HANMI FINANCIAL

Annual Report 2003

MEET

THE

NEW

HANMI BANK,

a wholly owned subsidiary of Hanmi Financial Corporation (Nasdaq: HAFC). A leading Korean-American bank headquartered in Los Angeles, Hanmi Bank provides high quality individual, corporate and institutional financial services in regional markets. Throughout its history, Hanmi has produced long-term profitable growth while adapting to changing market conditions. We credit this success to practicing sound and prudent risk management techniques and to building enduring relationships with you — our shareholders, customers and employees. At year-end 2003, your bank had total assets of nearly $1.8 billion and 15 full-service offices in California's Los Angeles, Orange, Santa Clara, and San Diego counties.

With spring comes the emergence of new growth. Hanmi Financial enters 2004 with a reinvigorated commitment to enhance the Bank's income and profitability. We are completing the preparations for the next growth cycle, and we invite you to watch our business strategies and exciting new directions unfold.

A seed sets its roots before pushing its leaves above ground. A successful bank, like a healthy tree, must be anchored to its community in order to thrive. Having ties with the customers we serve and the communities in which we all live ensures that we will continue to grow together.

STRENGTH

In building the business over the past 21 years, your bank has conscientiously worked to make each service and practice as strong as it can be. Linked together, these business units and product offerings deliver reliable services and benefits to our customers.

Clearly 2003 was a year in which Hanmi Financial built a new foundation for future growth. Since our founding by a group of Korean-American entrepreneurs in 1982, our key priority has been to provide comprehensive banking services to the Korean-American community of California.

Your bank has met that objective and is ready to reach for more—more market share and more customer satisfaction. Hanmi's next goal is to become the leading regional institution serving Korean-Americans and other ethnic groups. With this broadened ambition came our recognition that we needed to make internal adjustments to position ourselves for the future.

During the second half of 2003, we recruited or promoted crucial professionals to guide our growth.

Among them are:

- Jae Whan "J.W." Yoo, President and Chief Executive Officer. With 28 years of banking experience, Mr. Yoo provides the banking expertise, management skills, experience and understanding of the position and your bank to advance Hanmi Financial to the next level.
- Michael J. Winiarski, C.P.A., Senior Vice President and Chief Financial Officer. One of the first non-Koreans appointed to a senior executive management position at a major Korean-American community bank, Mr. Winiarski will be pivotal in transforming Hanmi from a community bank to a regional financial institution.

PASSION

The one trait we most value among our employees is passion—a devotion to their work and an inner drive to make Hanmi Bank the best, not only in our niche market but also within the banking industry.

To best leverage our staff's expertise and effectiveness, Hanmi restructured our internal organization in September. By merging or separating functions as needed and shortening the lines of communication between the CEO and various operating departments, we believe we have expedited our decision-making process. We expect significant benefits from the changes.

The most profound change your bank announced in 2003 was the intended acquisition of Pacific Union Bank. Founded in 1974, Pacific Union is the oldest established Korean-American bank in the country. Already, Hanmi is the largest. Once the acquisition and merger are completed (anticipated for the second quarter of 2004), we expect our combined assets to total approximately $3.0 billion. With an estimated market share of more than 40 percent, we expect to be more than twice as large as our closest Korean-American peer.

More than dollars and percentages, however, we are looking forward to the resulting combination of two banks with similar cultures, services and products. Both banks focus on small to mid-size business customers. Our loan portfolios are both weighted toward commercial, small business, trade finance and consumer lending. And we both offer our core customer group the ability to work with bankers who speak their language.

We believe our combined resources will give us new competitive advantages in our market. Our resources and economies of scale will allow us to provide a full range of banking services. And our combined size will help our transformation from a community bank to a regional player.

What will not change in this historic merger is our commitment to our relationships with our customers and our communities. To ensure a smooth transition, Hanmi and Pacific Union have assembled a team to orchestrate the integration of the two banks. Comprising executives from both banks as well as outside experts, the team continues to make considerable progress toward joining the two organizations. Their work includes making the merger as seamless as possible for the banks' customers, investors and other stakeholders.

Reach.

With growth and maturity come a desire to do more. Your bank, with the acquisition of Pacific Union Bank, intends to encompass more than the institutions' combined assets. This historic transaction promises to expand the types of services and products Hanmi Bank can offer and the geographical and demographic markets we can access.

Plants can convert sunshine to food, but they need water to survive. Similarly, you, as Hanmi Bank's core customers, have the ingenuity to make your businesses thrive and your own hard work pay off, given the appropriate financial support. Your bank is committed to providing the support to get your businesses started and to help you grow.

CONNECTIONS

Individually, the fibers in a rope would tear easily. Woven together, however, they support many times their own weight. We believe that you—Hanmi Bank's customers, employees and investors—pull together in much the same way for the benefit of the whole community.

As one of the leading financial institutions serving the multi-ethnic communities of California, our emphasis has long been on the Korean-American community. Our founders were Korean-American entrepreneurs who saw a need for a bank that would cater to a Korean-speaking clientele.

California is home to more than 40 percent of Korean-Americans and the largest such community in the country. An estimated 600,000 Korean-Americans live in Southern California and another 100,000 live in Northern California.

Moreover, the Korean-American community has among the highest levels of business ownership and self-employment per capita in the United States. Korean-Americans are also among the most highly educated ethnic minority groups in the country. Approximately 44 percent of Koreans who are 25 years or older and living in the United States have attained a four-year college degree or a higher degree. Of those living in California, 46 percent have bachelors' or higher degrees. This compares to 24 percent and 27 percent, respectively, for the general population.

Although Korean-Americans in 2000 had a median household income of $40,758—as compared to $47,493 for the total population—they maintained a significantly higher savings rate than other population groups. And they continue to turn to banks such as Hanmi and Pacific Union Bank for the value they find in dealing in their own language. An estimated 39 percent of all foreign-born Korean-Americans in California and 35 percent in the United States do not speak English well.

We have tailored our business to meet the needs of first-generation Korean immigrants and those who maintain households and/or businesses in both countries. As we grow and mature, however, we are extending our marketing efforts toward retaining second-generation Korean-Americans as well.

In a related business development, Hanmi also has built a significant international trade business. We provide letters of credit, international collection, import/export financing services and remittance services to customers wishing to send money to family and friends overseas. This is a small but rapidly growing portion of our business and one that we will develop as our service coverage expands.

CONSISTENCY

The most successful companies in every industry understand that a customer's satisfaction hinges on his or her most recent experience. That explains why your bank's emphasis is on making sure that every interaction customers have is pleasant, professional and predictable—predictably excellent.

The name "Hanmi" was formed by the combination of two Korean words meaning "Korean-American." From our inception, and to our very core, we are connected with the Korean-American community. We have grown with our community's support, and our community has grown with our help.

As evidence, Hanmi has a robust Small Business Administration (SBA) loan unit. Given the high levels of self-employment among our core customer group, it is no wonder that Hanmi ranks sixth among all SBA lenders in the Los Angeles District and tenth in California. We also strive to offer and underwrite a significant number of low-income housing loans and are recognized as a vital supporter of all levels of commercial and business lending in our geographic markets.

We are not alone in our success. Banks focused on the Korean-American market have enjoyed growth rates far above the banking industry norms. Some of our expansion can be credited to the recent influx of immigrants to Southern California from Korea and other Asian countries. These newcomers tend to settle in concentrated areas, and Hanmi has consciously established branches to serve many of these neighborhoods.

Nor have we limited our services only to Korean customers. A growing percentage of our accounts are held by customers of Iranian, Indian, Chinese and Hispanic descent—a trend we would expect to continue as the bank and our neighborhoods grow and change.

In the meantime, however, the Korean-American banking niche is still in a rapid growth phase. As immigration from other Asian countries, including Japan and China, has leveled off, the influx from Korea has yet to reach its peak.

No man is an island, and no plant can propagate alone. Ideas are much the same. Innovation comes when thoughts bounce off one another, when individuals speak up with suggestions. Your new Hanmi Bank is establishing an environment that encourages strategic evaluations and innovative creativity among our personnel and the customers we serve.

PROFESSIONALISM

Hanmi Bank's ultimate goal is to deliver comprehensive, consistent and quality financial services that are beyond what customers might expect of any bank in the world. Some might consider that a lofty goal. Your bank sees it as simple professionalism—and intends to make it business as usual.

Message to Shareholders

A Korean story tells of a frog in a well. All the frog knows about the sky is the small circle of blue he can see above him. He may study it. He may love it. Yet, unless that frog gets a new vantage point, he will have no idea how expansive the sky really is.

Hanmi Bank—your bank—is like that frog. In our earlier years, our market, or sky, was the local Korean-American community. We studied it. We focused on it. We served it. We grew steadily and prudently with it and, in the process, became known for our reliability. We are proud of those accomplishments and all of your efforts toward our successes.

In 2004, however, we will acquire Pacific Union Bank. It is the Korean-American community's oldest bank, and Hanmi is already the largest. Following the acquisition and merger, your bank most definitely will have a new vantage point.

As a nearly $3.0 billion financial institution, Hanmi will be able to see how expansive its markets are. We will continue to serve the Korean-American community, but as a regional bank. We will expand our reach to draw second-generation Korean-Americans and other immigrant populations. We will supplement our financial services with more comprehensive offerings. We will strive for a level of customer service and attention to rival that of the world's finest banks.

We will not settle for being the oldest and largest, because those measures do not necessarily reflect excellence. Your bank intends to be the very best.

Reaching that goal will require hard work and tough decisions. We began the process in autumn 2003 with an internal restructuring designed to shorten the lines of communication among decision makers. We are

CONFIDENCE

Engineers set buildings and other structures on bedrock for unquestionable integrity and support. Your bank is striving to ensure that Hanmi Financial elicits the same sense of security from investors. Toward that end, we have made return on assets and return on equity our key performance measures and redoubled our efforts to keep the investment community apprised of our developments.

implementing new employee incentive plans to recognize and encourage innovative thinking and excellent customer service. Through the acquisition and merger, there will be some consolidation of bank branches and staff. These are necessary changes toward improving our financial performance.

By most measures, 2003 was a strong year. Hanmi Bank's total assets grew 22.6 percent to $1.79 billion, continuing our eight-year run of double-digit growth. This is a particularly impressive illustration of our performance as 2003 saw continuing record-low interest rates. In other accomplishments, we increased net loans from approximately $1 billion at year-end 2002 to $1.25 billion at the end of 2003—up more than 25 percent. The majority of that growth was in commercial and real estate loans, primarily from new business. At the same time, our efficiency ratio (expenses divided by revenue) improved to 51.3 percent from the previous year's 55.4 percent. Net income for 2003 increased 12.8 percent over 2002—to $19.2 million from $17.0 million, and our total stock returns (price plus dividends) reflected our above-industry performance trends as well. HAFC's total return to shareholders was 21.2 percent in 2003, following a 25 percent total return in 2002.

We are proud of these numbers, especially given the challenging economic environment of the past three years. Still, we are not satisfied with our earnings per share (EPS), return on assets (ROA) and return on equity (ROE) trends. These metrics remain suppressed in part because record low interest rates have limited our net interest margin (NIM), or the excess of the interest rate we earned over our cost of funds. We are taking steps to improve our NIM. We also are confident that loan demand from Hanmi's core small- to medium-sized business customers will continue as the economy

Your new Hanmi Bank is attuned to every detail of its business. Yet we have not lost sight of the bigger picture. The changes and transitions we are instituting now will lead to stronger customer service, employee satisfaction and shareholder value in the future.

Harvest.

Each calendar year brings a growing cycle
in which seeds sprout, plants grow
and fruit forms. And every fall,
in preparation for winter, the fruit and grains
are gathered and counted. Your new Hanmi
Bank aims to count its successes in increasing
return on assets and return on equity,
thereby maximizing shareholder value.

gathers upward momentum. Moreover, the healthier NIM achievable with higher interest rates would lead to stronger earnings for our shareholders.

We do expect the acquisition of Pacific Union Bank to be marginally dilutive to earnings per share in 2004, but accretive in 2005. We believe we can reduce costs by more than $10 million over the 18 months following the close of the transaction, and that we will capture opportunities to enhance our revenues beginning in the second half of 2004.

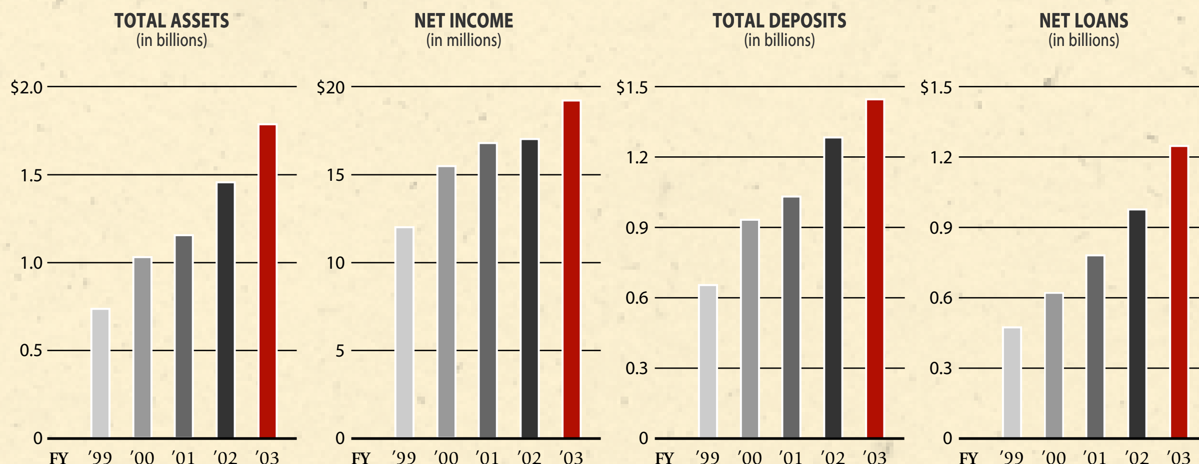
On behalf of the Board of Directors and management, we would like to recognize all of the long hours and visionary, strategic planning that resulted in 2003's successes and that have been dedicated to making the acquisition of Pacific Union Bank as smooth as possible. In our quest to maintain the market share of both banks, as well as our renowned quality of service, we will continue to focus on our customers.

We look forward to 2004 with optimism and confidence, both born of our past successes. We would not be where we are today without our employees' dedication, our customers' loyalty or our investors' support. Thank you all. We look forward to both growing your new Hanmi Bank and sharing its successes with you.

