 percent totaling $20.6 million. The outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of Pacific Union Bank, totaled $51.5 million and $82.4 million at June 30, 2013 and December 31, 2012, respectively. Hanmi Financial redeemed its TPS II for $30.9 million in March 2013, and fully paid the remaining TPS I and III in the aggregate amount of $51.5 million in April 2013.

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Interest Rate Risk Management

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

The following table shows the status of our gap position as of June 30, 2013:

	Less Than Three Months	More Than Three Months But Less Than One Year	More Than One Year But Less Than Five Years	More Than Five Years	Non-Interest-Sensitive	Total
			(In thousands)			
Assets						
Cash and due from banks	$	$	$	$	$ 72,429	$ 72,429
Interest-bearing deposits in other banks	5,431					5,431
Investment securities:						
Fixed rate	16,168	43,949	169,241	99,535	9,689	338,582
Floating rate	51,100	5,085	5,443	651	(46)	62,233
Loans:						
Fixed rate	55,736	121,043	330,623	14,735		522,137
Floating rate	1,045,742	98,293	502,828	767		1,647,630
Non-accrual [(1)]					29,307	29,307
Deferred loan fees, discount, and allowance for loan losses					(68,313)	(68,313)
Federal home loan bank and federal reserve bank stock				27,397		27,397
Other assets		29,517		4,769	102,295	136,581
Total assets	**$ 1,174,177**	**$ 297,887**	**$ 1,008,135**	**$ 147,854**	**$ 145,361**	**$ 2,773,414**
Liabilities and Stockholders Equity						
Liabilities:						
Deposits:						
Demand noninterest-bearing	$	$	$	$	$ 736,470	$ 736,470
Savings	9,126	26,371	52,932	26,889		115,318
Money market checking and NOW accounts	70,231	179,878	213,939	111,423		575,471
Time deposits						
Fixed rate	196,866	582,898	154,829	2		934,595
Floating rate	59					59
Federal home loan bank advances	98	2,645				2,743
Junior subordinated debentures						
Other liabilities					13,362	13,362
Stockholders equity					395,396	395,396
Total liabilities and stockholders equity	**$ 276,380**	**$ 791,792**	**$ 421,700**	**$ 138,314**	**$ 1,145,228**	**$ 2,773,414**

Repricing gap	897,797	(493,905)	586,435	9,540	(999,867)	
Cumulative repricing gap	897,797	403,892	990,327	999,867		
Cumulative repricing gap as a percentage of total assets	32.37%	14.56%	35.71%	36.05%	0.00%	
Cumulative repricing gap as a percentage of interest-earning assets	34.49%	15.51%	38.04%	38.41%	0.00%	
Earning assets						**2,603,410**

(1) Includes non-accrual loans in loans held for sale.

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

As of June 30, 2013, the cumulative repricing gap for the three-month period was at an asset-sensitive position and was 34.49 percent of interest-earning assets, which decreased from 34.96 percent as of December 31, 2012. The decrease was due mainly to a $170.3 million decrease in interest-bearing deposits in other banks, offset by $72.3 million and $82.5 million decreases in fixed rate time deposits and junior subordinated debentures, respectively.

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The cumulative repricing gap for the twelve-month period was at an asset-sensitive position and was 15.51 percent of interest-earning assets as of June 30, 2013, which decreased from 22.32 percent as of December 31, 2012. The decrease was due mainly to a $170.3 million decrease in interest-bearing deposits in other banks, a $38.8 million decrease in fixed rate investment securities, a $34.6 million increase in fixed rate time deposits and an $18.3 million decrease in fixed rate loans, partially offset by an $82.5 million decrease in junior subordinated debentures.

