

HANMI FINANCIAL

Annual Report 2004

the essentials of real success

**talent**  
**commitment**  
**resources**  
**opportunity**

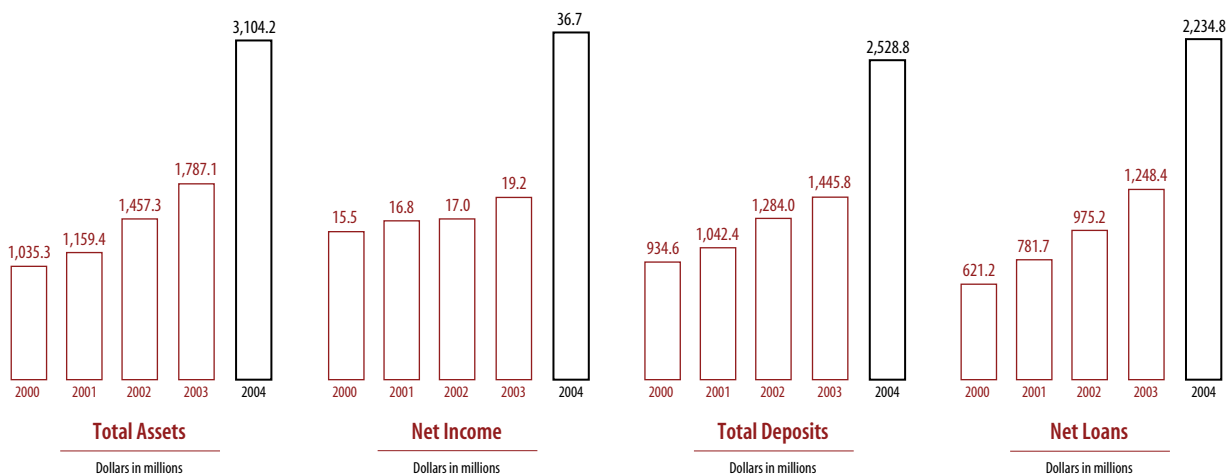
Hanmi Bank is a wholly owned subsidiary of Hanmi Financial Corporation (Nasdaq: HAFC). A leading Korean-American bank headquartered in Los Angeles, Hanmi Bank provides high quality individual, corporate and institutional financial services in regional markets. Throughout its history, Hanmi has produced 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 2004, your bank had total assets of nearly \$3.1 billion and 22 full-service offices in Los Angeles, Orange, San Francisco, Santa Clara and San Diego counties.

## Financial Highlights

(amounts in thousands, except per-share amounts)

	2004	2003	2002	2001	2000
<b>For the year</b>					
Net interest income	\$ 101,550	\$ 56,327	\$ 47,971	\$ 43,688	\$ 41,355
Service charges and fee income	\$ 21,823	\$ 15,691	\$ 13,485	\$ 12,799	\$ 12,288
Other operating income	\$ 5,775	\$ 4,625	\$ 7,719	\$ 4,454	\$ 2,714
Non-interest expenses	\$ 66,566	\$ 39,325	\$ 38,333	\$ 32,028	\$ 27,796
Net income	\$ 36,700	\$ 19,213	\$ 17,030	\$ 16,810	\$ 15,523
<b>At year end</b>					
Total assets	\$ 3,104,188	\$ 1,787,139	\$ 1,457,313	\$ 1,159,416	\$ 1,035,310
Net loans	\$ 2,234,842	\$ 1,248,399	\$ 975,154	\$ 781,718	\$ 621,222
Total deposits	\$ 2,528,807	\$ 1,445,835	\$ 1,283,979	\$ 1,042,353	\$ 934,581
Shareholders' equity	\$ 399,910	\$ 139,467	\$ 124,468	\$ 104,873	\$ 86,396
<b>Per Common Share</b>					
Net income (diluted)	\$ 0.84	\$ 0.67	\$ 0.60	\$ 0.60	\$ 0.57
Cash dividends declared	\$ 0.20	\$ 0.20	\$ —	\$ —	\$ —
Book value	\$ 8.11	\$ 4.92	\$ 4.47	\$ 3.83	\$ 3.17
<b>Financial Ratios</b>					
Net interest margin	4.29%	3.69%	3.96%	4.29%	5.23%
Nonperforming loans to total gross loans	0.27%	0.68%	0.65%	0.63%	0.40%
Allowance for loan losses to total gross loans	1.00%	1.06%	1.14%	1.19%	1.78%
Efficiency ratio	51.54%	51.31%	55.41%	52.40%	49.32%
Tier I capital to average total assets*	8.78%	7.75%	8.34%	8.76%	8.39%
Total capital to total risk-weighted assets*	11.80%	11.09%	11.94%	12.75%	12.27%
Return on average assets	1.37%	1.18%	1.30%	1.53%	1.68%
Return on average equity	12.51%	14.51%	15.08%	17.56%	19.81%

\*Hanmi Bank ratio



## To our shareholders

Last year was the most successful in Hanmi's twenty-two-year history. At December 31, 2004, assets were a record \$3.1 billion, compared to \$1.8 billion at the end of 2003. Net income for the year was a record \$36.7 million, up from \$19.2 million in 2003. Even more telling, perhaps, was the year-over-year improvement of sixty basis points in our net interest margin, to 4.29 percent in fiscal 2004.

These results reflect the strength of our core business and our merger with Pacific Union Bank, completed last April. The merger was the single most important event in Hanmi's history and, with the full integration of the two institutions now essentially complete, we expect to achieve further operating efficiencies in 2005. With the merger, we now have the foundation on which to build a truly regional financial institution.