Sincerely,

Jae Whan Yoo
President and Chief Executive Officer

Chang Kyu Park
Chairman of the Board of Directors



FINANCIAL HIGHLIGHTS

(amounts in thousands, except per share amounts)	**2003**	2002	2001	2000	1999
FOR THE YEAR					
Net interest income	**$ 56,965**	$ 48,262	$ 43,954	$ 41,538	$ 33,530
Service charges and fee income	**$ 15,053**	$ 13,194	$ 12,533	$ 12,105	$ 11,229
Other operating income	**$ 4,625**	$ 7,719	$ 4,454	$ 2,714	$ 1,557
Noninterest expenses	**$ 39,325**	$ 38,333	$ 32,028	$ 27,796	$ 24,628
Net income	**$ 19,213**	$ 17,030	$ 16,810	$ 15,523	$ 12,006
AT YEAR END					
Total assets	**$1,785,754**	$1,456,298	$1,158,760	$1,034,610	$740,259
Net loans	**$1,247,014**	$ 974,139	$ 781,062	$ 620,522	$474,650
Total deposits	**$1,445,835**	$1,283,979	$1,042,353	$ 934,581	$655,730
Shareholders' equity	**$ 139,467**	$ 124,469	$ 104,873	$ 86,396	$ 67,831
PER COMMON SHARE					
Net income (diluted)	**$ 1.34**	$ 1.20	$ 1.21	$ 1.14	$ 0.88
Cash dividends declared	**$ 0.40**	$ —	$ —	$ —	$ —
Book value	**$ 9.85**	$ 8.94	$ 7.67	$ 6.36	$ 5.00
FINANCIAL RATIOS					
Net interest margin	**3.73%**	3.98%	4.32%	5.25%	5.46%
Nonperforming loans to total gross loans	**0.68%**	0.64%	0.60%	0.40%	0.62%
Allowance for loan losses to total gross loans	**1.16%**	1.20%	1.21%	1.89%	2.19%
Efficiency ratio	**51.31%**	55.41%	52.40%	49.32%	53.15%
Tier 1 capital to average total assets*	**7.75%**	8.34%	8.76%	8.39%	9.20%
Total risk-based capital*	**11.09%**	11.94%	12.75%	12.27%	13.88%
Return on average assets	**1.18%**	1.30%	1.53%	1.78%	1.74%
Return on average equity	**14.51%**	15.08%	17.56%	19.81%	18.50%

**Hanmi Bank ratio*

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by the Company. This selected historical financial data should be read in conjunction with the financial statements of the Company and the notes thereto appearing elsewhere in this statement and the information contained in "Management's Discussion and Analysis of Results of Operations and Financial Condition." The selected historical financial data as of and for each of the years in the five years ended December 31, 2003 are derived from the Company's audited financial statements. In the opinion of management of the Company, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

SUMMARY FINANCIAL STATEMENTS

	For the Year Ended and As of December 31,				
(dollars in thousands, except for per share data)	**2003**	2002	2001	2000	1999
SUMMARY STATEMENT OF OPERATIONS DATA:					
Interest income	**$ 77,761**	$ 69,607	$ 76,944	$ 72,429	$ 52,377
Interest expense	**20,796**	21,345	32,990	30,891	18,847
Net interest income before provision for loan losses	**56,965**	48,262	43,954	41,538	33,530
Provision for loan losses	**5,680**	4,800	1,400	2,250	1,000
Non-interest income	**19,678**	20,913	16,987	14,819	12,786
Non-interest expenses	**39,325**	38,333	32,028	27,796	24,628
Income before provision for income taxes	**31,638**	26,042	27,513	26,311	20,688
Provision for income taxes	**12,425**	9,012	10,703	10,788	8,682
Net income	**$ 19,213**	$ 17,030	$ 16,810	$ 15,523	$ 12,006
SUMMARY STATEMENT OF FINANCIAL CONDITION DATA:					
Cash and cash equivalents	**$ 62,595**	$ 122,772	$ 81,205	$ 176,107	$ 69,459
Total investment securities	**414,616**	279,548	213,179	205,994	176,318
Net loans[1]	**1,247,014**	974,139	781,062	620,522	474,650
Total assets	**1,785,754**	1,456,298	1,158,760	1,034,610	740,259
Total deposits	**1,445,835**	1,283,979	1,042,353	934,581	655,730
Total liabilities	**1,646,287**	1,331,830	1,053,887	948,214	672,428
Total shareholders' equity	**139,467**	124,469	104,873	86,396	67,831
Average net loans	**1,103,765**	882,625	701,714	555,045	396,607
Average investment securities	**379,635**	244,675	235,034	180,470	188,150
Average interest earning assets	**1,525,633**	1,211,553	1,017,422	791,105	614,028
Average total assets	**1,623,214**	1,308,885	1,100,182	925,608	690,797
Average deposits	**1,416,564**	1,164,562	988,392	873,044	683,758
Average interest bearing liabilities	**1,057,249**	854,858	736,947	569,544	424,722
Average shareholders' equity	**132,369**	112,927	95,740	78,363	64,896
PER SHARE DATA:					
Earnings per share—Basic[2]	**$ 1.37**	$ 1.23	$ 1.23	$ 1.14	$ 0.89
Earnings per share—Diluted[2]	**$ 1.34**	$ 1.20	$ 1.21	$ 1.14	$ 0.88
Book value per share—Basic[2]	**$ 9.85**	$ 8.94	$ 7.67	$ 6.36	$ 5.00
Cash dividends	**$ 0.40**	$ —	$ —	$ —	$ —
Common shares outstanding	**14,163,410**	13,915,433	12,562,229	7,434,457	6,679,670

(continued)

SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	2003	2002	2001	2000	1999
SELECTED PERFORMANCE RATIOS:					
Return on average equity(3)	**14.51%**	15.08%	17.56%	19.81%	18.50%
Return on average assets(4)	**1.18%**	1.30%	1.53%	1.78%	1.74%
Net interest spread(5)	**3.13%**	3.25%	3.08%	3.73%	4.09%
Net interest margin(6)	**3.73%**	3.98%	4.32%	5.25%	5.46%
Average shareholders' equity to average total assets	**8.15%**	8.63%	8.70%	8.98%	9.39%
SELECTED CAPITAL RATIOS:					
Tier 1 capital to average total assets:					
Hanmi Financial	**7.80%**	8.50%	8.86%	8.46%	—
Hanmi Bank	**7.75%**	8.34%	8.76%	8.39%	9.20%
Tier 1 capital to total risk-weighted assets:					
Hanmi Financial	**10.05%**	11.01%	11.71%	11.11%	—
Hanmi Bank	**10.00%**	10.81%	11.59%	11.02%	12.63%
Total capital to total risk-weighted assets:					
Hanmi Financial	**11.13%**	12.14%	12.87%	12.37%	—
Hanmi Bank	**11.09%**	11.94%	12.75%	12.27%	13.88%
SELECTED ASSET QUALITY RATIOS:					
Non-performing loans to total gross loans(7)	**0.68%**	0.64%	0.60%	0.40%	0.62%
Non-performing assets to total assets(8)	**0.49%**	0.44%	0.43%	0.25%	0.41%
Net charge-offs to average total gross loans	**0.29%**	0.28%	0.45%	0.16%	0.19%
Allowance for loan losses to total gross loans	**1.16%**	1.20%	1.21%	1.89%	2.19%
Allowance for loan losses to non-performing loans	**170.12%**	189.48%	201.24%	469.10%	350.40%
Efficiency ratio(9)	**51.31%**	55.41%	52.40%	49.32%	53.15%

(1) Net loans exclude term Federal funds sold.
(2) Restated for a 9% stock dividend declared in 2002, a 12% stock dividend declared in 2001 and a 3-for-2 stock split in 2001.
(3) Net income divided by average shareholders' equity.
(4) Net income divided by average total assets.
(5) Represents the average rate earned on interest-bearing assets less the average rate paid to interest-bearing liabilities.
(6) Represents net interest income as percentage of average interest-earning assets.
(7) Non-performing loans consist of non-accrual loans, loans past due 90 days or more and restructured loans.
(8) Non-performing assets consist of non-performing loans (see footnote (7) above) and other real estate owned.
(9) The efficiency ratio is calculated as the ratio of total non-interest expenses to the sum of net interest income before provision for loan losses and total non-interest income including securities gains and losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This discussion presents management's analysis of the results of operations and financial condition of the Company as of and for the years ended December 31, 2003, 2002 and 2001. The discussion should be read in conjunction with the financial statements of the Company and the notes related thereto presented elsewhere in this Report.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors discussed elsewhere in this Report.

CRITICAL ACCOUNTING POLICIES

We have established various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements. Certain accounting policies require us to make significant estimates and assumptions which have a material impact on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions we use are based on historical experience and other factors, which 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.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements.

See "Financial Condition—Allowance for Loan Losses" and Note 1 of Notes to the Consolidated Financial Statements.

OVERVIEW

Over the last three years, the Company has experienced significant growth in assets and deposits. Total assets increased to $1,785.8 million at December 31, 2003 from $1,456.3 million and $1,158.8 million at December 31, 2002 and 2001, respectively. Total net loans increased to $1,247.0 million at December 31, 2003 from $974.1 million and $781.1 million excluding $30 million and $40 million of term Federal funds sold at December 31, 2002 and 2001, respectively. Total deposits increased to $1,445.8 million as of December 31, 2003 from $1,284.0 million and $1,042.4 million at December 31, 2002 and 2001, respectively.

The Company's growth has been generated through expansion of relationships with customers within the Bank's existing markets and expansion into new markets previously not served by the Company. The Company opened a new branch in Santa Clara, California, in February 2003 and added one more branch in Downtown Los Angeles in October 2003, which expanded the Company's network to fifteen branches.

For the year ended December 31, 2003, net income was $19.2 million, representing an increase of $2.2 million or 12.8% from $17.0 million for the year ended December 31, 2002. This resulted in basic earnings per share of $1.37 and $1.23 for the years ended December 31, 2003 and 2002, and diluted earnings per share of $1.34 and $1.20 for the years ended December 31, 2003 and 2002, respectively. The increase in net income, in spite of the decrease in the net interest margin, was largely attributable to a 26% increase in average earning assets. Net interest income increased due to a 28% increase in volume of gross loans. The interest rate paid decreased by 53 basis points while the interest rate earned decreased by 65 basis points. As a result, net interest spread decreased by 12 basis points, from 3.25% in 2002 to 3.13% in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

For the year ended December 31, 2002, net income was $17.0 million, representing an increase of $220,000 or 1.3% from $16.8 million for the year ended December 31, 2001. This resulted in basic earnings per share of $1.23 for each of the years ended December 31, 2002 and 2001, and diluted earnings per share of $1.20 and $1.21 for the years ended December 31, 2002 and 2001, respectively. The slight increase in net income was primarily a result of less income tax expense due to the formation of a real estate investment trust. Net interest income increased due to increases in volume of loans. The interest rate paid decreased by 198 basis points while the interest rate earned decreased only 181 basis points. As a result, net interest spread increased by 17 basis points, from 3.08% in 2001 to 3.25% in 2002.

One of the Company's primary sources of revenue is net interest income, which is the difference between interest and fees derived from earning assets and interest paid on liabilities incurred to fund those assets. The Company's net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities. It also is affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities. Another source of income is gain on sale of loans. The Company is a Small Business Administration ("SBA") lender and actively markets the guaranteed portion of the loans it generates to the secondary market. During 2003, the Company realized $1.5 million of gain from SBA loan sales and $650,000 from mortgage loan sales. Other sources of income include gain on sale of securities available for sale. During 2003, the Company realized $1.1 million of gain from such sales, a 66% or $2.2 million decrease compared to 2002. The Company also generated substantial non-interest income from service charges on deposit accounts, and charges and fees generated from international trade finance. The Company's non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses.

The Company's results of operations are significantly affected by its provision for loan losses. Results of operations may also be affected by other factors, including general economic and competitive conditions, mergers and acquisitions of other financial institutions within the Company's market area, changes in interest rates, government policies and actions of regulatory agencies.

RESULTS OF OPERATIONS

NET INTEREST INCOME AND NET INTEREST MARGIN

The Company's earnings depend largely upon the difference between the interest income received from its loan portfolio and other interest-earning assets and the interest paid on deposits and borrowings. The difference is "net interest income." Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Company's net interest income is affected by the change in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Company's net interest income also is affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Company's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond the Company's 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 Bank.

For the years ended December 31, 2003 and 2002, the Company's net interest income was $57.0 million and $48.3 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2003 were 3.13% and 3.73%, compared to 3.25% and 3.98% for the year ended December 31, 2002, respectively.

For the years ended December 31, 2002 and 2001, the Company's net interest income was $48.3 million and $44.0 million, respectively. The net interest rate spread and net interest margin for the year ended December 31, 2002 were 3.25% and 3.98%, respectively, compared to 3.08% and 4.32%, respectively, for the year ended December 31, 2001. The net interest margin for the year ended December 31, 2002 was lower than the net interest margin for the comparable 2001 period primarily due to declining interest rates. However, the yield on interest-earning assets decreased 181 basis points, while the interest rate paid on interest-bearing liabilities declined to 2.50% from 4.48%, or 198 basis points, which resulted in an increase in net interest spread.

Average interest-earning assets increased 25.9% to $1,525.6 million in 2003 from $1,211.6 million in 2002. Average net loans increased 25.1% to $1,103.8 million in 2003 from $882.6 million in 2002 and average investment securities increased 55% to $379.6 million in 2003 from $244.7 million in 2002. Total loan interest income increased by 14.4% in 2003 on an annual basis due to the increase in loans outstanding, in spite of a decrease of average yields on net loans from 6.42% in 2002 to 5.88% in 2003. The average interest rate charged on loans decreased reflecting the average prime rate decrease of 46 basis points from 4.71% in 2002 to 4.25% in 2003.

The majority of interest-earning assets growth was due to a $161.9 million or 12.6% increase in average total deposits and a $40.5 million or 186% increase in the average balance of Federal Home Loan Bank borrowings. Total average interest-bearing liabilities grew by 23.6% to $1,056.5 million in 2003, compared to $854.9 million in 2002. The average interest rate the Company paid for interest-bearing liabilities decreased by 53 basis points from 2.50% in 2002 to 1.97% in 2003. As a result, the net interest spread decreased to 3.13% in 2003, compared to 3.25% in 2002.

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

	For the Year Ended December 31,								
	2003			2002			2001		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rate/ Yield**	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
ASSETS:									
Interest-earning assets:									
Net loans[1]	**$1,103,765**	**$64,849**	**5.88%**	$882,625	$56,689	6.42%	$ 701,714	$59,305	8.45%
Municipal securities[2]	**33,596**	**1,421**	**6.22**	29,699	1,300	6.44	28,110	1,490	7.79
Obligations of other U.S. government agencies	**70,465**	**2,395**	**3.40**	29,204	1,340	4.59	50,449	3,114	6.17
Other debt securities	**275,574**	**8,321**	**3.02**	185,772	8,507	4.58	156,476	9,651	6.17
Equity securities	**6,003**	**273**	**4.54**	3,767	207	5.50	5,037	259	5.14
Federal funds sold	**21,844**	**277**	**1.27**	51,456	925	1.80	54,359	2,330	4.29
Term Federal funds sold	**14,370**	**225**	**1.56**	28,693	630	2.20	16,014	533	3.33
Commercial paper	**—**	**—**	**—**	288	8	2.68	4,582	238	5.19
Interest-earning deposits	**16**	**—**	**1.35**	49	1	2.51	681	24	3.52
Total interest-earning assets	**1,525,633**	**77,761**	**5.10%**	1,211,553	69,607	5.75%	1,017,422	76,944	7.56%
Noninterest-earning assets:									
Cash and due from banks	**52,067**			54,496			55,049		
Premises and equipment, net	**8,496**			7,638			7,231		
Accrued interest receivable	**6,049**			5,264			6,037		
Other assets	**30,969**			29,934			14,443		
Total noninterest-earning assets	**97,581**			97,332			82,760		
Total assets	**$1,623,214**			$1,308,885			$1,100,182		

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

	For the Year Ended December 31,								
	2003			2002			2001		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rate/ Yield**	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Interest-bearing liabilities:									
Deposits:									
Money market deposits	**$ 207,689**	**$ 2,584**	**1.24%**	$ 176,089	$ 3,036	1.72%	$ 109,496	$ 2,610	2.38%
Savings deposits	**97,070**	**1,894**	**1.95**	92,835	2,632	2.84	77,860	2,714	3.49
Time certificates of deposit, $100,000 or more	**386,701**	**7,415**	**1.92**	312,618	7,838	2.51	277,169	13,778	4.97
Other time deposits	**302,651**	**7,354**	**2.43**	251,469	7,034	2.80	269,548	13,785	5.11
Other borrowings	**63,138**	**1,549**	**2.45**	21,847	805	3.68	2,874	103	3.62
Total interest-bearing liabilities	**1,057,249**	**20,796**	**1.97%**	854,858	21,345	2.50%	736,947	32,990	4.48%
Noninterest-bearing liabilities:									
Demand deposits	**422,453**			331,551			254,319		
Other liabilities	**11,143**			9,549			13,176		
Total noninterest-bearing liabilities	**433,596**			341,100			267,495		
Total liabilities	**1,490,845**			1,195,958			1,004,442		
Shareholders' equity	**132,369**			112,927			95,740		
Total liabilities and shareholders' equity	**$1,623,214**			$1,308,885			$1,100,182		
Net interest income		**$56,965**			$48,262			$43,954	
Net interest spread[3]			**3.13%**			3.25%			3.08%
Net interest margin[4]			**3.73%**			3.98%			4.32%

(1) Loans are net of the allowance for loan losses, deferred fees and related direct costs, and exclude term Federal funds sold. Loan fees have been included in the calculation of interest income. Loan fees were approximately $3.8 million, $3.2 million and $2.1 million for the years ended December 31, 2003, 2002 and 2001, respectively.

(2) Yields on tax-exempt income have been computed on a tax-equivalent basis.