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

	Less Than Three Months		Less Than Twelve Months	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
	(In thousands)			
Cumulative repricing gap	$ 897,797	$ 926,923	$ 403,892	$ 591,748
Percentage of total assets	32.37%	32.16%	14.56%	20.53%
Percentage of interest-earning assets	34.49%	34.96%	15.51%	22.32%

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

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

	Percentage Changes		Change in Amount	
Change in Interest Rate	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
		(In thousands)		
200%	2.29%	-2.58%	$ 2,608	$ (13,773)
100%	0.69%	-0.90%	$ 786	$ (4,797)
-100%	*(1)*	*(1)*	*(1)*	*(1)*
-200%	*(1)*	*(1)*	*(1)*	*(1)*

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

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

Capital Resources and Liquidity

Capital Resources

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

The primary measure of capital adequacy is based on the ratio of risk-based capital to risk-weighted assets. At June 30, 2013, the Bank s Tier 1 risk-based capital ratio of 15.25 percent, total risk-based capital ratio of 16.52 percent, and Tier 1 leverage capital ratio of 12.90 percent, placed the Bank in the well capitalized category, which is defined as institutions with Tier 1 risk-based capital ratio equal to or greater than 6.00 percent, total risk-based capital ratio equal to or greater than 10.00 percent, and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

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For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Wall Street Reform and Consumer Protection Act, see Note 6 Regulatory Matters of Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q.

Liquidity Hanmi Financial

Currently, management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through June 30, 2014. Hanmi Financial redeemed $30.9 million of its TPS in March 2013, and fully paid the remaining $51.5 million of TPS in April 2013.

Liquidity Hanmi Bank

Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank s primary funding source will continue to be deposits originating from its branch platform. The Bank s wholesale funds historically consisted of FHLB advances and brokered deposits. As of June 30, 2013, the Bank had FHLB advances of $2.7 million compared to $2.9 million as of December 31, 2012. The Bank had no brokered deposits at June 30, 2013 and December 31, 2012.

The Bank s primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 15 percent of its total assets. As of June 30, 2013, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $429.2 million and $426.5 million, respectively. The Bank s FHLB borrowings as of June 30, 2013 totaled $2.7 million, representing 0.10 percent of total assets.

The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had an available borrowing source of $99.5 million from the Federal Reserve Discount Window (the Fed Discount Window), to which the Bank pledged loans with a carrying value of $138.6 million, and had no borrowings as of June 30, 2013 . Additionally, the Bank is currently in the primary credit program of the Fed Discount Window. Primary credit is available to depository institutions in sound overall condition to meet short-term (typically overnight), backup funding needs. Generally, primary credit will be granted on a no-questions-asked, minimal administered basis with no restrictions. Furthermore, in December 31, 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for reverse repurchase agreements up to a maximum of $100.0 million.

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

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 10 Off-Balance Sheet Commitments of Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q and Item 1. Business Off-Balance Sheet Commitments in our 2012 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2012 Annual Report on Form 10-K.

Recently Issued Accounting Standards

FASB ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740) was issued to improve the reporting for unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The pronouncement is expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which

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an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The pronouncement is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

FASB ASU 2013-02 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220) was issued to address concerns raised in the initial issuance of ASU 2011-05, *Presentation of Comprehensive Income*. For items reclassified out of accumulated other comprehensive income into net income in their entirety, entities must disclose the effect of the reclassification on each affected net income line item. For accumulated other comprehensive income reclassification items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. This information may be provided either in the notes or parenthetically on the face of the statement that reports net income as long as all the information is disclosed in a single location. However, an entity is prohibited from providing this information parenthetically on the face of the statement that reports net income if it has items that are not reclassified in their entirety into net income. The amendments are effective for annual reporting periods beginning after December 15, 2012 and interim periods within those years. The adoption of FASB ASU 2013-02 did not have a significant impact on our financial condition or result of operations.

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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 Capital Resources and Liquidity.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2013, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2013.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The following are changes to two risk factors previously disclosed in our 2012 Annual Report on Form 10-K, and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results, prospects and the price of our common stock. These risks are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also adversely impact our financial condition, business operations and results of operations.

Increases in the level of non-performing loans could adversely affect our business, profitability, and financial condition. Increase in non-performing loans could have an adverse effect on our earnings as a result of related increases in our provisions for loan losses, charge-offs, and other losses related to non-performing loans. An increase in non-performing loans could potentially lead to a decline in earnings and could deplete our capital, leaving the Company undercapitalized. Non-performing loans as of June 30, 2013 decreased to $28.0 million from $37.3 million as of December 31, 2012.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

* Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language).

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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: August 9, 2013

By: /s/ *C. G. Kum*
C. G. Kum
President and Chief Executive Officer

By: /s/ *Shick (Mark) Yoon*
Shick (Mark) Yoon
Executive Vice President and Chief Financial Officer