As the largest Korean-American bank in the country, we are in an enviable position vis-à-vis our competitors. Our financial resources — and our twenty-two branch offices — give us inherent advantages in attracting deposits, funding loans, and realizing the sort of cost savings that can sustain bottom-line growth.

To be sure, we face any number of challenges in the months and years ahead, not least of which is the intensely competitive nature of our business. As important as size, then, is quality of service — the ability to anticipate and satisfy each customer's specific financial needs. It encompasses everything from new product development to welcoming a new customer at a branch office. Superior service generates superior returns to our shareholders.

Financial service is built on personal relationships, and without our loyal customers and dedicated employees we could not succeed. Our continuing success requires that we diligently attend to our customers' ongoing needs while relentlessly pursuing new customers who can further contribute to our growing balance sheet.

Superior service is possible only with the enthusiastic participation of our employees. They will participate more actively in ensuring that no stone goes unturned when it comes to recognizing and addressing customers' needs. In pursuing that goal, they will soon be able to draw upon a variety of new products designed to appeal to a demographic base that is increasingly diverse — and increasingly sophisticated in terms of what it demands of a financial services institution.

"Hanmi's transition from community bank to regional financial institution will draw on a steadfast commitment to unsurpassed customer service."  
Sung Won Sohn, President and Chief Executive Officer



In order to improve sales and customer satisfaction, we are designing a program that will enable us to identify and track cross-selling opportunities at the branch level. We will also put in place an incentive-based compensation package that rewards those employees, from tellers to executives, who meet or exceed their goals.

Even though our primary focus is organic growth through excellent sales and service, we will pursue, as opportunities present themselves, the sort of M&A activities that culminated in last year's merger with Pacific Union Bank. We will continue to concentrate on the Korean-American community, with the goal of further expanding our market share. But we will also look for opportunities beyond the Korean-American community. In fact, nearly half our lending activity already comes from non-Korean-Americans.

The attractive valuation of our shares compared to other banks reflects in part the exceptionally attractive demographics of our marketplace and the fact that we have served a particularly enterprising ethnic group. It also reflects our ability to meet the growing needs of other ethnic groups. We believe we are particularly well positioned to meet the financial needs of an ever more multi-ethnic society.

In 2004, the price of our stock appreciated more than 80 percent. However, the market rewards past performance only to the extent that it provides a window on the future. A company's current valuation — and its ability to attract new investors and new capital — rests on management's ability to devise and articulate a strategy that can produce sustainable bottom-line growth.

We are fortunate to be headquartered in one of the world's most vibrant and ethnically diverse markets, a market ideally suited to support the further growth of Hanmi's business. We face 2005 with considerable optimism. We thank you for your continuing support, and we look forward to keeping you apprised of our progress.

Sincerely,

Joon Hyung Lee  
Chairman of the Board of Directors

Sung Won Sohn  
President and Chief Executive Officer



# real talent

Employees are our most important asset.

**Essential 1.**

**Our employees are among  
the most talented in the market.**

Of the four ingredients necessary to the success of any business, talent is perhaps the hardest to measure. But without it no enterprise can hope to thrive. As a longstanding leader among Korean-American banks, and with excellent training programs and a wide range of career opportunities, Hanmi has been able to attract and retain a wealth of talent.

“With a talent and commitment for addressing the particular needs of each customer, Hanmi’s employees reflect our conviction that successful banking is built above all on personal relationships.” David W. Kim, Chief Administration Officer

*When the talents of an individual are presented*

Our senior managers have the imagination and creativity to devise new solutions to old problems, and they are adept at guiding the operations of

*in concert with those of many others,*

*the whole becomes greater than the sum of its parts.*

a major financial institution. Our branch managers, many of whom have been with us for decades, do an outstanding job of cultivating the strengths of our employees, from loan officer to teller, who are typically the first point of contact with our customers.

A person wearing a red shirt and a yellow helmet is climbing a dark, craggy rock face. The climber is positioned on the left side of the frame, with their arms extended upwards. Below the cliff, a winding dirt path leads through a lush green valley. In the background, there are more rugged mountains, some with patches of snow, under a bright blue sky with scattered white clouds.

# real commitment

Strong customer relationships are the foundation of our business.



**Essential 2.**

**A commitment to excellence  
underlies all that we do.**

Talent is ill-served without an underlying commitment to one's customers.

Without it one cannot build and maintain the long-term relationships

that are essential to success. We are committed to serving those who are

unfamiliar with the country's banking and business traditions. From

special installment savings plans to sophisticated currency-linked invest-

ment vehicles, we are dedicated to ensuring that our products and services

are tailored to the needs and sensibilities of the people we serve.

*The achievement of new heights requires*

As one of the most active participants in California's low-income housing

*dedication and commitment to a course of action,*

program, we support all our constituents. We are committed to addressing

*no matter how arduous the task.*

the interests of all our stakeholders — customers, investors, and the

community at large. We are committed to the idea that the success of our

business rests fundamentally on loyalty, confidence, and trust.

“Our desire to treat every customer as an important individual,  
like our broader commitment to supporting the communities we serve, will help  
ensure that we share in their prosperity.” Suki H. Murayama, Regional Executive Officer



# real resources

Providing Hanmi with a strong competitive advantage.

**Essential 3.**

**Unsurpassed resources will  
continue to support our growth.**

Talent and commitment alone will not ensure success. In addition to our intellectual capital — our dedicated employees — we have the resources and infrastructure, notably \$3 billion in assets and a network of twenty-two branch offices, that give us a significant competitive advantage over our peers.