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

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

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

	For the Year Ended December 31,					
	2003 vs. 2002			2002 vs. 2001		
	Increases (Decreases) Due to Change in			Increases (Decreases) Due to Change in		
(dollars in thousands)	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Earning assets—interest income:						
Net loans	**$13,300**	**$(5,140)**	**$8,160**	$13,389	$(16,005)	$ (2,616)
Municipal securities	**166**	**(45)**	**121**	81	(271)	(190)
Obligations of other U.S. government agencies	**1,478**	**(423)**	**1,055**	(1,102)	(672)	(1,774)
Other debt securities	**3,290**	**(3,476)**	**(186)**	1,611	(2,755)	(1,144)
Equity securities	**107**	**(41)**	**66**	(68)	17	(51)
Federal funds sold	**(428)**	**(219)**	**(647)**	(118)	(1,287)	(1,405)
Term Federal funds sold	**(257)**	**(148)**	**(405)**	322	(225)	97
Commercial paper	**(8)**	**—**	**(8)**	(152)	(78)	(230)
Interest-earning deposits	**(1)**	**(1)**	**(2)**	(18)	(5)	(23)
Total	**17,647**	**(9,493)**	**8,154**	13,945	(21,281)	(7,336)
Deposits and borrowed funds—interest expense:						
Money market	**486**	**(937)**	**(451)**	1,285	(858)	427
Savings	**115**	**(853)**	**(738)**	473	(556)	(83)
Time certificates of deposit, $100,000 or more	**1,638**	**(2,061)**	**(423)**	1,583	(7,522)	(5,939)
Other time deposits	**1,317**	**(998)**	**319**	(871)	(5,880)	(6,751)
Other borrowings	**1,080**	**(336)**	**744**	700	2	702
Total	**4,636**	**(5,185)**	**(549)**	3,170	(14,814)	(11,644)
Change in net interest income	**$13,011**	**$(4,308)**	**$8,703**	$10,775	$ (6,467)	$ 4,308

PROVISION FOR LOAN LOSSES

For the year ended December 31, 2003, the provision for loan losses was $5.7 million, compared to $4.8 million for the year ended December 31, 2002, an increase of 18.3%. While the Company's loan volume increased, the allowance for loan losses decreased to 1.16% of total gross loans from 1.24% in 2002. This decrease in the ratio of the allowance for loans losses to total loans was primarily due to the overall decrease of historical loss factors on pass grade loans. Since the year 2001, the Company has refined its credit management process and instituted a more comprehensive risk rating system. For the year ended December 31, 2002, the provision for loan losses was $4.8 million, compared to $1.4 million for the year ended December 31, 2001, an increase of 242.9%.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Provisions to the allowance for loan losses are made quarterly, in anticipation of probable loan losses. The quarterly provision is based on the allowance need, which is calculated using a formula designed to provide adequate allowances for anticipated losses. The formula is composed of various components. The allowance is determined by assigning specific allowances for all classified loans. All loans that are not classified are then given certain allocations according to type with larger percentages applied to loans deemed to be of a higher risk. These percentages are determined based on the Company's prior loss history by type of loan, adjusted for current economic factors.

Allowance for Loan Losses Applicable to:	**2003**		2002		2001		2000		1999	
	Allowance Amount	**Total Loans**	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans
Real estate loans:										
Construction	**$ 427**	**$ 43,047**	$ 267	$ 39,237	$ 163	$ 33,618	$ 68	$ 8,543	$ 28	$ 3,512
Commercial property	**374**	**397,853**	337	284,465	1,108	198,336	1,311	147,810	1.422	125,842
Residential property	**191**	**58,477**	149	47,891	258	49,526	262	48,192	—	39,787
Commercial and industrial loans	**12,761**	**685,557**	10,788	560,370	7,728	457,973	6,173	378,247	5,492	260,457
Consumer loans	**846**	**54,878**	652	44,416	738	38,645	571	38,486	395	38,682
Unallocated	**135**	**—**	76	—	69	—	3,591	—	3,287	—
Total	**$14,734**	**$1,239,812**	$12,269	$976,379	$10,064	$778,098	$11,976	$621,278	$10,624	$468,280

The allowance is based on estimates, and ultimate future losses may vary from current estimates. Underlying trends in the economic cycle, particularly in Southern California, which management cannot completely predict, will influence credit quality. It is always possible that future economic or other factors may adversely affect Hanmi Bank's borrowers. As a result, the Company may sustain loan losses in any particular period that are sizable in relation to the allowance, or exceed the allowance. In addition, the Company's asset quality may deteriorate through a number of possible factors, including:

- rapid growth;
- failure to maintain or enforce appropriate underwriting standards;
- failure to maintain an adequate number of qualified loan personnel; and
- failure to identify and monitor potential problem loans.

As a result of these and other factors, loan losses may be substantial in relation to the allowance or exceed the allowance.

NON-INTEREST INCOME

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

(dollars in thousands)	**2003**	2002	2001
Service charges on deposit accounts	**$10,339**	$ 9,195	$ 9,222
Trade finance fees	**2,887**	2,410	1,915
Remittance fees	**952**	786	602
Other service charges and fees	**875**	803	794
Bank-owned life insurance income	**499**	552	—
Gain on sale of loans	**2,157**	1,875	1,345
Gain on sale of securities available for sale	**1,094**	3,265	2,751
Gain on sale of other real estate owned	**82**	—	16
Increase in fair value of interest rate swaps	**35**	1,368	—
Other income	**758**	659	342
Total	**$19,678**	$20,913	$16,987

The Company earns non-interest income from four major sources: service charges on deposit accounts, fees generated from international trade finance, gain on the sale of loans and gain on sale of securities available for sale.

Non-interest income has become a significant part of the Company's revenue in the past several years. For the year ended December 31, 2003, non-interest income was $19.7 million, a decrease of 6.0% from $20.9 million for the year ended December 31, 2002. This decrease was largely attributable to the $2.2 million decrease in gain on sale of securities available for sale and a $1.3 million decrease in the change in fair value of interest rate swaps. The large increase in service charges on deposit accounts and trade finance fees offsets this decrease and resulted in a comparatively small overall decrease in non-interest income of $1.2 million.

Service charge income on deposit accounts increased with the growing deposit volume and number of accounts. The Company constantly reviews service charges to maximize service charge income while still maintaining its competitive position. The service charges on deposit accounts increased by $1.1 million or 12.4% for the year 2003 compared to 2002. The increase in service charges was mainly due to the expansion of the Company's branch network throughout the years and a response to the competitive environment after experiencing a slight decrease in service charges on deposit accounts in 2002.

Fees generated from international trade finance increased by 19.8% from $2.4 million to $2.9 million during 2003. The increase was primarily due to the recovery of the general economies of Pacific Rim countries from the monetary crisis in prior years. Average trade finance loans increased by $8.4 million or 20.6% from $40.6 million in 2002 to $48.9 million in 2003.

Gain on the sale of loans was approximately $2.2 million in 2003, compared to $1.9 million and $1.3 million in 2002 and 2001, respectively, representing increases of 15.0% and 39.4% for the years ended December 31, 2002 and 2003, respectively. While SBA loan sales remained active during 2003, the increase in gain on sale of loans resulted from the Company's increased sales activity in mortgage loans. The Company sells the guaranteed portion of SBA loans in the secondary markets, while retaining servicing rights. During the year 2003, the Company sold approximately $35.1 million of SBA loans.

Gain on sale of securities available for sale decreased by 66.5% from $3.3 million in 2002 to $1.1 million during 2003. The Company sold approximately $57.1 million of securities, recognizing premiums of 1.4% over the carrying value of such securities. The ability to generate such gains in the future is not assured since any gains are dependent on market interest rates.

The increase of other income in 2003 compared to 2002 and 2001 is mainly due to an increase of credit card fee income and sales commission from mutual funds and insurance products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

For the year ended December 31, 2002, non-interest income was $20.9 million, an increase of $3.9 million or 23.1% from $17.0 million for the year ended December 31, 2001. This increase was largely attributable to the $530,000 increase in gain on sale of loans, a $495,000 increase in trade finance fees, a $514,000 increase in gain on sale of securities available for sale, a $1.4 million increase in the fair value of interest rate swaps and a $552,000 increase in income from bank-owned life insurance.

For the year ended December 31, 2001, non-interest income was $17.0 million, an increase of $2.2 million or 14.6% from $14.8 million for the year ended December 31, 2000. This increase was largely attributable to a $2.8 million gain on sale of securities.

As a part of its continuing effort to expand non-interest income, the Company introduced non-depository products, such as life insurance, mutual funds and annuities, to customers in December 2001. During the year 2003, the Company generated income of $228,000 from this activity, which represented a 16.3% increase from $196,000 earned in 2002.

NON-INTEREST EXPENSES

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

(dollars in thousands)	**2003**	2002	2001
Salaries and employee benefits	**$21,214**	$17,931	$16,786
Occupancy and equipment	**5,198**	4,330	3,877
Data processing	**3,080**	2,784	2,347
Advertising and promotional expenses	**1,635**	1,523	1,747
Supplies and communications	**1,496**	1,466	1,417
Professional fees	**1,167**	1,003	1,110
Loan referral fees	**921**	691	540
Impairment of investment securities	**—**	4,416	270
Other operating expenses	**4,614**	4,189	3,934
Total	**$39,325**	$38,333	$32,028

Total non-interest expenses increased by $1 million or 2.6% in 2003. This increase in 2003 was relatively minor due to the charges made for impairment of investment securities during 2002, when the Company recorded an impairment charge of $4.4 million on corporate bonds issued by WorldCom, Inc. The $5.0 million bond was purchased in January 2001 and WorldCom defaulted on it in January 2002. As of December 31, 2003, the remaining $1.0 million par value was carried at $119,000 and had a market value of $335,000. During 2003, the Company sold $4.0 million par value of that bond and recognized a gain of $782,000.

Excluding the impairment charges during 2002, total non-interest expense would have increased by $5.4 million or 15.9% to $39.3 million in 2003 from $33.9 million in 2002. The increase was primarily due to the expansion of the Company's branch network, causing an increase in salaries, occupancy and data processing expenses. Two full branches were added to the Company's network in 2003, which required an increase in staff (salaries and employee benefits), as well as additional rent for the new locations. The business generated by the new branches also created the need for additional data processing expenses to support the larger customer base and volume.

Total non-interest expense increased by $6.3 million or 19.7% in 2002. Excluding the impairment charges, total non-interest expense would have increased by $1.9 million or 6% to $33.9 million from $32.0 million. The increase in 2002 was primarily due to the addition of one new branch to the Company's network, which required an increase in staff (salaries and employee benefits), and additional rent for the new location, as well as additional data processing expenses to support the larger customer base and loan volume.

PROVISION FOR INCOME TAXES

For the year ended December 31, 2003, the Company recognized a provision for income taxes of $12.4 million on net income before tax of $31.6 million, representing an effective tax rate of 39.3%, compared to a provision of $9.0 million on net income before tax of $26.0 million, representing an effective tax rate of 34.6%, for 2002. In June 2002, Hanmi Bank formed a real estate investment trust ("REIT"). On December 31, 2003, the California Franchise Tax Board announced its position that certain transactions related to REITs will be disallowed pursuant to California Senate Bill 614 and Assembly Bill 1601. The higher tax rate in 2003 compared to 2002 was primarily due to a reversal in the fourth quarter of 2003 of income tax benefits recognized in the first three quarters of 2003 from the REIT, in response to this newly enacted California legislation.

The Company made investments in various tax credit funds totaling $4.1 million and recognized an income tax credit of approximately $382,000 of tax credits earned from qualified low-income housing investments in 2003. The Company recognized an income tax credit of approximately $303,000 for the tax year 2002 from $4.6 million in such investments. The Company intends to continue to make such investments as part of an effort to lower its effective tax rate and to receive credit under the Community Reinvestment Act.

For the year ended December 31, 2001, the Company recognized a provision for income taxes of $10.7 million on net income before tax of $27.5 million, representing an effective tax rate of 38.9%.

As indicated in Note 7 in the Notes to the Consolidated Financial Statements, income tax expense is the sum of two components, current tax expense and deferred tax expense (benefit). Current tax expense is the result of applying the current tax rate to taxable income. The deferred portion is intended to account for the fact that income on which taxes are paid differs from financial statement pretax income because certain items of income and expense are recognized in different years for income tax purposes than in the financial statements. These differences in the years that income and expenses are recognized cause "temporary differences."

Most of the Company's temporary differences involve recognizing more expenses in its financial statements than it has been allowed to deduct for taxes, and therefore the Company normally has a net deferred tax asset. At December 31, 2003, the Company had net deferred tax assets of $7.2 million.

FINANCIAL CONDITION

LOAN PORTFOLIO

Total gross loans increased by $276.3 million or 27.9% in 2003. Total gross loans comprised 70.9% of total assets at December 31, 2003 compared with 67.9% and 68.4% at December 31, 2002 and 2001, respectively.

The table below sets forth the composition of the Company's loan portfolio by major category. Commercial and industrial loans comprised the largest portion of the total loan portfolio, representing 56.2% of total loans at December 31, 2003, as compared with 57.9% and 57.6% of total loans at December 31, 2002 and 2001, respectively.

Commercial loans include term loans and revolving lines of credit. Term loans typically have a maturity of three to five years and are extended to finance the purchase of business entities, business equipment, leasehold improvements or for permanent working capital. SBA guaranteed loans usually have a longer maturity (five to 20 years). Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. These borrowers are well diversified as to industry, location, and their current and target markets. The Company manages its portfolio to avoid concentration in any of the areas mentioned. The commercial loan portfolio also includes the SBA loans held for sale, which totaled approximately $25.5 million and $12.5 million at December 31, 2003 and 2002, respectively.

Real estate loans were $499.4 million and $371.6 million at December 31, 2003 and 2002, respectively, representing 39.4% and 37.5%, respectively, of the total loan portfolio. Real estate loans are extended to finance the purchase and/or improvement of commercial real estate and residential property. The properties generally are user owned but may be for investment purposes. Underwriting guidelines include, among other things, review of appraised value, limitations on loan-to-value ratios, and minimum cash flow requirements to service debt. The majority of the properties taken as collateral are located in Southern California.

The Company does not actively pursue consumer installment loans, which historically have represented less than 10% of the total loan portfolio. The majority of installment loans are automobile loans, which the Company provides as a service to existing clients.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

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

	Amount Outstanding as of December 31,				
(dollars in thousands)	**2003**	2002	2001	2000	1999
Real estate loans:					
Construction	**$ 43,047**	$ 39,237	$ 33,618	$ 8,543	$ 3,512
Commercial property	**397,853**	284,465	198,336	147,810	125,842
Residential property	**58,477**	47,891	49,526	48,192	39,787
Commercial and industrial loans[1]	**711,011**	572,910	472,920	391,093	278,958
Consumer loans	**54,878**	44,416	38,645	38,486	38,682
Total gross loans	**$1,265,266**	$988,919	$793,045	$634,124	$486,781

(1) Loans held for sale were included at the lower of cost or market.

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

	Percentage Distribution of Loans as of December 31,				
	2003	2002	2001	2000	1999
Real estate loans:					
Construction	**3.40%**	3.97%	4.24%	1.35%	0.72%
Commercial property	**31.44**	28.77	25.01	23.31	25.85
Residential property	**4.62**	4.84	6.25	7.60	8.17
Commercial and industrial loans	**56.20**	57.93	59.63	61.67	57.31
Installment loans	**4.34**	4.49	4.87	6.07	7.95
Total gross loans	**100.00%**	100.00%	100.00%	100.00%	100.00%

As of December 31, 2003 and 2002, the Company had commitments to extend credit of $253.7 million and $197.3 million, obligations under standby letters of credit of approximately $34.4 million and $22.1 million, obligations under commercial letters of credit of $34.3 million and $21.3 million, and under credit card loans of approximately $3.8 million and $3.5 million, respectively. Based upon the Company's historical experience, the outstanding loan commitments are expected to remain relatively stable throughout the year.

The table below shows the maturity distribution and repricing intervals of the Company's outstanding loans as of December 31, 2003. In addition, the table shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates. The table excludes non-accrual loans of $8.1 million at December 31, 2003.