*Resources are effectively the raw materials*

We have a balance sheet that enables us to fund the development of the new *that provide the foundation and structure of an undertaking, supporting its continuing growth.* products and new internal systems that are necessary to support continuing growth. Our ready access to the capital markets will further support our growth through mergers or acquisitions, as opportunities present themselves. We have as well a wealth of credibility and goodwill — the result of two decades of service to our Southern California constituents — that will stand us in good stead as we pursue new customer relationships.

*“With ample capital and an extensive network of branch offices, we have the resources to further enhance Hanmi’s standing as Southern California’s leading ethnically oriented financial institution.”* Michael J. Winiarski, Chief Financial Officer



# real opportunity

Growing in partnership with our customers.

**Essential 4.**

**We embrace the opportunity to prosper  
with the communities we serve.**

A business must have a receptive marketplace. We are fortunate to be headquartered in one of the world's most vibrant and ethnically diverse economies, and the opportunities are enormous. As the economy grows, so, too, does the net worth and sophistication of our customers.

*Successfully exploiting an opportunity often requires*

Through the introduction of new products and services designed to meet

*the courage to embark upon a journey whose course*

the needs of an increasingly multi-ethnic constituency, and with the

*is clear but whose outcome is not assured.*

opening of additional branch offices, we can grow in partnership with the

individuals and the businesses of the communities we serve. California's

growing multi-ethnic population gives us the occasion to use our proven

relationship-building skills to expand our demographic reach well beyond

the Korean-American community. In this endeavor, we look forward to

establishing Hanmi as a truly regional financial institution.

"Last year's merger with Pacific Union Bank provides Hanmi with a clear opportunity to further extend its demographic reach throughout the region."  
Eunice U. Lim, Acting Chief Credit Officer

## Corporate Information



### Officers

**Dr. Sung Won Sohn**  
*President and  
Chief Executive Officer*

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

**David W. Kim**  
*Senior Vice President and  
Chief Administration Officer*

**Eunice U. Lim**  
*Senior Vice President and  
Acting Chief Credit Officer*

**Suki H. Murayama**  
*Senior Vice President and  
Regional Executive Officer*

### Board of Directors

**Joon Hyung Lee**  
*Chairman of the Board  
President  
Root-3 Corporation*

**M. Christian Mitchell**  
*Former Partner  
Deloitte & Touche*

**I Joon Ahn**  
*Former Chairman of the Board*

**Chang Kyu Park**  
*Former Chairman of the Board  
Principal Pharmacist  
Serrano Medical Center Pharmacy*

**Stuart S. Ahn**  
*President  
Sunnyland Development, Inc.*

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

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

**William J. Ruh**  
*Executive Vice President  
Castle Creek Capital LLC*

**Kraig Kupiec**  
*Managing Member  
Shoreline Trading Group*

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

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

**Independent Public  
Accountants**  
KPMG, LLP  
Los Angeles, California

**Registrar and Transfer Agent**  
U.S. Stock Transfer  
Corporation  
Glendale, California

**Website**  
[www.hanmifinancial.com](http://www.hanmifinancial.com)

**Stock Listing**  
Nasdaq  
Ticker symbol for  
common stock "HAFC"

### Left to right:

Won R. Yoon  
I Joon Ahn  
Joseph K. Rho  
Kraig Kupiec  
Sung Won Sohn  
M. Christian Mitchell  
Joon Hyung Lee  
Stuart S. Ahn  
Ung Kyun Ahn  
Richard B. C. Lee  
Chang Kyu Park

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## 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, 2004 is 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.

(Dollars in Thousands, Except for Per Share Data)		As of and for the Year Ended December 31,				
		2004	2003	2002	2001	2000
<b>Summary Statement of Income Data:</b>						
Interest income	\$ 134,167	\$ 77,123	\$ 69,316	\$ 76,678	\$ 72,246	
Interest expense	32,617	20,796	21,345	32,990	30,891	
Net interest income before provision for credit losses	101,550	56,327	47,971	43,688	41,355	
Provision for credit losses	2,907	5,680	4,800	1,400	2,250	
Non-interest income	27,598	20,316	21,204	17,253	15,002	
Non-interest expenses	66,566	39,325	38,333	32,028	27,796	
Income before provision for income taxes	59,675	31,638	26,042	27,513	26,311	
Provision for income taxes	22,975	12,425	9,012	10,703	10,788	
Net income	\$ 36,700	\$ 19,213	\$ 17,030	\$ 16,810	\$ 15,523	
<b>Summary Statement of Financial Condition Data:</b>						
Cash and cash equivalents	\$ 127,164	\$ 62,595	\$ 122,772	\$ 81,205	\$ 176,107	
Total securities	418,973	414,616	279,548	213,179	205,994	
Net loans	2,234,842	1,248,399	975,154	781,718	621,222	
Total assets	3,104,188	1,787,139	1,457,313	1,159,416	1,035,310	
Total deposits	2,528,807	1,445,835	1,283,979	1,042,353	934,581	
Total liabilities	2,704,278	1,647,672	1,332,845	1,054,543	948,914	
Total shareholders' equity	399,910	139,467	124,468	104,873	86,396	
Average net loans	1,912,534	1,103,765	882,625	701,714	555,045	
Average securities	425,537	379,635	244,675	235,034	180,470	
Average interest-earning assets	2,366,185	1,525,633	1,211,553	1,017,422	791,105	
Average total assets	2,670,701	1,623,214	1,308,885	1,100,182	925,608	
Average deposits	2,129,724	1,416,564	1,164,562	988,392	873,044	
Average interest-bearing liabilities	1,687,688	1,057,249	854,858	736,947	569,544	
Average shareholders' equity	293,313	132,369	112,927	95,740	78,363	
Average tangible equity	143,262	130,252	110,762	93,427	75,802	
<b>Per Share Data:</b>						
Earnings per share – basic (1)	\$ 0.87	\$ 0.68	\$ 0.62	\$ 0.61	\$ 0.57	
Earnings per share – diluted (1)	\$ 0.84	\$ 0.67	\$ 0.60	\$ 0.60	\$ 0.57	
Book value per share – basic (1)	\$ 8.11	\$ 4.92	\$ 4.47	\$ 3.83	\$ 3.17	
Cash dividends per share	\$ 0.20	\$ 0.20	\$ —	\$ —	\$ —	
Common shares outstanding	49,330,704	28,326,820	27,830,866	27,385,660	27,228,248	
<b>Selected Performance Ratios:</b>						
Return on average assets (2)	1.37%	1.18%	1.30%	1.53%	1.68%	
Return on average equity (3)	12.51%	14.51%	15.08%	17.56%	19.81%	
Return on average tangible equity (4)	25.62%	14.75%	15.38%	17.99%	20.48%	
Net interest spread (5)	3.74%	3.09%	3.22%	3.06%	3.71%	
Net interest margin (6)	4.29%	3.69%	3.96%	4.29%	5.23%	
Average shareholders' equity to average total assets	10.98%	8.15%	8.63%	8.70%	8.47%	