(dollars in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Real estate loans:				
Construction	$ 43,047	—	—	$ 43,047
Commercial property	381,500	$ 5,174	$11,179	397,853
Residential property	18,754	26,595	12,002	57,351
Commercial and industrial loans	678,030	14,750	11,308	704,088
Consumer loans	32,047	22,777	—	54,824
Total	$1,153,378	$69,296	$34,489	$1,257,163
Loans with predetermined interest rates	$ 49,533	$56,835	$34,489	$ 140,857
Loans with variable interest rates	$1,103,845	$12,461	$ —	$1,116,306

NON-PERFORMING ASSETS

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

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

The Company's non-performing loans were $8.7 million at December 31, 2003, compared to $6.5 million and $5 million at December 31, 2002 and 2001, respectively, representing a 34% increase in 2003 and a 30% increase in 2002.

As of December 31, 2003, 2002 and 2001, total non-performing assets were the same as non-performing loans. During these same periods, total loans increased by 27.9% in 2003 from 2002, and 24.7% in 2002 from 2001.

As a result, the ratio of non-performing assets to total loans and OREO increased to 0.68% at December 31, 2003, from 0.65% at December 31, 2002 and 0.63% at December 31, 2001. As of December 31, 2003, the Company had no OREO.

Except for non-performing loans set forth below and loans disclosed as impaired, the Company's management is not aware of any loans as of December 31, 2003 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. The Company's 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

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

(dollars in thousands)	**2003**	2002	2001	2000	1999
Non-accrual loans:					
Real estate loans:					
Commercial property	**$ 527**	—	$ 1,183	$ 516	$ 206
Residential property	**1,126**	$ 287	730	649	1,023
Commercial and industrial loans	**6,398**	5,522	2,275	923	1,536
Consumer loans	**53**	49	94	71	188
Total	**8,104**	5,858	4,282	2,159	2,953
Loans 90 days or more past due and still accruing (as to principal or interest):					
Real estate:					
Residential property	**—**	261	117	3	—
Commercial	**557**	356	602	391	79
Total	**557**	617	719	394	79
Total non-performing loans	**8,661**	6,475	5,001	2,553	3,032
Other real estate owned	**—**	—	—	—	—
Total non-performing assets	**$ 8,661**	$ 6,475	$ 5,001	$ 2,553	$ 3,032
Non-performing loans as a percentage of total loans	**0.68%**	0.65%	0.63%	0.40%	0.62%
Non-performing assets as a percentage of total loans and other real estate owned	**0.68%**	0.65%	0.63%	0.40%	0.62%
Total loans	**$1,265,266**	$988,919	$793,045	$634,124	$486,781

ALLOWANCE FOR LOAN LOSSES

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

On a quarterly basis, the Company utilizes a classification migration model and individual loan review analysis tools, as a starting point for determining the allowance for loan loss adequacy. The Company's loss migration analysis tracks twelve quarters of loan losses to determine historical loss experience in every classification category (i.e., pass, special mention, substandard and doubtful) for each loan type, except consumer loans (auto, mortgage and credit cards) which are analyzed as homogeneous loan pools. These calculated loss factors are then applied to outstanding loan balances, unused commitments, and off-balance sheet exposures, such as letters of credit. The individual loan review analysis is the other axis of the allowance allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios.

The results from the above two analyses are thereafter compared to independently generated information such as peer group comparisons and the Federal regulatory interagency policy for loan and lease losses. Further assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

The allowance for loan losses was $14.7 million at December 31, 2003, compared to $12.3 million at December 31, 2002. The increase in the allowance for loan losses in 2003 was due primarily to the increase in gross loan volume. The ratio of the allowance for loan losses to gross loans has decreased nonetheless, primarily due to the decrease in the specific allocation by $1.3 million and the foreign country risk allocation by $0.5 million.

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

The Company determines the appropriate overall allowance for loan losses based on the foregoing analysis, taking into account management's judgment. Allowance methodology is reviewed on a periodic basis and modified as appropriate. Based on this analysis, including the aforementioned factors, the Company believes that the allowance for loan losses is adequate as of December 31, 2003.

(dollars in thousands)	Years Ended December 31,				
Allowance for Loan Losses:	**2003**	2002	2001	2000	1999
Balance at beginning of year	**$12,269**	$10,064	$11,976	$10,624	$10,423
Actual charge-offs:					
Real estate loans:					
Commercial property	**198**	—	—	—	79
Residential property	**—**	—	—	—	73
Commercial and industrial loans	**3,687**	3,213	3,782	1,383	1,432
Consumer loans	**538**	358	324	399	417
Total	**4,423**	3,571	4,106	1,782	2,001
Recoveries on loans previously charged off:					
Real estate loans:					
Construction	**—**	—	—	30	—
Commercial property	**21**	—	273	—	595
Residential property	**6**	—	—	—	23
Commercial and industrial loans	**859**	871	307	691	514
Consumer loans	**322**	105	214	163	70
Total	**1,208**	976	794	884	1,202
Net loan charge-offs	**3,215**	2,595	3,312	898	799
Provision charged to operating expenses	**5,680**	4,800	1,400	2,250	1,000
Balance at end of year	**$14,734**	$12,269	$10,064	$11,976	$10,624
Ratios:					
Net loan charge-offs to average total loans	**0.29%**	0.29%	0.46%	0.16%	0.20%
Net loan charge-offs to total loans at end of period	**0.25%**	0.26%	0.42%	0.14%	0.16%
Allowance for loan losses to average total loans	**1.32%**	1.37%	1.41%	2.11%	2.60%
Allowance for loan losses to total loans at end of period	**1.16%**	1.24%	1.27%	1.89%	2.18%
Net loan charge-offs to allowance for loan losses at end of period	**21.82%**	21.15%	32.91%	7.50%	7.52%
Net loan charge-offs to provision charged to operating expenses	**56.60%**	54.06%	236.57%	39.91%	79.90%
Allowance for loan losses to non-performing loans	**170.12%**	189.48%	201.24%	469.10%	350.40%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

The Company concentrates the majority of its earning assets in loans. In all forms of lending, there are inherent risks. The Company concentrates the preponderance of its loan portfolio in either commercial loans or real estate loans. A small part of the portfolio is represented by installment loans primarily for the purchase of automobiles.

While the Company believes that its underwriting criteria are prudent, outside factors can adversely impact credit quality.

Having experienced the problems mentioned above in the past, the Company has attempted to mitigate collection problems by supporting its loans by fungible collateral. Additionally, a significant portion of the portfolio is represented by loans guaranteed by the SBA, which further reduces the Company's potential for loss. The Company also utilizes credit review in an effort to maintain loan quality. Loans are reviewed throughout the year with new loans and those that are delinquent receiving special attention. In addition to the Company's internal grading system, loans criticized by this credit review are downgraded with appropriate allowance added if required.

As indicated above, the Company formally assesses the adequacy of the allowance on a quarterly basis by:

- reviewing the adversely graded, delinquent or otherwise questionable loans;
- generating an estimate of the loss potential in each such loan;
- adding a risk factor for industry, economic or other external factors; and
- evaluating the present status of each loan.

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

INVESTMENT PORTFOLIO

The investment portfolio maintained by the Company as of December 31, 2003 was composed primarily of collateralized mortgage obligations ("CMO"), mortgage-backed securities ("MBS"), U.S. government agency securities ("Agencies"), municipal bonds and corporate bonds. During 2003, the Bank shifted funds from money market instruments (primarily Federal funds) to longer-term instruments to increase its returns.

As of December 31, 2002, the Bank's assets included overnight and term Federal funds aggregating $85.0 million. During 2003, these funds were redeployed into municipal bonds, MBS, Agencies, CMOs, and corporate bonds. Because municipal bonds were an attractive long-term investment alternative and offer significant tax benefits, the Company increased its investments in this sector. Investments in MBS were centered in 10- and 15-year pass-through mortgages, which kept the overall duration of the portfolio from increasing significantly. Investments in Agencies focused mainly on one-time callable bonds. Investments in corporate bonds were limited to investment grade, large capitalization issuers in the financial sector, with positions limited to $2.7 million par value per issuer. Overall, the Company lengthened its portfolio duration, but limited its extension risk.

Investment securities available for sale increased to 99.7% of the total investment portfolio as of December 31, 2003, from 97.3% in 2002. Most of the securities held by the Company carried fixed interest rates.

Other than holdings of Agencies, there were no investments in securities of any one issuer exceeding 10% of the Company's shareholders' equity as of December 31, 2003, 2002 or 2001.

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

	Investment Portfolio as of December 31,					
	2003		2002		2001	
(dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held to Maturity:						
Municipal bonds	**$ 690**	**$ 689**	$ 1,088	$ 1,126	$ 2,963	$ 3,030
Mortgage-backed securities	**638**	**645**	1,457	1,487	2,838	2,891
Corporate bonds	**—**	**—**	4,997	4,983	11,754	11,871
Total	**$ 1,328**	**$ 1,334**	$ 7,542	$ 7,596	$ 17,555	$ 17,792
Available for Sale:						
Collateralized mortgage obligations	**$125,491**	**$124,096**	$102,212	$102,877	$ 55,240	$ 55,415
Mortgage-backed securities	**117,139**	**117,484**	78,112	79,173	65,218	65,364
U.S. government agencies	**80,845**	**81,426**	53,408	53,901	11,093	11,309
Municipal bonds	**60,741**	**61,403**	17,810	18,237	31,944	32,290
Corporate bonds	**13,641**	**13,903**	594	1,188	28,119	28,877
Other securities	**15,055**	**14,976**	16,630	16,630	2,165	2,165
Total	**$412,912**	**$413,288**	$268,766	$272,006	$193,779	$195,420

The following table summarizes the maturity and/or repricing schedule for the Company's investment securities and their weighted average yield as of December 31, 2003:

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Collateralized mortgage obligations[1]	$29,194	2.70%	$ 72,014	3.35%	$22,890	4.20%	—	—
Mortgage-backed securities[1]	15,807	2.31	71,514	2.42	24,671	3.07	$ 6,125	4.17%
Obligations of other U.S. government agencies	35,907	3.28	45,521	3.49	—	—	—	—
Obligations of state and local political subdivisions[2]	1,029	5.67	972	6.27	2,855	6.30	57,238	6.32
Corporate bonds	—	—	—	—	13,903	3.78	—	—
Other securities	13,920	2.88	1,056	7.29	—	—	—	—
	$95,857	2.90%	$191,077	3.07%	$64,319	3.79%	$63,363	6.16%

(1) Collateralized mortgage obligations and mortgage-backed securities have contractual maturities through 2033. Above table is based on the expected pre-payment schedule.

(2) The yield on obligations of state and local political subdivisions has been computed on a tax-equivalent basis.

DEPOSITS

Total deposits at December 31, 2003, 2002 and 2001 were $1,445.8 million, $1,284.0 million and $1,042.4 million, respectively, representing an increase of $161.9 million or 12.6% in 2003 and $241.6 million or 23.2% in 2002. The continuous growth of deposit volume in 2003 is primarily attributable to increased marketing at existing branches and the addition of two new branches. During 2002, the deposit composition proportion changed due to increasing demand deposits, and this remained stable during 2003. This is due to the dramatic drop in interest rates and management's efforts to decrease the Company's interest expense on deposits. At December 31, 2003, 2002 and 2001, the total time deposits outstanding were $667.8 million, $583.5 million and $518.2 million, respectively, representing 46.2%, 45.4% and 49.7% of total deposits. Demand deposits and money market accounts

increased by $78.8 million or 13.1% and $166.9 million or 38.3% in 2003 and 2002, respectively. At December 31, 2003, noninterest-bearing demand deposits represented 32.9% of total deposits compared to 32.1% at December 31, 2002. The average rate paid on time deposits in denominations of $100,000 or more was 1.92%, 2.51% and 4.97% for the years ended December 31, 2003, 2002 and 2001, respectively.

Average deposits for the years ended December 31, 2003, 2002 and 2001 were $1,416.6 million, $1,164.6 million and $988.4 million, respectively. Average deposits, therefore, grew by 21.6% in 2003 and 26.7% in 2002.

Deposits are the Company's primary source of funds. As the Company's need for funds to lend has grown and the loan growth rate surpassed the deposit growth rate in 2003, the Company utilized Federal Home Loan Bank borrowings to supply additional funds with lower interest rates. Total borrowings including Federal funds purchased at December 31, 2003 were $179.8 million representing an increase of $145.4 million.

The Company accepts brokered deposits on a selective basis at prudent interest rates to augment deposit growth. There were no brokered deposits as of December 31, 2003. As of December 31, 2003, the Company had $100 million of state time deposits over $100,000 with an average interest rate of 1.17%.

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

	For the Years Ended December 31,					
	2003		2002		2001	
(dollars in thousands)	**Average Balance**	**Average Rate**	Average Balance	Average Rate	Average Balance	Average Rate
Demand, noninterest-bearing	**$ 422,453**		$ 331,551		$254,319	
Money market	**207,689**	**1.24%**	176,089	1.72%	109,496	2.38%
Savings	**97,070**	**1.95**	92,835	2.84	77,860	3.49
Time deposits, $100,000 or more	**386,701**	**1.92**	312,618	2.51	277,169	4.97
Other time deposits	**302,651**	**2.43**	251,469	2.80	269,548	5.11
Total deposits	**$1,416,564**		$1,164,562		$988,392	

The table below summarizes the maturity of the Company's time deposits in denominations of $100,000 or greater at December 31 of the years indicated:

(dollars in thousands)	**2003**	2002	2001
Three months or less	**$261,274**	$231,410	$189,360
Over three months through six months	**57,034**	46,470	44,209
Over six months through twelve months	**52,815**	40,520	39,459
Over twelve months	**17,821**	5,144	3,757
	$388,944	$323,544	$276,785

INTEREST RATE RISK MANAGEMENT

Interest rate risk indicates the Company's 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 the Company's exposure to market interest rate. The level of interest rate risk can be managed through the changing of gap positions and the volume of fixed-income assets and so forth. For successful management of interest rate risk, the Company uses various methods with which to measure existing and future interest rate risk exposures. In addition to regular reports used in business operations, repricing gap analysis, stress testing and simulation modeling are the main measurement techniques used to quantify interest rate risk exposure.

The following table shows the most recent status of the Company's gap position.

(dollars in thousands)	Within Three Months	After Three Months But Within One Year	After One Year But Within Five Years	After Five Years	Non-Interest-Bearing	Total
ASSETS						
Cash (noninterest-earning)	—	—	—	—	$ 59,424	$ 59,424
Cash (interest-earning)	$ 3,171	—	—	—	—	3,171
FRB and FHLB stock	—	—	—	$ 10,355	—	10,355
Securities:						
Fixed rate	22,923	$ 58,007	$ 164,321	119,757	—	365,008
Floating rate	13,909	1,018	26,756	7,925	—	49,608
Loans:						
Fixed rate	19,669	29,864	56,835	34,489	—	140,857
Floating rate	1,096,484	7,360	12,461	—	—	1,116,305
Non-accrual	—	—	—	—	8,104	8,104
Unearned income, allowance for loan losses and discount	—	—	—	—	(18,252)	(18,252)
Interest rate swap	(60,000)	—	60,000	—	—	—
Other assets	—	11,137	—	—	40,037	51,174
Total assets	$1,096,156	$ 107,386	$ 320,373	$172,526	$ 89,313	$1,785,754
LIABILITIES						
Deposits:						
Demand deposits	$ 41,638	$ 104,793	$ 257,219	$ 71,450		$ 475,100
Savings	18,093	29,526	45,415	3,835		96,869
MMDA	39,731	51,084	79,463	18,920		189,198
NOW accounts	844	2,027	7,093	6,924		16,888
Time certificates of deposit, $100,000 or more	261,274	109,849	17,748	73		388,944
Other time deposits	167,855	106,228	4,753	—		278,836
Other borrowed funds	153,895	—	20,000	6,000		179,895
Other liabilities	—	—	—	—	$ 20,557	20,557
Shareholders' equity	—	—	—	—	139,467	139,467
Total	$ 683,330	$ 403,507	$ 431,691	$107,202	$160,024	$1,785,754
Repricing gap	$ 412,826	$ (296,121)	$ (111,318)	$ 65,324	$ (70,711)	
Cumulative gap	412,826	116,705	5,387	70,711	—	
Cumulative gap as a percentage of total assets	23.12%	6.54%	0.30%	3.96%		
Cumulative gap as a percentage of interest-earning assets	24.33%	6.88%	0.32%	4.17%		

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities, i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same time period. Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates, and liabilities are assigned based on their maturity dates. Core deposits that have no maturity dates (demand deposits, savings, MMDA and NOW accounts) are assigned to categories based on expected decay rates. On December 31, 2003, the cumulative repricing gap as a percentage of earning assets in the less-than-three-month period was 24.33%. This was a large decrease from the previous year's figure of 34.54%. The decrease was caused by a rise in borrowings and interest rate swaps of $60 million. The cumulative repricing percentage in the three-to-twelve-month period also moved lower, reaching 6.88%. In terms of fixed and floating gap positions, which are used internally to control repricing risk, the accumulated fixed gap position between assets and liabilities as a percentage of interest-earning assets was (8.67)%. The floating gap position in the less-than-one-year period was 7.94%. Both the fixed and floating gap positions were maintained within Bank guidelines.