(Dollars in Thousands, Except for Per Share Data)	2004	As of and for the Year Ended December 31,			
		2003	2002	2001	2000
<b>Selected Capital Ratios:</b>					
Tier I capital to average total assets:					
Hanmi Financial	8.93%	7.80%	8.50%	8.86%	8.46%
Hanmi Bank	8.78%	7.75%	8.34%	8.76%	8.39%
Tier I capital to total risk-weighted assets:					
Hanmi Financial	10.93%	10.05%	11.01%	11.71%	11.11%
Hanmi Bank	10.75%	10.00%	10.81%	11.59%	11.02%
Total capital to total risk-weighted assets:					
Hanmi Financial	11.98%	11.13%	12.14%	12.87%	12.37%
Hanmi Bank	11.80%	11.09%	11.94%	12.75%	12.27%
<b>Selected Asset Quality Ratios:</b>					
Non-performing loans to total gross loans (7)	0.27%	0.68%	0.65%	0.63%	0.40%
Non-performing assets to total assets (8)	0.19%	0.48%	0.44%	0.43%	0.25%
Net charge-offs to average total gross loans	0.19%	0.29%	0.28%	0.45%	0.16%
Allowance for loan losses to total gross loans	1.00%	1.06%	1.14%	1.19%	1.78%
Allowance for loan losses to non-performing loans	377.49%	154.13%	173.81%	188.12%	441.68%
Efficiency ratio (9)	51.54%	51.31%	55.41%	52.40%	49.32%
Dividend payout ratio (10)	22.99%	29.41%	—	—	—

(1) Restated for a 100% stock dividend declared in January 2005, a 9% stock dividend declared in 2002, a 12% stock dividend declared in 2001 and a 3-for-2 stock split in 2001.

(2) Net income divided by average total assets.

(3) Net income divided by average shareholders' equity.

(4) Net income divided by average tangible equity.

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

(6) Represents net interest income before provision for credit losses as a 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 credit losses and total non-interest income including securities gains and losses.

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

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, 2004, 2003 and 2002. 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 that 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 Consolidated Financial Statements." Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these 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. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial's Board of Directors.

During the year ended December 31, 2004, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141"), the purchase of Pacific Union Bank ("PUB") required significant estimates and assumptions. We engaged outside experts, including appraisers, to assist in estimating the fair values of

certain assets acquired, particularly the loan portfolio, core deposit intangible asset and fixed assets. The Bank used market data regarding securities market prices and interest rates to estimate the fair values of financial assets, including the securities portfolio, deposits and borrowings. We also evaluated long-lived assets for impairment and recorded any necessary adjustments. In accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection With a Purchase Business Combination," we recognized liabilities assumed for costs to involuntarily terminate employees of PUB and costs to exit activities of PUB under an exit plan approved by Hanmi Bank's Board of Directors.

We believe the allowance for loan losses and reserve for credit losses are critical accounting policies that require significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements. See "Management's Discussion and Analysis of Results of Operations and Financial Condition – Financial Condition – Allowance for Loan Losses," "Results of Operations – Provision for Credit Losses" and "Notes to Consolidated Financial Statements, Note 1 – Summary of Significant Accounting Policies" for a description of the methodology used to determine the allowance for loan losses and reserve for credit losses.

### **Overview**

Over the last three years, the Company has experienced significant growth in assets and deposits. Total assets increased to \$3,104.2 million at December 31, 2004 from \$1,787.1 million and \$1,456.3 million at December 31, 2003 and 2002, respectively. Total net loans increased to \$2,234.9 million at December 31, 2004 from \$1,248.4 million and \$975.1 million at December 31, 2003 and 2002, respectively. Total deposits increased to \$2,528.8 million as of December 31, 2004 from \$1,445.8 million and \$1,284.0 million at December 31, 2003 and 2002, respectively.

The Company's asset growth was mainly due to the acquisition of PUB, which had assets of \$1.2 billion, and also attributable to loan production during the period.

For the year ended December 31, 2004, net income was \$36.7 million, representing an increase of \$17.5 million, or 91.0%, from \$19.2 million for the year ended December 31, 2003. This resulted in basic earnings per share of \$0.87 and \$0.68 for the years ended December 31, 2004 and 2003, respectively, and diluted earnings per share of \$0.84 and \$0.67 for the same years. The Company's primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets and interest paid on liabilities incurred to fund those assets. 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. The increase in net income for 2004 was attributable to increases in net interest margin and average interest-earning assets. Net interest income increased due to a 78.8% increase in volume of net loans. The average interest rate paid decreased by four basis points while the average interest rate earned increased by 61 basis points. As a result, net interest spread increased by 65 basis points from 3.09% in 2003 to 3.74% in 2004.