The following table summarizes the most recent status of the Company's gap position.

	Less than 3 Months December 31,		3 to 12 Months December 31,	
(dollars in thousands)	**2003**	2002	**2003**	2002
Cumulative repricing	**$412,826**	$463,933	**$116,705**	$163,128
Percentage of total assets	**23.12%**	31.86%	**6.54%**	11.20%
Percentage of earning assets	**24.33%**	34.54%	**6.88%**	12.14%
Internal policy guideline (percentage of earning assets)	**35.00%**	35.00%	**20.00%**	20.00%

The spread between interest income on earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect the Company's financial performance. The Company emphasizes capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, the Company prudently manages its assets and liabilities and closely monitors the percentage changes in net interest income and equity value in relation to limits established within the Company's guidelines.

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities. When compared to the previous year, 2003 saw a large decrease in the less-than-three-month period cumulative repricing amount. The ratio to total assets decreased to 23.12% and the ratio to earning assets decreased to 24.33%. However, there was greater movement in the three-to-twelve-month period. The cumulative repricing amount decreased by $46.4 million from the previous year. This made the Company less asset-sensitive in the event of market interest rate movements. In 2003, due to significant increases in Federal Home Loan Bank advances and Federal funds purchased along with an increase in overall deposits compared to the previous year, the severity of asset sensitivity in the less-than-three-month period weakened despite the overall increase in loans, particularly floating rate loans. In addition, the interest rate swaps of $60 million also contributed to lessening the asset sensitivity in the less-than-three-month period. The increase in liabilities surpassed the increase in assets repricing in the three-to-twelve-month period, but in terms of cumulative basis, the gap position in the less-than-twelve-month period was still asset-sensitive.

To supplement traditional gap analysis, the Company performs simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed by the Company 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 the Company's balance sheet. 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.

HYPOTHETICAL CHANGES IN INTEREST RATES

December 31, 2003

(dollars in thousands)

	Projected Changes (%)				Change in Amount		Expected Amount	
	Net Interest Income		Economic Value of Equity					
Change in Interest Rate (bps)	Guideline	Projected	Guideline	Projected	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
200	(25.0)%	9.08%	(25.0)%	(23.66)%	$ 5,520	$(39,682)	$66,324	$128,045
100	(12.5)%	4.26%	(12.5)%	(12.27)%	$ 2,592	$(20,580)	$63,396	$147,147
0	0%	0%	0%	0%	—	—	$60,804	$167,727
(100)	(12.5)%	(4.58)%	(12.5)%	12.79%	$(2,785)	$ 21,457	$58,019	$189,184
(200)	(25.0)%	(14.66)%	(25.0)%	27.25%	$(8,915)	$ 45,700	$51,889	$213,427

In the above stress simulation, for a 100 basis point decline in interest rates, the Company may be exposed to a 4.58% decline in net interest income and a 12.79% increase in the economic value of equity. For a 100 basis point increase in interest rates, net interest income may increase by 4.26%, but the economic value of equity may decrease by 12.27%. For a 200 basis point increase in interest rates, net interest income may increase by 9.08%, but economic value of equity may decrease by 23.66%. For a 200 basis point decrease in interest rates, net interest income may decrease by 14.66%, but economic value of equity may increase by 27.25%. As shown in the above table, all figures remained well within internal policy guidelines.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity of the Bank is defined as the ability to supply cash as quickly as needed without causing a severe deterioration in its profitability. The Bank's major liquidity on the asset side stems from available cash positions. Federal funds sold and short-term investments categorized as trading and/or available for sale securities, which can be disposed of without significant capital losses in the ordinary business cycle. Liquidity sources on the liability side come from borrowing capacities, which include Federal funds lines, repurchase agreements, FRB discount window and Federal Home Loan Bank advances. Thus, maintenance of high quality securities that can be used for collateral in repurchase agreements or other secured borrowings is another important feature of liquidity management. Liquidity risk may occur when the Bank has few short-duration securities available for sale and/or is not capable of raising funds as quickly as necessary at acceptable rates in the capital or money markets. Also, a heavy and sudden increase in cash demands for loans and/or deposits can tighten the liquidity position. Several ratios are reviewed on a daily, monthly and quarterly basis to manage the liquidity position and to preempt any liquidity crisis. Six specific statistics, which include the loan-to-asset ratio, off-balance sheet items, and dependence on non-core deposits, foreign deposits, lines of credit, and liquid assets are reviewed quarterly for liquidity management purposes. Heavy loan demand and limited liquid assets increased pressure for liquidity in 2003, but the Company still had sufficient liquid assets to meet loan demand.

LIQUIDITY RATIOS AND TRENDS

	December 31,		
	2003	2002	2001
Short-term investments/ total assets	**6%**	12%	12%
Core deposits/total assets	**40%**	45%	45%
Short-term non-core funding/total assets	**45%**	40%	44%
Short-term investments/ short-term non-core funding dependence	**20%**	30%	27%

LIQUIDITY MEASURES

		December 31,		
	Guidelines	**2003**	2002	2001
Net loans/ total assets	Less than 85%	**70%**	67%	67%
Investments/ deposits	Less than 50%	**30%**	29%	28%
Loans and investments/ deposits	Less than 133%	**116%**	105%	103%
Off-balance sheet items/ total assets	Less than 25%	**18%**	17%	13%

The net loans to total assets ratio increased to 70% in 2003. Despite fluctuations during the year, net loans grew faster than assets through the year. For the year, the ratio of loans to assets remained below the 85% guideline, ranging from 67% to 70%.

The investments to deposits ratio rose marginally to 30%. The loans and investments to deposits ratio increased slightly to 116%. Off-balance sheet items as a percentage of total assets rose in 2003 to 18.31% from 16.59% in 2002. The total amount increased to $326 million. Most of the increase was due to a $56 million increase in unused commitments.

Another area of increase was financial standby letters of credit, which rose by $12 million. Although the percentage of off-balance sheet items to total assets increased, it remained well within policy guidelines of 25%. The Company had four interest rate swaps aggregating $60 million at the end of the year. The ratios of short-term non-core funding to total assets and short-term investments to short-term non-core funding dependence were 45% and 20%, respectively.

Foreign deposit risk deals with dependency on foreign deposits that could adversely affect the Bank's liquidity. These liabilities are assumed to be volatile in accordance with the variability of social, political and environmental conditions in foreign countries. The Bank monitors separately on a quarterly basis foreign deposits and Brazilian deposits, and exposures to both categories remained well within the Bank's internal guidelines.

There were increases to the lines of credit secured by the Company to meet its liquidity needs. The Company maintained a total of $67 million in credit lines. In addition, the Company maintained Master Repurchase Agreements with Wachovia Bank, Banc of America Securities, Bear Stearns, Union Bank of California, UBS PaineWebber, Lehman Brothers, Merrill Lynch and Morgan Stanley, all of which can furnish liquidity to the Company in consideration of bonds collateral.

The Company also can meet its liquidity needs through borrowings from the Federal Home Loan Bank of San Francisco. The Company is eligible to borrow up of 25% of its total assets from the FHLB. The maintenance of a proper level of liquid assets is critical for both the liquidity and profitability of the Company. Since the primary objective of the investment portfolio is to maintain proper liquidity, it is deemed appropriate for management to maintain sufficient liquid assets to avoid exposure to avoidable liquidity risk.

As of December 31, 2003, the Company had no material commitments for capital expenditures.

The Company raises capital in the form of deposits, borrowings (primarily Federal Home Loan Bank advances) and equity, and expects to continue to rely upon deposits as the primary source of capital. (See a discussion of the expected source of capital for the acquisition of PUB below, "Business Combination.")

BUSINESS COMBINATION

On December 22, 2003, the Company entered into a definitive agreement to acquire Pacific Union Bank ("PUB"), a commercial bank with assets of approximately $1.1 billion, for an aggregate purchase price estimated at $295 million. Under the agreement, the Company will acquire all the outstanding shares of PUB for $164.5 million cash plus a quantity of Hanmi Financial shares specified in the agreement. The number of shares to be exchanged is subject to a "collar" set forth in the agreement and is based upon the volume weighted market value of Hanmi Financial shares for the five business days prior to the closing date, which is expected to take place in the second quarter of 2004.

The number of shares to be exchanged is as follows:

Hanmi Financial Share Price	Number of shares
$26.50 or more	5,773,672 shares
$25.01–$26.49	Shares with an aggregate market value of $153,002,325
$19.00–$25.00	6,120,093 shares
$17.51–$18.99	Shares with an aggregate market value of $116,281,767
$17.50 or less	6,644,672 shares

The acquisition has been structured to qualify as a tax-free exchange under the Federal Internal Revenue Code, which requires that aggregate cash consideration paid not exceed 58% of the transaction value.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

In addition to other factors set forth herein, below is a discussion of certain factors which may affect the Company's financial operations and should be considered in evaluating the Company.

Our Southern California business focus and economic conditions in Southern California could adversely affect our operations. Hanmi Bank's operations are primarily located in Los Angeles and Orange counties. As a result of this geographic concentration, the Company's results depend largely upon economic conditions in these areas. A deterioration in economic condition in Hanmi Bank's market area, or a significant natural or manmade disaster in these market areas, could have a material adverse effect on the quality of Hanmi Bank's loan portfolio, the demand for its products and services and on its overall financial condition and results of operations.

The Company's earnings are affected by changing interest rates. Changes in interest rates affect the level of loans, deposits and investments, the credit profile of existing loans, the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on the Company's financial condition and results of operations.

A failure to effectively integrate PUB's operations with Hanmi Financial's could adversely affect our earnings and financial condition. In December 2003, we entered into a definitive agreement to acquire PUB. We are currently planning the integration of the data processing systems, facilities and personnel of PUB into Hanmi. If we experience difficulties in integrating the two banks, we could experience higher than anticipated administrative costs or the loss of customers, resulting in lower than anticipated earnings and/or adverse changes in our financial condition.

Hanmi may fail to realize the anticipated benefits of the merger with PUB. The success of the merger will depend on, among other things, Hanmi's ability to realize anticipated cost savings and revenue enhancements and to combine the businesses of its subsidiary Hanmi Bank and PUB in a manner that permits growth opportunities to occur and that does not materially disrupt the existing customer relationships of PUB or result in decreased revenues resulting from any loss of customers. If Hanmi is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected.

Hanmi and PUB have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of Hanmi's or PUB's ongoing businesses, diversion of management time on merger-related issues, or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

Uncertainty regarding the merger may result in the loss of the employees and customers of Hanmi and PUB prior to the completion of the merger. Employees of Hanmi and PUB may experience uncertainty about their future role with the combined company. This may adversely affect the ability of the combined company to retain and attract key management and other personnel. Similarly, uncertainty regarding the merger may cause customers of Hanmi and PUB to withdraw their business prior to the completion of the merger. Any loss of Hanmi's or PUB's customers could have a material adverse effect on Hanmi's or PUB's respective businesses, regardless of whether or not the merger is ultimately completed. There can be no assurance that customers of each of Hanmi or PUB will continue their business without regard to the proposed merger.

We are subject to government regulations that could limit or restrict our activities, which in turn could adversely affect our operations. The financial services industry is subject to extensive Federal and state supervision and regulation. Significant new laws, changes in existing laws, or repeals of existing laws may cause the Company's results to differ materially. Further, Federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit

conditions for the Company, and a material change in these conditions could have a material adverse affect on the Company's financial condition and results of operations.

Competition may adversely affect our performance. The banking and financial services businesses in the Company's market areas are highly competitive. The Company faces competition in attracting deposits and in making loans. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the pace of consolidation among financial services providers. The results of the Company in the future may differ depending upon the nature and level of competition.

If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans, we could sustain losses. A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans. The Company has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for credit losses, that management believes are appropriate to minimize this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying the Company's credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on the Company's financial condition and results of operations.

OFF-BALANCE SHEET COMMITMENTS

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

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

	December 31,	
(dollars in thousands)	**2003**	2002
Commitments to extend credit	**$253,722**	$197,257
Standby letters of credit	**34,434**	22,122
Commercial letters of credit	**34,261**	21,316
Guaranteed credit cards	**3,801**	3,465
Total	**$326,218**	$244,160

SMALL BUSINESS ADMINISTRATION GUARANTEED LOANS

Hanmi Bank originates loans qualifying for guarantees issued by the United States SBA, an independent agency of the Federal government. The SBA guarantees on such loans currently range from 75% to 85% of the principal and accrued interest. Under certain circumstances, the guarantee of principal and interest may be less than 75%. In general, the guaranteed percentage is less than 75% for loans over $1.3 million. As of December 31, 2003, Hanmi Bank had 19 SBA loans totaling $27.7 million that exceeded $1.3 million individually.

Hanmi Bank typically requires that SBA loans be secured by business assets and by a first or second deed of trust on any available real property. SBA loans have terms ranging from seven to 25 years depending on the use of the proceeds. To qualify for an SBA loan, a borrower must demonstrate the capacity to service and repay the loan, without liquidating the collateral, on the basis of historical earnings or reliable projections.

Hanmi Bank generally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA guaranteed loans that it originates. When Hanmi Bank sells an SBA loan, it may be obligated to repurchase the loan (for a period of 90 days after the sale) if the loan fails to comply with certain representations and warranties given by the Bank. Hanmi Bank retains the obligation to service the SBA loans, for which it receives servicing fees. Those unsold portions of the SBA loans that remain owned by Hanmi Bank are included in its assets. As of December 31, 2003, Hanmi Bank had $101.1 million in SBA loans remaining on its balance sheet, and was servicing $83.2 million of sold SBA loans.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations as of December 31, 2003 are as follows:

(dollars in thousands) Contractual Obligations	Payment Due by Period Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years	Total
Long-term debt obligations	—	—	$20,000	$6,000	$26,000
Operating lease obligations	$2,214	$3,723	2,757	—	8,694
Total	$2,214	$3,723	$22,757	$6,000	$34,694

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2003, the FASB issued FASB Interpretation No. 46R (revised December 2003), "*Consolidation of Variable Interest Entities*," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FASB Interpretation No. 46R ("FIN No. 46R") replaces FASB Interpretation No. 46, which was issued in January 2003. The Company will be required to apply FIN No. 46R to variable interests in variable interest entities ("VIE") created after December 31, 2003. For VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN No. 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN No. 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The application of FIN No. 46R is not expected to have a material effect on the Company's consolidated financial statements.

FASB Statement No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" ("SFAS No. 150"), was issued in May 2003. It establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS No. 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands)	December 31, 2003	2002
ASSETS		
Cash and due from banks	$ 62,595	$ 67,772
Federal funds sold	—	55,000
Cash and cash equivalents	62,595	122,772
Federal Reserve Bank stock	2,935	2,945
Federal Home Loan Bank stock	7,420	1,634
Securities held to maturity, at amortized cost (fair value: 2003—$1,334; 2002—$7,596) (note 3)	1,328	7,542
Securities available for sale, at fair value (note 3)	413,288	272,006
Term Federal funds sold	—	30,000
Loans receivable, net of allowance for loan losses: 2003—$14,734; 2002—$12,269 (note 4)	1,221,560	961,599
Loans held for sale, at the lower of cost or fair value	25,454	12,540
Customers' liability on acceptances	3,930	4,472
Premises and equipment, net (note 5)	8,435	8,240
Accrued interest receivable	6,686	5,533
Deferred income taxes, net (note 7)	7,207	4,223
Servicing asset	2,364	2,065
Goodwill and intangible assets	2,043	2,164
Bank-owned life insurance—cash surrender value	11,137	10,637
Other assets	9,372	7,926
Total assets	$1,785,754	$1,456,298
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits (note 6):		
Noninterest-bearing	$ 475,100	$ 412,060
Interest-bearing:		
Savings	96,860	98,121
Money market checking	206,086	190,314
Time deposits of $100,000 or more	388,944	323,544
Other time deposits	278,836	259,940
Total deposits	1,445,835	1,283,979
Accrued interest payable	4,403	3,385
Acceptances outstanding	3,930	4,472
Treasury, tax and loan remittances	3,104	3,347
Other borrowed funds	179,895	34,450
Other liabilities	9,120	2,197
Total liabilities	1,646,287	1,331,830
Commitments and contingencies (notes 12 and 13)		
Shareholders' equity (notes 3, 8 and 9):		
Preferred stock, $.001 par value; authorized 10,000,000 shares; issued and outstanding, none	—	—
Common stock, $.001 par value; authorized 50,000,000 shares; issued and outstanding, 14,163,410 shares in 2003 and 13,915,433 shares in 2002	14	14
Additional paid-in capital	103,082	99,941
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale and interest rate swaps, net of income taxes of $220 and $1,135 in 2003 and 2002, respectively	386	2,105
Retained earnings	35,985	22,408
Total shareholders' equity	139,467	124,468
Total liabilities and shareholders' equity	$1,785,754	$1,456,298

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)	Years Ended December 31,		
	2003	2002	2001
Interest income:			
Interest and fees on loans	**$64,849**	$56,689	$59,305
Interest on securities and interest-bearing deposits in other financial institutions	**12,410**	11,363	14,776
Interest on term Federal funds sold	**225**	630	533
Interest on Federal funds sold and securities purchased under agreements to resell	**277**	925	2,330
Total interest income	**77,761**	69,607	76,944
Interest expense (notes 6 and 12)	**20,796**	21,345	32,990
Net interest income before provision for loan losses	**56,965**	48,262	43,954
Provision for loan losses (note 4)	**5,680**	4,800	1,400
Net interest income after provision for loan losses	**51,285**	43,462	42,554
Non-interest income:			
Service charges on deposit accounts	**10,339**	9,195	9,222
Trade finance fees	**2,887**	2,410	1,915
Remittance fees	**952**	786	602
Other service charges and fees	**875**	803	794
Bank-owned life insurance income	**499**	552	—
Gain on sale of loans	**2,157**	1,875	1,345
Gain on sale of securities	**1,094**	3,265	2,751
Increase in fair value of interest rate swaps	**35**	1,368	—
Other income	**840**	659	358
Total non-interest income	**19,678**	20,913	16,987
Non-interest expenses:			
Salaries and employee benefits (note 11)	**21,214**	17,931	16,786
Occupancy and equipment (note 13)	**5,198**	4,330	3,877
Data processing	**3,080**	2,784	2,347
Advertising and promotional expense	**1,635**	1,523	1,747
Supplies and communication	**1,496**	1,466	1,417
Professional fees	**1,167**	1,003	1,110
Loan referral fees	**921**	691	540
Impairment of securities	**—**	4,416	270
Other operating expenses	**4,614**	4,189	3,934
Total non-interest expenses	**39,325**	38,333	32,028
Income before provision for income taxes	**31,638**	26,042	27,513
Provision for income taxes (note 7)	**12,425**	9,012	10,703
Net income	**$19,213**	$17,030	$16,810
Earnings per share (note 10):			
Basic	**$ 1.37**	$ 1.23	$ 1.23
Diluted	**$ 1.34**	$ 1.20	$ 1.21

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Years Ended December 31, 2003, 2002 and 2001					
(dollars in thousands, except share data)	Number of Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2000	7,434,457	$ 7	$ 65,415	$ (299)	$ 21,273	$ 86,396
Stock options exercised	71,378	1	717	—	—	718
Stock dividend	893,823	1	15,307	—	(15,309)	(1)
Stock retirement	(20,000)	—	(345)	—	—	(345)
Stock split	4,182,571	4	(4)	—	—	—
Cash paid for fractional shares	—	—	—	—	(7)	(7)
Net income	—	—	—	—	16,810	16,810
Change in unrealized gain on securities available for sale, net of tax	—	—	—	1,302	—	1,302
Total comprehensive income						18,112
Balance, December 31, 2001	12,562,229	13	81,090	1,003	22,767	104,873
Stock options exercised	222,022	—	1,469	—	—	1,469
Stock dividend	1,131,182	1	17,382	—	(17,382)	1
Cash paid for fractional shares	—	—	—	—	(7)	(7)
Net income	—	—	—	—	17,030	17,030
Change in unrealized gain on securities available for sale, net of tax	—	—	—	1,102	—	1,102
Total comprehensive income						18,132
Balance, December 31, 2002	13,915,433	14	99,941	2,105	22,408	124,468
Stock options exercised	247,977	—	3,141	—	—	3,141
Cash dividend	—	—	—	—	(5,636)	(5,636)
Net income	—	—	—	—	19,213	19,213
Change in unrealized loss on securities available for sale and interest rate swaps, net of tax	—	—	—	(1,719)	—	(1,719)
Total comprehensive income						17,494
Balance, December 31, 2003	**14,163,410**	**$14**	**$103,082**	**$ 386**	**$ 35,985**	**$139,467**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Years Ended December 31, **2003**	2002	2001
Cash flows from operating activities:			
Net income	**$ 19,213**	$ 17,030	$ 16,810
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation and amortization	**1,891**	1,427	1,283
Provision for loan losses	**5,680**	4,800	1,400
Provision for other real estate owned losses	**—**	—	40
Federal Reserve Bank and Federal Home Loan Bank stock dividends	**(107)**	(895)	(46)
Gain on sale of securities available for sale	**(1,094)**	(3,265)	(2,751)
Change in fair value of interest rate swaps	**(35)**	(1,368)	—
Impairment loss on investment securities held to maturity	**—**	4,416	270
Gain on sale of loans	**(2,157)**	(1,875)	(1,345)
Gain on sale of other real estate owned	**(82)**	—	(16)
Loss on disposition of premises and equipment	**67**	—	66
Deferred tax benefit	**(2,069)**	(469)	(41)
Write-off of interest-only strip	**—**	—	95
Origination of loans held for sale	**(45,858)**	(33,226)	(24,450)
Proceeds from sale of loans held for sale	**35,100**	37,508	23,696
Change in:			
(Increase) decrease in accrued interest receivable	**(1,153)**	(125)	1,443
Increase in cash surrender value of bank-owned life insurance	**(500)**	(634)	—
Increase in other assets and servicing assets	**(1,832)**	(2,045)	(2,079)
Increase (decrease) in accrued interest payable	**1,018**	(1,341)	(1,654)
Increase (decrease) in other liabilities	**5,506**	1,011	(1,522)
Net cash and cash equivalents provided by operating activities	**13,588**	20,949	11,199
Cash flows from investing activities:			
Net increase in loans receivable	**(265,641)**	(190,284)	(200,170)
Proceeds from matured term Federal funds sold	**30,000**	—	—
Proceeds from matured or called securities held to maturity	**6,214**	10,012	5,109
Proceeds from sale of securities available for sale	**45,051**	102,343	65,156
Proceeds from matured or called securities available for sale	**170,346**	105,245	121,073
Proceeds from termination of interest rate swap	**—**	1,368	—
Proceeds from sale of other real estate owned	**204**	—	307
Purchase of Federal Reserve Bank stock and Federal Home Loan Bank stock	**(5,669)**	(522)	(469)
Purchases of securities held to maturity	**—**	—	(688)
Purchases of securities available for sale	**(358,218)**	(283,726)	(193,195)
Bank-owned life insurance premiums paid	**—**	—	(10,000)
Purchase of premises and equipment, net	**(2,031)**	(1,832)	(1,932)
Net cash and cash equivalents used in investing activities	**(379,744)**	(257,396)	(214,809)

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(dollars in thousands)	Years Ended December 31, 2003	2002	2001
Cash flows from financing activities:			
Net increase in deposits	**$161,856**	$241,626	$107,772
Proceeds from other borrowed funds	**145,445**	34,450	—
(Payment of) proceeds from treasury, tax and loan remittances	**(243)**	475	571
Proceeds from exercise of stock options	**3,141**	1,469	718
Cash paid for fractional shares on dividends	—	(7)	(7)
Cash dividends paid	**(4,220)**	—	—
Cash paid for stock retirement	—	—	(345)
Net cash and cash equivalents provided by financing activities	**305,979**	278,013	108,709
Net increase (decrease) in cash and cash equivalents	**(60,177)**	41,566	(94,901)
Cash and cash equivalents, beginning of year	**122,772**	81,206	176,107
Cash and cash equivalents, end of year	**$ 62,595**	$122,772	$ 81,206
Supplemental disclosures of cash flow information:			
Interest paid	**$ 19,778**	$ 22,686	$ 34,644
Income taxes paid	**$ 9,469**	$ 9,125	$ 10,703
Supplemental schedule of non-cash investing and financing activities:			
Transfer of loans to other real estate owned	**$ 122**	$ —	$ 331
Transfer of retained earnings to common stock and additional paid-in capital for stock dividends	$ —	$ 17,382	$ 15,308
Accrued dividends	**$ 1,416**	$ —	$ —

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003, 2002 AND 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Hanmi Financial Corporation and subsidiary conform to accounting principles generally accepted in the United States of America and to prevailing practices within the banking industry. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Hanmi Financial Corporation (the "Company") and its wholly owned subsidiary, Hanmi Bank (the "Bank"), after elimination of all material intercompany transactions and balances.

The Company was formed as a holding company of the Bank and registered with the Securities and Exchange Commission under the Securities Act of 1933 on March 17, 2001. Subsequent to the formation of the Company, each of the Bank's shares was exchanged for one share of the Company with an equal value.

The Company's primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank. The Bank is a California state-chartered, FDIC-insured financial institution. The Bank maintains a branch network of fifteen locations, serving individuals and small to medium-sized businesses in Los Angeles and surrounding areas.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and due from banks, Federal funds sold and securities purchased under resale agreements, all of which have maturities of less than 90 days.

SECURITIES

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

- Securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost;
- Securities that are bought and held principally for the purpose of selling them in the near future are classified as "trading securities" and reported at fair value. Unrealized gains and losses are recognized in earnings; and
- Securities not classified as held to maturity or trading securities are classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income, net of deferred income taxes.

Accreted discounts and amortized premiums on investment securities are included in interest income, and unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific-identification method. To the extent there is an impairment of value deemed other than temporary for a security held to maturity or available for sale, a loss is recognized in earnings.

The Company also has a minority investment in a non-publicly traded company, Pacific International Bank. The investment is included in other assets on the Company's consolidated balance sheet and is carried at cost. The Company monitors the investment for impairment and makes appropriate reductions in carrying value when necessary.

DERIVATIVE INSTRUMENTS

On January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS No. 133"). This standard requires the Company to record all derivatives at fair value and permits the Company to designate derivative instruments as being used to hedge changes in fair value or changes in cash flows. Changes in the fair value of derivatives that offset changes in cash flows of the hedged item are recorded initially in other comprehensive income. Amounts recorded in other comprehensive income are subsequently reclassified into earnings during the same period in which the hedged item affects earnings. If a derivative qualifies as a fair value hedge, then changes in the fair value of the hedging derivative are recorded in earnings and are offset by changes in fair value attributable to the hedged risk of the hedged item. Any portion of the changes in the fair value of derivatives designated as a hedge that is deemed ineffective is recorded in earnings along with changes in the fair value of derivatives with no hedge designation.

During 2003, the Company entered into four interest rate swap agreements with a total notional amount of $60 million for hedging purposes.

LOANS

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

Certain Small Business Administration ("SBA") loans that may be sold prior to maturity have been designated as held for sale at origination and are recorded at the lower of cost or fair value, determined on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the gains on sale of SBA loans is recognized as non-interest income at the time of the sale. The remaining portion of the gain is deferred and amortized over the estimated life of the loan as an adjustment to the yield. Upon sales of such loans, the Company receives a fee for servicing the loans. The servicing asset is recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, discounted by a rate in the range of 11% to 12% and a constant prepayment rate ranging from 6% to 16%. The servicing asset is amortized in proportion to and over the period of estimated servicing income. The Company capitalized $652,000 and $750,000 of servicing assets during 2003 and 2002, respectively, and amortized $352,000 and $359,000 during the years ended December 31, 2003 and 2002, respectively. Management periodically evaluates the servicing asset for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

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

LOANS HELD FOR SALE

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

LOAN INTEREST INCOME AND FEES

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

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

ALLOWANCE FOR LOAN LOSSES

Management believes that, as of December 31, 2003, the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on previous loan loss experience; volume, growth and composition of the loan portfolio; the value of collateral; and current economic conditions. The Company's lending is concentrated in consumer, commercial, construction and real estate loans in greater Los Angeles. Although management believes the level of the allowance as of December 31, 2003 and 2002 is adequate to absorb losses inherent in the loan portfolio, a decline in the local economy may result in increasing losses that cannot reasonably be predicted at this date.

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

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

- the present value of the expected future cash flows, discounted at the loan's effective interest rate, or
- the loan's observable fair value, or
- the fair value of the collateral, if the loan is collateral-dependent.

The Company evaluates installment loans for impairment on a pooled basis. These loans are considered to be smaller balance, homogeneous loans and are evaluated on a portfolio basis considering the projected net realizable value of the portfolio compared to the net carrying value of the portfolio.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to 30 years. Leasehold improvements are capitalized and amortized using the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

GOODWILL AND INTANGIBLE ASSETS

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, amounted to $1.8 million as of December 31, 2003 and 2002. The Company adopted SFAS No. 142, "*Goodwill and Other Intangible Assets*" ("SFAS No. 142"), effective January 1, 2002. SFAS No. 142 requires that goodwill be recorded at the reporting unit level. Reporting units are defined as an operating segment. SFAS No. 142 prohibits the amortization of goodwill but requires that it be tested for impairment at least annually, or earlier if events have occurred that might indicate impairment. The Company ceased amortization of goodwill as of January 1, 2002. The Company's impairment test is performed in two phases. The first step involves comparing the fair vale of the reporting unit with its carrying amount, including goodwill. Fair value of the reporting unit is estimated using two different valuation techniques: (a) discounted earnings cash flow and (b) average market price to earnings multiple using a management selected peer group. If the fair value of the reporting unit exceeds its fair value an additional procedure must be performed. That additional procedure involves comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. An impairment loss is recorded through earnings to the extent the carrying amount of goodwill exceeds its implied fair value. As of December 31, 2003, management is unaware of any circumstances that would indicate a potential impairment of goodwill.

The Company amortizes core deposit intangible ("CDI") balances using the straight-line method over seven years. As required upon adoption of SFAS No. 142, the Bank evaluated the useful lives assigned to the CDI assets and determined that no change was necessary and amortization expense was not adjusted for the year ended December 31, 2003. As required by SFAS No. 142, the CDI balance is assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The CDI recoverability analysis is consistent with the Company's policy for assessing impairment or disposal of long-lived assets. As of and for the year ended December 31, 2003, management is not aware of any circumstances that would indicate impairment of the CDI assets, and no impairment charges were recorded through earnings in 2003.

For the year ended December 31, 2001, prior to the adoption of SFAS No. 142, goodwill was amortized using the straight-line method over the expected periods to be benefited, generally 15 years. The CDI was amortized using the straight-line method over seven years. In the event that circumstances indicated potential impairment of the intangible asset carrying value, the Company assessed recoverability of intangible assets by determining whether the amortization of the balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The amortization of goodwill in 2001 amounted to $157,000.

INCOME TAXES

The Company provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

STOCK-BASED COMPENSATION

Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Pro forma disclosure of net income and earnings per share is provided as if the fair value-based method had been applied.