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 \$0.68 and \$0.62 for the years ended December 31, 2003 and 2002, respectively, and diluted earnings per share of \$0.67 and \$0.60 for the same years. Despite a decrease in the net interest margin, net income increased in 2003, largely attributable to a 26% increase in average interest-earning assets. Net interest income increased due primarily to a higher 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.

The Company's results of operations are significantly affected by its provision for credit 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. The Company's provision for credit losses was \$2.9 million, \$5.7 million, and \$4.8 million in 2004, 2003 and 2002, respectively, reflecting changes in the balance and credit quality of its loan portfolio.

The Company also generated substantial non-interest income from service charges on deposit accounts, charges and fees generated from international trade finance, and gains on sales of loans. The Company's non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. For the year ended December 31, 2004, non-interest income was \$27.6 million, an increase of \$7.4 million, or 35.8%, over 2003 non-interest income of \$20.3 million. The increase was primarily a result of the merger with PUB. For the year ended December 31, 2003, non-interest income was \$20.3 million, a decrease of \$888,000, or 4.2%, from 2002 non-interest income. The decrease reflected a decreased amount of gain on sales of securities, which decreased \$2.2 million from \$3.3 million in 2002 to \$1.1 million in 2003. Non-interest income other than gain on sales of securities increased \$1.8 million, or 10.5%, from \$7.4 million in 2002 to \$19.2 million in 2003, reflecting the expansion in the Bank's average loan and deposit portfolios.

The efficiency ratio increased slightly, to 51.54%, in 2004 compared to 51.31% in 2003 as a result of non-recurring expenses associated with the merger with PUB. In 2003, the efficiency ratio improved to 51.31% from 55.41% in 2002 as a result of greater efficiencies associated with the expansion of its average loan and deposit portfolios, which increased 25.1% and 19.3%, respectively, while non-interest expenses increased 2.6% year over year. Non-interest expenses in 2002 include a charge of \$4.4 million for certain securities held by the Bank. Exclusive of this charge, non-interest expenses increased 15.9% from 2002 to 2003.

**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, income tax policies, governmental budgetary matters and the actions of the Federal Reserve Bank.

For the years ended December 31, 2004 and 2003, the Company's net interest income was \$101.6 million and \$56.3 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2004 were 3.74% and 4.29%, respectively, compared to 3.09% and 3.69%, respectively, for the year ended December 31, 2003.

For the years ended December 31, 2003 and 2002, the Company's net interest income was \$56.3 million and \$48.0 million, respectively. The net interest spread and net interest margin for the year ended December 31, 2003 were 3.09% and 3.69%, respectively, compared to 3.22% and 3.96%, respectively, for the year ended December 31, 2002.

Average interest-earning assets increased 55.1% to \$2,366.2 million in 2004 from \$1,525.6 million in 2003. Average net loans increased 73.3% to \$1,912.5 million in 2004 from \$1,103.8 million in 2003 and average investment securities increased 12.1% to \$425.5 million in 2004 from \$379.6 million in 2003. Total loan interest income increased by 81.6% in 2004 on an annual basis due to the increase in average net loans outstanding and the increase in average yields on net loans from 5.82% in 2003 to 6.10% in 2004. The average interest rate charged on loans increased reflecting the average WSJ Prime rate increase of 22 basis points from 4.12% in 2003 to 4.34% in 2004. The yield on interest-earning assets increased from 5.06% in 2003 to 5.67% in 2004, an increase of 0.61%, reflecting a shift in the mix of interest-earning assets from 72.3% loans, 24.9% securities and 2.8% other interest-earning assets in 2003 to 80.8% loans, 18.0% securities and 1.2% other interest-earning assets.

The majority of interest-earning assets growth was funded by a \$713.2 million or 50.3% increase in average total deposits. Total average interest-bearing liabilities grew by 59.6% to \$1,687.7 million in 2004 compared to \$1,057.2 million in 2003. The average interest rate the Company paid for interest-bearing liabilities decreased by four basis points from 1.97% in 2003 to 1.93% in 2004. As a result, the net interest spread increased to 3.74% in 2004 compared to 3.09% in 2003.



## Management's Discussion & Analysis of Results of Operations and Financial Condition

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:

<i>For the Year Ended December 31,</i>						
<i>(In Thousands)</i>	<i>2004 vs. 2003</i>			<i>2003 vs. 2002</i>		
	<i>Increases (Decreases)</i>			<i>Increases (Decreases)</i>		
	<i>Due to Change in</i>			<i>Due to Change in</i>		
	<i>Volume</i>	<i>Rate</i>	<i>Total</i>	<i>Volume</i>	<i>Rate</i>	<i>Total</i>
<b>Interest income:</b>						
Net loans	\$49,174	\$3,227	\$52,401	\$ 13,199	\$(5,386)	\$ 7,813
Municipal securities	1,576	18	1,594	166	(45)	121
Obligations of other U.S.						
Government agencies	725	254	979	1,478	(423)	1,055
Other debt securities	(335)	2,275	1,940	3,292	(3,478)	(186)
Equity securities	429	14	443	107	(41)	66
Federal funds sold	(126)	32	(94)	(429)	(219)	(648)
Term federal funds sold	(112)	(113)	(225)	(257)	(148)	(405)
Commercial paper	—	—	—	(4)	(4)	(8)
Interest-earning deposits	6	—	6	—	(1)	(1)
<b>Total interest income</b>	<b>51,337</b>	<b>5,707</b>	<b>57,044</b>	<b>17,552</b>	<b>(9,745)</b>	<b>7,807</b>
<b>Interest expense:</b>						
Money market checking	4,191	1,323	5,514	485	(937)	(452)
Savings	564	(668)	(104)	115	(853)	(738)
Time deposits of \$100,000 or more	4,060	(509)	3,551	1,639	(2,062)	(423)
Other time deposits	(1,103)	(837)	(1,940)	1,318	(998)	320
Other borrowed funds	4,522	278	4,800	1,089	(345)	744
<b>Total interest expense</b>	<b>12,234</b>	<b>(413)</b>	<b>11,821</b>	<b>4,646</b>	<b>(5,195)</b>	<b>(549)</b>
<b>Change in net interest income</b>	<b>\$39,103</b>	<b>\$6,120</b>	<b>\$45,223</b>	<b>\$12,906</b>	<b>\$(4,550)</b>	<b>\$8,356</b>

### Provision for Credit Losses

For the year ended December 31, 2004, the provision for credit losses was \$2.9 million, compared to \$5.7 million for the year ended December 31, 2003, a decrease of 48.8%. While the Company's loan volume increased, the allowance for loan losses decreased to 1.00% of total gross loans from 1.06% in 2003 (without the change in accounting that separated the reserve for credit losses from the allowance for loan losses, the ratio was 1.08% at December 31, 2004). This decrease in the ratio of the allowance for loan losses to total gross 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, 2003, the provision for credit losses was \$5.7 million, compared to \$4.8 million for the year ended December 31, 2002, an increase of 18.3%.

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.

<i>(In Thousands)</i>			2004		2003		2002		2001		2000	
<i>Allowance for Loan Losses Applicable to</i>	<i>Allowance Amount</i>	<i>Total Loans</i>	<i>Allowance Amount</i>	<i>Total Loans</i>	<i>Allowance Amount</i>	<i>Total Loans</i>	<i>Allowance Amount</i>	<i>Total Loans</i>	<i>Allowance Amount</i>	<i>Total Loans</i>	<i>Allowance Amount</i>	<i>Total Loans</i>
<b>Real estate loans:</b>												
Construction	\$ 349	\$92,521	\$ 427	\$ 43,047	\$ 267	\$ 39,237	\$ 163	\$ 33,618	\$ 68	\$ 8,543		
Commercial property	1,854	783,539	374	397,853	337	284,465	1,108	198,336	1,311	147,810		
Residential property	155	80,786	191	58,477	149	47,891	258	49,526	262	48,192		
Total real estate loans	2,358	956,846	992	499,377	753	371,593	1,529	281,480	1,641	204,545		
<b>Commercial and</b>												
Industrial loans (1)	19,051	1,214,419	11,376	685,557	9,773	560,370	7,072	457,973	5,473	378,247		
Consumer loans	1,293	87,526	846	54,878	652	44,416	738	38,645	571	38,486		
Unallocated	—	—	135	—	76	—	69	—	3,591	—		
Total allowance for loan losses	\$22,702	\$2,258,791	\$13,349	\$1,239,812	\$11,254	\$976,379	\$9,408	\$778,098	\$11,276	\$621,278		

(1) Loans held for sale excluded.

The allowance is based on estimates, and ultimate future losses may vary from current estimates. Underlying trends in the economic cycle, particularly in Southern California, which management cannot completely predict, will influence credit quality. It is 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:

<i>(In Thousands)</i>				<i>For the Year Ended December 31,</i>		
	2004	2003	2002			
Service charges on deposit accounts	\$14,441	\$10,339	\$ 9,195			
Trade finance fees	4,044	2,887	2,410			
Remittance fees	1,653	952	786			
Other service charges and fees	1,685	1,513	1,094			
Bank-owned life insurance income	731	499	552			
Increase in fair value of derivatives	232	35	1,368			
Other income	1,681	840	659			
Gain on sales of loans	2,997	2,157	1,875			
Gain on sales of securities available for sale	134	1,094	3,265			
Total non-interest income	\$27,598	\$20,316	\$21,204			

The Company earns non-interest income from four major sources: service charges on deposit accounts, fees generated from international trade finance, gain on sales of loans, and gain on sales 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, 2004, non-interest income was \$27.6 million, an increase of 35.8% from \$20.3 million for the year ended December 31, 2003. This increase was mainly due to increases in service charges on deposit accounts and trade finance fees.

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The service charges on deposit accounts increased by \$4.1 million or 39.7% for the year 2004 compared to 2003. Service charge income on deposit accounts increased with the higher deposit volume and number of accounts as a result of the PUB merger. Average deposits increased by 50.3% from \$1.4 million in 2003 to \$2.1 million in 2004. The Company constantly reviews service charges to maximize service charge income while still maintaining its competitive position.

Fees generated from international trade finance increased by 40.1% from \$2.9 million in 2003 to \$4.0 million during 2004. The increase was primarily due to the PUB merger. Average trade finance loans increased by \$29.8 million or 60.9% from \$48.9 million in 2003 to \$78.7 million in 2004.

Gain on sales of loans was \$3.0 million in 2004, compared to \$2.2 million and \$1.9 million in 2003 and 2002, respectively, representing increases of 38.9% and 15.0% for the years ended December 31, 2004 and 2003, respectively. The increase in gain on sales of loans resulted from the Company's increased sales activity in SBA loans, which was primarily due to the acquisition of PUB. The Company sells the guaranteed portion of SBA loans in the secondary markets, while retaining servicing rights. During the year 2004, the Company sold \$35.4 million of SBA loans.

Gain on sales of securities available for sale decreased by 87.8% from \$1.1 million in 2003 to \$0.1 million during 2004. The Company sold \$54.2 million of securities, recognizing premiums of 1.91% 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 in other income in 2004 compared to 2003 is mainly due to an increase in credit card fee income and sales commission from mutual funds and insurance products.

For the year ended December 31, 2003, non-interest income was \$20.3 million, a decrease of \$0.9 million or 4.2% from \$21.2 million for the year ended December 31, 2002. This decrease was largely attributable to the \$2.2 million

decrease in gain on sales 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 \$0.9 million.

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 2004, the Company generated income of \$427,000 from this activity, which represented an 87.3% increase from \$228,000 earned in 2003.

### Non-Interest Expenses

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

	<i>For the Year Ended December 31,</i>		
<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Salaries and employee benefits	\$33,540	\$ 21,214	\$ 17,931
Occupancy and equipment	8,098	5,198	4,330
Data processing	4,540	3,080	2,784
Advertising and promotional expense	3,001	1,635	1,523
Supplies and communications	2,433	1,496	1,466
Professional fees	2,068	1,167	1,003
Amortization of core deposit intangible	1,872	121	8
Impairment of investment securities	—	—	4,416
Other operating expense	8,961	5,414	4,872
Merger-related expenses	2,053	—	—
<b>Total non-interest expenses</b>	<b>\$66,566</b>	<b>\$39,325</b>	<b>\$38,333</b>

For the year ended December 31, 2004, non-interest expenses were \$66.6 million, an increase of \$27.2 million or 69.3% from \$39.3 million for the year ended December 31, 2003. This increase was primarily due to the PUB merger, which closed on April 30, 2004.

Salaries and employee benefits expenses for 2004 increased \$12.3 million, or 58.1%, to \$33.5 million from \$21.2 million for 2003, due primarily to a 45% increase in the number of employees following the acquisition of PUB.



Occupancy and equipment expenses for 2004 increased \$2.9 million, or 55.8%, to \$8.1 million compared to \$5.2 million for 2003. This increase was mainly due to the acquisition of 12 former PUB branches.

Data processing expense for 2004 increased \$1.5 million, or 47.4%, to \$4.5 million from \$3.1 million for 2003. Additional expense was incurred mainly due to an increase in loans and deposits volume related to the acquisition and conversion of the Bank's core data processing systems. Supplies and communication expenses also increased \$0.9 million, or 62.6%, to \$2.4 million from \$1.5 million for 2003.

Professional fees were \$2.1 million for 2004, representing an increase of \$0.9 million, or 77.2%, compared to \$1.2 million for 2003. The increase was caused primarily by consulting fees related to the integration with PUB and data processing system conversions. Professional fees for the year ended December 31, 2004 include \$537,000 of integration costs paid to outside consultants.

Advertising and promotional expense increased from \$1.6 million for 2003 to \$3.0 million for 2004, an increase of \$1.4 million, or 83.5%. In 2004, Hanmi Bank conducted print, radio and television campaigns and distributed various promotional items to publicize its merger with PUB and attract and retain customers.

During the year ended December 31, 2004, the Company recorded restructuring charges totaling \$2.1 million in connection with the acquisition of PUB, consisting of employee severance and retention bonuses, leasehold termination costs, and fixed asset impairment charges associated with planned branch closures. In 2004, the Company recognized \$975,000 of restructuring costs related to retention bonuses paid to former PUB employees. Such costs are treated as period costs and are recognized in the period services are rendered.

Core deposit premium amortization increased to \$1.9 million for 2004, compared to \$121,000 for 2003, an increase of \$1.8 million. The increase is attributable to the acquisition of PUB.

Other operating expenses were \$7.4 million for 2004, compared to \$4.5 million for 2003, representing an increase of \$2.9 million, or 64.9%. The increases are primarily attributable to additional operating expenses associated with the acquisition of PUB.

For the year ended December 31, 2003, total non-interest expenses increased by \$1.0 million or 2.6%. 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. ("WorldCom"). 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. In 2004, the Company sold its remaining WorldCom securities, recognizing a gain of \$100,000.

Excluding the impairment charges during 2002, total non-interest expenses 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, which caused increases 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.

**Provision for Income Taxes**

For the year ended December 31, 2004, the Company recognized a provision for income taxes of \$23.0 million on pre-tax income of \$59.7 million, representing an effective tax rate of 38.5%, compared to a provision of \$12.4 million on pre-tax income of \$31.6 million, representing an effective tax rate of 39.3%, for 2003.

The Company made investments in various tax credit funds totaling \$5.3 million and recognized \$1.0 million of income tax credits earned from qualified low-income housing investments in 2004. The Company recognized an income tax credit of \$382,000 for the tax year 2003 from \$4.1 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, 2003, the Company recognized a provision for income taxes of \$12.4 million on pre-tax income \$31.6 million, representing an effective tax rate of 39.3%, compared to a provision of \$9.0 million on pre-tax income of \$26.0 million, representing an effective tax rate of 34.6%, for 2002.

As indicated in "Notes to Consolidated Financial Statements, Note 10 — Income Taxes," 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 pre-tax 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, 2004, the Company had net deferred tax assets of \$5.0 million.

**Financial Condition****Loan Portfolio**

Total gross loans increased by \$997.4 million or 78.8% in 2004. Total gross loans represented 72.9% of total assets at December 31, 2004 compared with 70.8% and 69.9% at December 31, 2003 and 2002, respectively.