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the fair value method of SFAS No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"), the Company's net income and earnings per share for the years ended December 31, 2003, 2002 and 2001 would have been reduced to the pro forma amounts indicated below:

(dollars in thousands, except per share data)	**2003**	2002	2001
Net income:			
As reported	**$19,213**	$17,030	$16,810
Compensation expense	**521**	791	258
Pro forma	**$18,692**	$16,239	$16,552
Earnings per share:			
As reported:			
Basic	**$ 1.37**	$ 1.23	$ 1.23
Diluted	**$ 1.34**	$ 1.20	$ 1.21
Pro forma:			
Basic	**$ 1.33**	$ 1.19	$ 1.21
Diluted	**$ 1.30**	$ 1.16	$ 1.19

The estimated fair value of options granted was $6.59 per share in 2003, $ 5.04 per share in 2002 and $5.26 per share in 2001. The weighted average fair value of options granted under the Company's fixed stock option plan in 2003, 2002 and 2001 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield; expected volatility of 31% in 2003, 37% in 2002 and 37% in 2001; expected lives of three to five years in 2003, 2002 and 2001; and risk-free interest rates of 1.87%, 2.39% and 4.38% in 2003, 2002 and 2001, respectively.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings. EPS data for 2001 was retroactively restated reflecting the 2002 stock dividend.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*" ("SFAS No. 121"). This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2003, the FASB issued FASB Interpretation No. 46R, "*Consolidation of Variable Interest Entities*" ("FIN No. 46R"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN No. 46R replaces FASB Interpretation No. 46, which was issued in January 2003. The Company will be required to apply FIN No. 46R to variable interests in variable interest entities ("VIE") created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, FIN No. 46R will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN No. 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN No. 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The application of this FIN No. 46R is not expected to have a material effect on the Company's consolidated financial statements.

FASB Statement No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" ("SFAS No. 150"), was issued in May 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS No. 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

RECLASSIFICATIONS

Certain reclassifications were made to the prior year's presentation to conform to the current year's presentation.

(2) SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The Company purchases government agency securities and/or whole loans under agreements to resell the same securities (reverse repurchase agreements) with primary dealers. Amounts advanced under these agreements represent short-term invested cash. Securities subject to the reverse repurchase agreements are held in the name of the Company by dealers who arrange the transactions.

In the event that the fair value of the securities decreases below the carrying amount of the related reverse repurchase agreement, the counterparties are required to designate an equivalent value of additional securities in the name of the Company.

There was no balance outstanding with the primary dealers as of December 31, 2003 or 2002.

The following is a summary of the securities purchased under agreements to resell at December 31, 2003:

	(dollars in thousands)
Balance at year end	$ —
Average balance outstanding during the year	$ 4,192
Maximum amount outstanding at any month-end during the year	$20,000
Weighted average interest rate during the year	1.38%

(3) SECURITIES

The following is a summary of the securities held to maturity at December 31:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
2003				
Municipal bonds	**$ 690**	**—**	**$ 1**	**$ 689**
Mortgage-backed securities	**638**	**$ 7**	**—**	**645**
	$1,328	**$ 7**	**$ 1**	**$1,334**
2002				
Corporate bonds	$4,997	—	$14	$4,983
Municipal bonds	1,088	$39	1	1,126
Mortgage-backed securities	1,457	30	—	1,487
	$7,542	$69	$15	$7,596

The following is a summary of securities available for sale at December 31:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
2003				
Collateralized mortgage obligations	**$125,491**	**$ 274**	**$1,669**	**$124,096**
Mortgage-backed securities	**117,139**	**830**	**485**	**117,484**
U.S. government agency securities	**80,845**	**606**	**25**	**81,426**
Municipal bonds	**60,741**	**910**	**248**	**61,403**
Corporate bonds	**13,641**	**309**	**47**	**13,903**
Other	**15,055**	**—**	**79**	**14,976**
	$412,912	**$2,929**	**$2,553**	**$413,288**
2002				
Collateralized mortgage obligations	$102,212	$ 840	$ 175	$102,877
Mortgage-backed securities	78,112	1,063	2	79,173
U.S. government agency securities	53,408	493	—	53,901
Municipal bonds	17,810	479	52	18,237
Corporate bonds	594	594	—	1,188
Other	16,630	—	—	16,630
	$268,766	$3,469	$ 229	$272,006

The amortized cost and estimated fair value of investment securities at December 31, 2003, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2033, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 15,022	$ 14,949	—	—
Over one year through five years	59,316	59,928	—	—
Over five years through ten years	38,915	39,227	—	—
Over ten years	55,973	56,548	$ 690	$ 689
	169,226	170,652	690	689
Mortgage-backed securities	117,139	117,484	638	645
Collateralized mortgage obligations	125,491	124,096	—	—
Asset-backed securities	1,056	1,056	—	—
	243,686	242,636	638	645
	$412,912	$413,288	$1,328	$1,334

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December, 31 2003, were are follows:

	Less than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for Sale:						
Collateralized mortgage obligations[1]	$1,497	$ 54,999	$172	$25,622	$1,669	$ 80,621
Mortgage-backed securities[2]	485	55,070			485	55,070
U.S. government agency securities[3]	25	14,959			25	14,959
Municipal bonds[4]	248	12,012			248	12,012
Corporate bonds[5]	47	6,094			47	6,094
Other	79	11,887			79	11,887
	$2,381	$155,021	$172	$25,622	$2,553	$180,643
Held to Maturity:						
Municipal bonds	—	—	$ 1	$ 689	$ 1	$ 689

(1) Collateralized mortgage obligations: The decline in fair value is attributable to changes in interest rates. Since the Company has the ability and the intent to hold these investments until a market price recovery or until maturity, these investments are not considered other-than-temporarily impaired.

(2) Mortgage-backed securities ("MBS"): The unrealized losses on investments in MBS were caused by interest rate increases. The MBS were issued by Fannie Mae, Freddie Mac and Ginnie Mae. Most of these securities are pass-throughs with 10- to 15-year final maturities, thus reducing extension risk. Since the Company has the ability and the intent to hold these investments until a market price recovery or until maturity, the investments are not considered other-than-temporarily impaired.

(3) U.S. government agency securities: The unrealized losses on investments in U.S. government agency securities were caused by interest rate increases. Since the Company has the ability and the intent to hold these investments until a market price recovery or until the bonds are called or until maturity, the investments are not considered other-than-temporarily impaired.

(4) Municipal bonds: The unrealized losses on investments in municipal bonds were caused by interest rate increases. The municipal bonds are all insured and AAA rated and should not experience downward price pressure due to credit risk. Since the Company has the ability and the intent to hold these investments until a market price recovery or until the bonds are called or until maturity, the investments are not considered other-than-temporarily impaired.

(5) Corporate bonds: The unrealized losses in corporate securities are associated with holdings of Lehman Brothers and Bank of America obligations. The unrealized losses were the result of interest rate changes and not due to increased credit risk. Both bonds maintained or received upgrades in their ratings since the time of our purchase. Since the Company has the ability and the intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(6) Other securities: The unrealized losses on investments in other securities were the result of interest rate increases. Most of the losses are attributable to an investment in an adjustable rate mortgage mutual fund. The fund's underlying securities are mortgage-backed securities, and the losses were the result of interest rate changes. Because the Company has the ability and the intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Securities with carrying values of approximately $278.5 million and $170.5 million on December 31, 2003 and 2002, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

At December 31, 2003, the Company held a WorldCom Inc. corporate bond in its available for sale portfolio with an amortized carrying value of approximately $119,000. On January 15, 2003, such investment matured, and WorldCom defaulted on the repayment. The Company wrote down its cost basis in the investment to fair value, recognizing a loss of approximately $4.4 million during the year ended December 31, 2002, as the Company's management considered such decline in market value an other-than-temporary condition. In 2003, the Company sold $4 million par value of this bond and recognized gains of $782,000.

There were $1.1 million, $3.3 million and $2.8 million in net realized gains during the years ended December 31, 2003, 2002 and 2001, respectively. During 2003, $1.8 million ($1.3 million net of tax) of unrealized losses arose during the year and were included in comprehensive income and $1.1 million ($692,000 net of tax) of previously unrealized gains were realized in earnings. In 2002, $2.5 million ($1.7 million net of tax) of unrealized gains arose during the year and were included in comprehensive income and $882,000 ($574,000 net of tax) of previously unrealized gains was realized in earnings. In 2001, $2.5 million ($1.5 million net of tax) of unrealized losses arose during the year and were included in comprehensive income and $460,000 ($281,000 net of tax) of previously unrealized gains was realized in earnings.

(4) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable consist of the following at December 31:

(dollars in thousands)	**2003**	2002
Real estate loans:		
Construction	$ 43,047	$ 39,237
Commercial property	397,853	284,465
Residential property	58,477	47,891
Commercial and industrial loans	685,557	560,370
Consumer loans	54,878	44,416
Total gross loans	1,239,812	976,379
Allowance for loans losses	(14,734)	(12,269)
Deferred loan fees	(3,518)	(2,511)
Loans receivable, net	$1,221,560	$961,599

At December 31, 2003 and 2002, the Company serviced loans sold to unaffiliated parties in the amounts of approximately $101.4 million and $89.6 million, respectively.

Activity in the allowance for loan losses is as follows:

	Years Ended December 31,		
(dollars in thousands)	**2003**	2002	2001
Balance, beginning of year	$12,269	$10,064	$11,975
Provision for loan losses	5,680	4,800	1,400
Loans charged off	(4,423)	(3,571)	(4,105)
Recoveries of charge-offs	1,208	976	794
Balance, end of year	$14,734	$12,269	$10,064

The following is a summary of the investment in impaired loans and the related allowance for loan losses:

	December 31,	
(dollars in thousands)	**2003**	2002
Recorded investment in impaired loans	$6,285	$4,799
Related allowance for loan losses	2,972	2,967
Impaired loans without specific allowances	392	55

The average recorded investment in impaired loans during the years ended December 31, 2003, 2002 and 2001 approximated $6.4 million, $4.8 million and $4.3 million, respectively. Interest income of approximately $204,000, $273,000 and $513,000 was recognized on impaired loans during the years ended December 31, 2003, 2002 and 2001, respectively.

Loans on non-accrual status totaled approximately $8.1 million and $5.9 million at December 31, 2003 and 2002, respectively. If interest on non-accrual loans had been recognized at the original interest rates, interest income would have increased approximately $362,000, $203,000 and $323,000 during the years ended December 31, 2003, 2002 and 2001, respectively. The Company is not committed to lend additional funds to debtors whose loans are impaired.

Loans past due 90 days or more and still accruing interest totaled $557,000 and $617,000 at December 31, 2003 and 2002, respectively. Restructured loans at December 31, 2003 totaled $640,000; there were no restructured loans at December 31, 2002.

The following is an analysis of all loans to officers and directors of the Company and their affiliates. In the opinion of management, all such loans were made under terms that are consistent with the Company's normal lending policies.

	Years Ended December 31,	
(dollars in thousands)	**2003**	2002
Outstanding balance, beginning of year	**$ 2,645**	$ 3,725
Credit granted, including renewals	**127**	668
Repayments	**(1,887)**	(1,748)
Outstanding balance, end of year	**$ 885**	$ 2,645

Income from these loans totaled approximately $153,000 and $135,000 for the years ended December 31, 2003 and 2002, respectively, and is reflected in the accompanying consolidated statements of operations.

(5) PREMISES AND EQUIPMENT

The following is a summary of the major components of premises and equipment as of December 31:

(dollars in thousands)	**2003**	2002
Land	**$ 1,820**	$ 1,820
Buildings and improvements	**3,034**	3,034
Furniture and equipment	**8,052**	7,011
Leasehold improvements	**5,826**	5,155
	18,732	17,020
Accumulated depreciation and amortization	**(10,297)**	(8,780)
	$ 8,435	$ 8,240

(6) DEPOSITS

Time deposits by maturity are as follows at December 31, 2003 and 2002:

(dollars in thousands)	**2003**	2002
Less than three months	**$429,129**	$359,586
After three months to six months	**116,983**	120,441
After six months to twelve months	**99,094**	94,561
After twelve months	**22,574**	8,896
Total	**$667,780**	$583,484

A summary of interest expense on deposits is as follows for the years ended December 31, 2003, 2002 and 2001:

(dollars in thousands)	**2003**	2002	2001
Money market checking	**$ 2,584**	$ 3,036	$ 2,610
Savings	**1,894**	2,632	2,714
Time deposits of $100,000 or more	**7,415**	7,838	13,778
Other time deposits	**7,354**	7,034	13,785
Other borrowings	**1,549**	805	103
Total	**$20,796**	$21,345	$32,990

(7) INCOME TAXES

A summary of the income tax provision for the years ended December 31, 2003, 2002 and 2001 follows:

(dollars in thousands)	**2003**	2002	2001
Current:			
Federal	**$10,852**	$8,410	$ 8,684
State	**3,642**	1,071	2,060
	14,494	9,481	10,744
Deferred:			
Federal	**(1,732)**	(390)	(60)
State	**(337)**	(79)	19
	(2,069)	(469)	(41)
Provision for income taxes	**$12,425**	$9,012	$10,703

As of December 31, 2003 and 2002, the Federal and state deferred tax assets are as follows:

(dollars in thousands)	**2003**	2002
Deferred tax assets:		
Loan loss provision	**$6,754**	$ 5,374
Depreciation	**667**	421
State taxes	**895**	371
Other	**31**	154
	8,347	6,320
Deferred tax liabilities:		
Purchase accounting	**(142)**	(181)
Unrealized gain on available for sale securities and interest rate swaps	**(220)**	(1,135)
Other	**(98)**	(101)
	(460)	(1,417)
Valuation allowance	**(680)**	(680)
Net deferred tax assets	**$7,207**	$ 4,223

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of the valuation allowance.

A reconciliation of the difference between the Federal statutory income tax rate and the effective tax rate as of December 31 is shown in the following table:

	2003	2002	2001
Statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of Federal tax benefits	6.6	2.4	4.9
Other	(2.3)	(2.8)	(1.0)
	39.3%	34.6%	38.9%

At December 31, 2003 and 2002, net current tax payable of $5.0 million and $876,000 were included in other liabilities in the Consolidated Statements of Financial Condition.

(8) SHAREHOLDERS' EQUITY

The Bank adopted a Stock Option Plan (the "Plan") in 1992, which was replaced by the Hanmi Financial Corporation Year 2000 Stock Option Plan, under which options to purchase shares of the Company's common stock may be granted to key employees. The Plan provides that the option price shall not be less than the fair value of the Company's stock on the effective date of the grant. Generally, options will vest over five years. No option may be granted with a term of more than ten years.

The following is a summary of the transactions under the stock option plan described above:

	Years Ended December 31,					
	2003		2002		2001	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding, beginning of year	1,068,506	$10.64	1,199,168	$12.89	505,411	$13.27
Pro rata effect on options, due to stock dividend and stock split	—	—	107,255	11.82	310,485	7.90
Options granted	40,000	17.50	40,000	15.50	468,000	15.33
Options exercised	(247,977)	9.05	(222,022)	6.62	(71,378)	10.04
Options cancelled/expired	(110,497)	13.98	(55,895)	14.02	(13,350)	12.42
Options outstanding, end of year	750,032	$11.04	1,068,506	$10.64	1,199,168	$12.89
Options exercisable, end of year	327,577	$10.52	385,684	$ 9.32	379,613	$ 7.60

	Options Outstanding		Options Exercisable
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Outstanding
$ 6.82	15,792	5.2 years	15,792
7.78	357,084	6.7	173,964
8.12	8,130	5.6	—
14.07	329,026	7.6	124,487
17.50	40,000	7.5	13,334
	750,032	7.1 years	327,577

The number and price per share of outstanding options have not been adjusted to reflect the 2002 stock dividend (See Note 10).

(9) REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2003 and 2002, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notification from the Federal Reserve Board categorized the Bank as "well capitalized," under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the institution's category.

The capital ratios of the Company and the Bank at December 31 are as follows:

	Actual		Minimum Regulatory Requirement		Minimum To Be Categorized as Well Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003:						
Total capital (to risk-weighted assets):						
Company	**$151,336**	**11.13%**	**$108,757**	**8.00%**		**N/A**
Bank	**150,547**	**11.09**	**108,630**	**8.00**	**$135,788**	**10.00%**
Tier I capital (to risk-weighted assets):						
Company	**136,602**	**10.05**	**54,379**	**4.00**		**N/A**
Bank	**135,813**	**10.00**	**54,315**	**4.00**	**81,473**	**6.00**
Tier I capital (to average assets):						
Company	**136,602**	**7.80**	**70,088**	**4.00**		**N/A**
Bank	**135,813**	**7.75**	**70,067**	**4.00**	**87,584**	**5.00**
As of December 31, 2002:						
Total capital (to risk-weighted assets):						
Company	$132,162	12.14%	$ 87,092	8.00%		N/A
Bank	129,914	11.94	87,045	8.00	$108,806	10.00%
Tier I capital (to risk-weighted assets):						
Company	119,893	11.01	43,558	4.00		N/A
Bank	117,645	10.81	43,532	4.00	65,298	6.00
Tier I capital (to average assets):						
Company	119,893	8.50	56,420	4.00		N/A
Bank	117,645	8.34	56,424	4.00	70,531	5.00

The average reserve balances required to be maintained with the Federal Reserve Bank were approximately $1.5 million as of December 31, 2003 and 2002.

(10) EARNINGS PER SHARE

The Company declared a 12% stock dividend on February 28, 2001 and a 3-for-2 stock split on August 16, 2001. The Company declared 9% stock dividend on February 20, 2002.

The following is a reconciliation of the numerators and denominators (adjusted for the 12% stock dividend and 3-for-2 split in 2001 and 9% stock dividend in 2002) of the basic and diluted per share computations for the years ended December 31, 2003, 2002 and 2001:

(dollars in thousands, except per share data)	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
2003:			
Basic EPS—Income available to common shareholders	**$19,213**	**14,046,354**	**$ 1.37**
Effect of dilutive securities—Options		**284,659**	**(0.03)**
Diluted EPS—Income available to common shareholders	**$19,213**	**14,331,013**	**$ 1.34**
2002:			
Basic EPS—Income available to common shareholders	$17,030	13,823,785	$ 1.23
Effect of dilutive securities—Options		329,461	(0.03)
Diluted EPS—Income available to common shareholders	$17,030	14,153,246	$ 1.20
2001:			
Basic EPS—Income available to common shareholders	$16,810	13,679,654	$ 1.23
Effect of dilutive securities—Options		245,648	(0.02)
Diluted EPS—Income available to common shareholders	$16,810	13,925,302	$ 1.21

(11) RETIREMENT PLAN

The Company has a profit sharing and a section 401(k) plan for the benefit of substantially all of its employees. Contributions to the profit sharing plan are determined by the board of directors. No contributions were made in 2003, 2002 and 2001.

The Company matches 75% of participant contributions to the 401(k) plan up to 8% of each 401(k) plan participant's annual compensation. The Company made contributions to the 401(k) plan for the years ended December 31, 2003, 2002 and 2001 of approximately $553,000, $524,000 and $484,000, respectively.

In December 2001, the Company purchased a single premium life insurance policy covering certain officers of the Company. The Company is the beneficiary under the policy. In the event of the death of a covered officer, the Company will receive the specified insurance benefit. The estate of the officer will be paid an amount based on recent compensation and length of service.

(12) DERIVATIVE FINANCIAL INSTRUMENTS

During December 31, 2003, the Company entered into four interest rate swap agreements, wherein the Company received fixed rates of 5.77%, 6.37%, 6.51% and 6.76% at quarterly intervals, and paid Prime-based floating rates, at quarterly intervals on a total notional amount of $60 million. All the four swap agreements mature in 2008. These swaps were designated as hedges for accounting purposes.

As of December 31, 2003, the fair value of the interest rate swaps was in a favorable position of $253,000. A total of $165,000, net of tax, is included in other comprehensive income. The fair value of the interest rate swap is included in other assets in the accompanying consolidated statements of financial condition. Income of $35,000 related to hedge ineffectiveness was recognized in 2003.

(13) COMMITMENTS AND CONTINGENCIES

The Company leases its premises under noncancelable operating leases. At December 31, 2003, future minimum rental commitments under these leases and other operating leases are as follows:

Year	Amount
(dollars in thousands)	
2004	$2,214
2005	2,066
2006	1,657
2007	1,421
2008	1,336
	$8,694

Rental expenses recorded under such leases in 2003, 2002 and 2001 amounted to approximately $2.0 million, $1.8 million and $1.7 million, respectively.

In the normal course of business, the Company is involved in various legal claims. Management has reviewed all legal claims against the Company with outside legal counsel and has taken into consideration the views of such counsel as to the outcome of the claims. In management's opinion, the final disposition of all such claims will not have a material adverse effect on the financial position and results of operations of the Company.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its 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 in excess of the amount recognized in the consolidated statements of financial condition. 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, is based on management's credit evaluation of the counterparty.

Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; and income-producing or borrower-occupied properties. At December 31, 2003 and 2002, the Bank had commitments to extend credit of approximately $253.7 million and $197.3 million, obligations under standby letters of credit of approximately $34.4 million and $22.1 million, commercial letters of credit of approximately $34.3 and $21.3 million and commitments for credit card loans of approximately $3.8 million and $3.5 million, respectively.

In 2003, the Company obtained an additional line of credit of $5 million. Total credit lines for borrowing amounted to $67 million at December 31, 2003.

(14) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined by the Company 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 the Company 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:

	December 31, 2003		December 31, 2002	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 62,595	$ 62,595	$122,772	$122,772
Federal Reserve Bank stock	2,935	2,935	2,945	2,945
Federal Home Loan Bank stock	7,420	7,420	1,634	1,634
Securities held to maturity	1,328	1,334	7,542	7,596
Securities available for sale	413,288	413,288	272,006	272,006
Loans receivable, net	1,221,560	1,226,300	961,599	968,269
Loans held for sale	25,454	25,501	12,540	12,540
Accrued interest receivable	6,686	6,686	5,533	5,533
Servicing assets	2,364	2,388	2,065	2,065
Interest rate swaps	253	253	—	—
Liabilities:				
Noninterest-bearing deposits	475,100	475,100	412,060	412,060
Interest-bearing deposits	970,735	977,670	871,919	878,971
Other borrowed funds	179,895	181,393	34,450	34,450
Treasury, tax and loan remittances	3,104	3,104	3,347	3,347
Accrued interest payable	4,403	4,403	3,385	3,385

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

CASH AND CASH EQUIVALENTS

The carrying amounts approximate fair value due to the short-term nature of these instruments.

FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK

The carrying amounts approximate fair value as the stock may be resold to the issuer at carrying value.

SECURITIES

The fair value of securities is generally obtained from market bids for similar or identical securities, or obtained from independent securities brokers or dealers.

LOANS

Fair values are estimated for portfolios of loans with similar financial characteristics, primarily fixed- and adjustable-rate interest terms. The fair values of fixed-rate mortgage loans are based on discounted cash flows utilizing applicable risk-adjusted spreads relative to the current pricing of similar fixed-rate loans, as well as anticipated repayment schedules. The fair value of adjustable-rate commercial loans is based on the estimated discounted cash flows utilizing the discount rates that approximate the pricing of loans collateralized by similar commercial properties. The fair value of non-performing loans at December 31, 2003 and 2002 was not estimated because it is not practicable to reasonably assess the credit adjustment that would be applied in the marketplace for such loans. The estimated fair value is net of allowance for loan losses. The carrying amount of accrued interest receivable approximates its fair value.

DEPOSITS

The fair value of nonmaturity deposits is the amount payable on demand at the reporting date. Nonmaturity deposits include noninterest-bearing demand deposits, savings accounts, super NOW accounts and money market demand accounts. Discounted cash flows have been used to value term deposits such as certificates of deposit. The discount rate used is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term. The carrying amount of accrued interest payable approximates its fair value.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The carrying amounts approximate fair value due to the short-term nature of these instruments.

OTHER BORROWED FUNDS

Discounted cash flows have been used to value other borrowed funds.

LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT

The fair value of loan commitments and standby letters of credit is based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans. The fair value of loan commitments and standby letters of credit is immaterial at December 31, 2003 and 2002.

(15) CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Statements of Financial Condition

	December 31,	
(dollars in thousands)	2003	2002
Assets:		
Cash	$ 1,454	$ 1,893
Receivable from Hanmi Bank	231	—
Investment in Pacific International Bank	511	350
Investment in Hanmi Bank	138,678	122,221
Other assets	1,081	11
Total assets	$141,955	$124,475
Liabilities	$ 2,488	$ 6
Shareholders' equity	139,467	124,469
Total liabilities and shareholders' equity	$141,955	$124,475

Statements of Operations

	Years Ended December 31,	
(dollars in thousands)	2003	2002
Equity in earnings of Hanmi Bank	$19,578	$17,371
Other expenses, net	(365)	(341)
Net income	$19,213	$17,030

Statements of Cash Flows

	Years Ended December 31,	
(dollars in thousands)	2003	2002
Cash flows from operating activities:		
Net income	$ 19,213	$ 17,030
Adjustments to reconcile net income to net cash used in operating activities:		
Earnings of Hanmi Bank	(19,578)	(17,371)
(Increase) decrease in receivable from Hanmi Bank	(231)	368
Increase in other assets	(1,968)	(11)
Increase in liabilities	1,065	6
Net cash provided by (used in) operating activities	(1,499)	22
Cash flows from investing activities:		
Dividends received from Hanmi Bank	2,300	—
Purchase of investment in Pacific International Bank	(161)	—
Net cash provided by investing activities	2,139	—
Cash flows from financing activities:		
Proceeds from issuance of common stock	3,141	1,469
Cash dividends	(4,220)	(7)
Net cash provided by (used in) financing activities	(1,079)	1,462
Net (decrease) increase in cash	(439)	1,484
Cash, beginning of year	1,893	409
Cash, end of year	$ 1,454	$ 1,893

(16) QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data follows:

(dollars in thousands, except share amounts)	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,
2003:				
Net interest income	**$12,146**	**$13,868**	**$14,449**	**$16,502**
Provision for credit losses	**1,180**	**1,500**	**1,700**	**1,300**
Net income	**4,240**	**4,953**	**4,945**	**5,075**
Basic earnings per share	**0.30**	**0.35**	**0.35**	**0.36**
Diluted earnings per share	**0.30**	**0.35**	**0.34**	**0.35**
2002:				
Net interest income	$11,334	$11,820	$12,805	$12,303
Provision for credit losses	1,050	1,050	1,050	1,650
Net income	4,123	2,974	5,141	4,792
Basic earnings per share	.30	.22	.37	.34
Diluted earnings per share	.29	.21	.37	.33

(17) BUSINESS COMBINATION

On December 22, 2003, the Company entered into a definitive agreement to acquire Pacific Union Bank ("PUB"), a commercial bank with assets of approximately $1.1 billion for an aggregate purchase price estimated at $295 million. Under the agreement, the Company will acquire all the outstanding shares of PUB for $164.5 million cash plus a quantity of Hanmi Financial shares specified in the agreement. The number of shares to be exchanged is subject to a "collar" set forth in the agreement and is based upon the volume-weighted market value of Hanmi Financial shares for the five business days prior to the closing date, which is expected to be in the second quarter of 2004.

PUB commenced its operations in September 1974 and is a California state-chartered bank headquartered in the Koreatown area of Los Angeles, with twelve branches in Koreatown, downtown Los Angeles, Cerritos, Garden Grove, Gardena, Rowland Heights, San Francisco, San Jose and Torrance, California, as well as a loan production office in Seattle, Washington. It operates a general business bank, offering services similar to those offered by Hanmi Bank. The acquisition is subject to approval by the shareholders and regulators of both Hanmi Financial and PUB.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hanmi Financial Corporation:

We have audited the accompanying consolidated statements of financial condition of Hanmi Financial Corporation and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of Hanmi Financial Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanmi Financial Corporation and subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
January 25, 2004

MARKET PRICE OF COMMON STOCK

The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial's common stock for the last two years as reported by NASDAQ under the symbol "HAFC."

	High	Low	Cash Dividend	Other
2003				
1Q	$18.00	$15.76	$.10 per share	—
2Q	$18.25	$15.90	$.10 per share	—
3Q	$22.49	$16.00	$.10 per share	—
4Q	$22.74	$19.29	$.10 per share	—
2002				
1Q	$17.00	$13.21	$.00	9% stock dividend
2Q	$18.20	$16.59	$.00	—
3Q	$16.33	$13.70	$.00	—
4Q	$18.05	$14.25	$.00	—

Hanmi Financial has 2,014 stockholders of record as of February 10, 2004. All share prices have been restated to reflect the 9% stock dividend declared in the first quarter of 2002.

DIVIDENDS

The amount and timing of dividends will be determined by Hanmi Financial's board of directors and substantially depends upon the earnings and financial condition of Hanmi Financial. The ability of Hanmi Financial to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends which may be declared by Hanmi Bank.

The power of the board of directors of a state chartered bank, such as Hanmi Bank, to declare a cash dividend is limited by statutory and regulatory restrictions which restrict the amount available for cash dividends depending upon the earnings, financial condition and cash needs of Hanmi Bank, as well as general business conditions.

2003 Contributions

American Textile Association, Inc.
Angelides 2006
Asia America Symphony
Asia Society
Asian Pacific American Legal Center
California Design College
CBA State Pac
Eastern Korean School
Good Samaritan Hospital
Il Shim Association
Jewish Community
JTS Buddhism Broadcasting System
Korean American Grocers Association of Northern California
Korean American Mothers Association (KAMA)
Kedren Community Mental Health Center
Korea Cultural Center (KCC)
Korea IT Network
Korea Sports Council in USA
Korean American Argentina Association
Korean American Broadcasters Association Inc.
Korean American Chamber of Commerce of Los Angeles
Korean American Coalition
Korean American Family Council Center
Korean American Federation of L.A.
Korean American Garment Industry Association
Korean American Professional Women's Association
Korean American Volunteer Corporation
Korean Apparel Manufacturers Association
Korean Catholic Broadcasting
Korean Chamber of Commerce of Orange County
Korean Festival Committee of Orange County
Korean Heritage Scholarship Foundation
Korean Pavilion Garden
Korean Typhoon Relief Fund
Korean Youth & Community Center (KYCC)
Kyunggi Alumnae Association
L.A. Korean Reporter's Association
L.A. Country Sheriff's K-1 Scholarship Committee
Overseas Korean Trades Association of Southern California
Pacific Asian Consortium in Employment
Korean Marine Corps Veterans Association of Northern California
San Diego Korean American Amateur Sports Association (SDKAASA)
South Bay Kargo 6th Annual Scholarship Fundraiser
Southern California U.S. Federation Council of Northern Koreans
The Korea Daily
The Korea Times L.A.
The Korean American Bar Association of Southern California
The Korean Veterans Association in Western Region of USA
The Manna Foundation
The Pacific American Volunteer Association
Unification of Disabled Korean Americans
Valley Korean Soccer Association
West Los Angeles County Minority Business Development Center
Young Nak Presbyterian Church

2003 Low Income Housing Projects

PROJECTS	DESCRIPTION
Plaza De Leon Apartment, LP	20 Units Affordable Family/Senior Housing Apartment
ML Shepard Manor, LP	90 Units Low Income Senior Housing
Broadway Vistas, LP	21 Units Low Income for Large Families
Vermont City Lights, LP	60 Units Affordable Low Income Housing for Large Families
Witmer/Columbia Place, LP	43 Units Affordable Low Income Housing for Large Families
California Avenue Senior Housing, LP	180 Units for Affordable & Low Income Housing
Central City Apartment, LP	63 Units Affordable Low Income Housing for Seniors

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David W. Kim
Senior Vice President and
Chief Administration Officer

Cliff Sung
Vice President and Acting
Chief Credit Officer

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Chairman of the Board
Principal Pharmacist
Serrano Medical Center Pharmacy

I Joon Ahn
Former Chairman of the Board

Stuart S. Ahn
President
Sunnyland Development, Inc.

Ung Kyun Ahn
Former Chairman of the Board
President
Ahn's Music Inc.

George S. Chey
Honorary Chairman of the Board
Chairman
Pan International Realty, Inc.

Ki Tae Hong
President
Pacom International Inc.

Joon Hyung Lee
President
Root-3 Corporation

Richard B.C. Lee
President
B.C. Textiles, Inc.

M. Christian Mitchell
Former Partner
Deloitte & Touche

Joseph K. Rho
Former Chairman of the Board
Principal
J & S Investment

Won R. Yoon
Former Chairman of the Board
Chief Surgeon
Olympic Medical Center

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Los Angeles, California

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U.S. Stock Transfer Corporation
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STOCK LISTING
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