The table below sets forth the composition of the Company's loan portfolio by major category. Commercial and industrial loans made up the largest portion of the total loan portfolio, representing 53.8% of total loans at December 31, 2004, as compared with 56.2% and 57.9% of total loans at December 31, 2003 and 2002, 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, owner-occupied commercial property, business equipment, leasehold improvements or for permanent working capital. SBA guaranteed loans usually have a longer maturity (5 to 20 years). Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. These borrowers are well diversified as to industry, location and their current and target markets. The Company manages its portfolio to avoid concentration in any of the areas mentioned. The commercial loan portfolio also includes SBA loans held for sale, which totaled \$3.9 million and \$25.5 million at December 31, 2004 and 2003, respectively.

Real estate loans were \$956.8 million and \$499.4 million at December 31, 2004 and 2003, respectively, representing 42.3% and 39.5%, 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 investor-owned, but may be for user-owned 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 following table sets forth the amount of total loans outstanding in each category as of the dates indicated:

		<i>Amount Outstanding as of December 31,</i>				
<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<b>Real estate loans:</b>						
Commercial property	\$ 783,539	\$ 397,853	\$284,465	\$ 198,336	\$ 147,810	
Construction	92,521	43,047	39,237	33,618	8,543	
Residential property	80,786	58,477	47,891	49,526	48,192	
Total real estate loans	956,846	499,377	371,593	281,480	204,545	
Commercial and industrial loans (1)	1,218,269	711,011	572,910	472,920	391,093	
Consumer loans	87,526	54,878	44,416	38,645	38,486	
Total gross loans	\$2,262,641	\$1,265,266	\$ 988,919	\$793,045	\$634,124	

(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:

		<i>Percentage Distribution of Loans as of December 31,</i>				
<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<b>Real estate loans:</b>						
Commercial property	34.63%	31.44%	28.77%	25.01%	23.31%	
Construction	4.09%	3.40%	3.97%	4.24%	1.35%	
Residential property	3.57%	4.62%	4.84%	6.25%	7.60%	
Total real estate loans	42.29%	39.46%	37.58%	35.50%	32.26%	
Commercial and industrial loans	53.84%	56.20%	57.93%	59.63%	61.67%	
Consumer loans	3.87%	4.34%	4.49%	4.87%	6.07%	
Total gross loans	100.00%	100.00%	100.00%	100.00%	100.00%	

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

		<i>December 31,</i>	
<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>	
Commitments to extend credit	\$367,708	\$253,722	
Standby letters of credit	47,901	34,434	
Commercial letters of credit	49,699	34,261	
Unused credit card lines	14,324	3,801	
Total undisbursed loan commitments	\$479,632	\$326,218	

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The table below shows the maturity distribution and repricing intervals of the Company's outstanding loans as of December 31, 2004. In addition, the table shows the distribution of

such loans between those with variable or floating interest rates and those with fixed or pre-determined interest rates. The table includes non-accrual loans of \$5.8 million.

(In Thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
<b>Real estate loans:</b>				
Commercial property	\$ 745,229	\$ 25,549	\$ 12,761	\$ 783,539
Construction	92,521	—	—	92,521
Residential property	26,729	32,990	21,067	80,786
Total real estate loans	864,479	58,539	33,828	956,846
Commercial and industrial loans	1,172,277	33,079	12,913	1,218,269
Consumer loans	51,112	36,414	—	87,526
Total gross loans	\$2,087,868	\$128,032	\$46,741	\$ 2,262,641
Loans with predetermined interest rates	\$ 69,950	\$ 110,678	\$46,741	\$ 227,369
Loans with variable interest rates	\$ 2,017,918	\$ 17,354	\$ —	\$2,035,272

### Non-Performing Assets

Non-performing assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned ("OREO"). Loans are generally placed on non-accrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Loans may be restructured by management when a borrower has experienced some change in financial status, causing an inability to meet the original repayment terms, and where 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 \$6.0 million at December 31, 2004, compared to \$8.7 million and \$6.5 million at December 31, 2003 and 2002, respectively, representing a 31% decrease in 2004 and a 34% increase in 2003. As of December 31, 2004, 2003 and 2002, total non-performing assets were the same as non-performing loans. During these same periods, total loans increased by 78.8% in 2004 from 2003, and 27.9% in 2003 from 2002. As a result, the ratio of non-performing assets to total loans and OREO decreased to 0.27% at December 31, 2004, from 0.68% at December 31, 2003 and 0.65% at December 31, 2002. As of December 31, 2004 and 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, 2004 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.

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:

<i>(Dollars in Thousands)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
<b>Non-accrual loans:</b>					
Real estate loans:					
Commercial property	\$ —	\$ 527	\$ —	\$ 1,183	\$ 516
Residential property	112	1,126	287	730	649
Commercial and industrial loans	5,510	6,398	5,522	2,275	923
Consumer loans	184	53	49	94	71
Total non-accrual loans	5,806	8,104	5,858	4,282	2,159
<b>Loans 90 days or more past due and still accruing (as to principal or interest):</b>					
Real estate loans:					
Commercial property	—	557	356	602	391
Residential property	—	—	261	117	3
Commercial and industrial loans	169	—	—	—	—
Consumer loans	39	—	—	—	—
Total loans 90 days or more past due and still accruing (as to principal or interest)	208	557	617	719	394
Total non-performing loans	6,014	8,661	6,475	5,001	2,553
Other real estate owned	—	—	—	—	—
Total non-performing assets	\$6,014	\$8,661	\$6,475	\$5,001	\$2,553
Non-performing loans as a percentage of total gross loans	0.27%	0.68%	0.65%	0.63%	0.40%
Non-performing assets as a percentage of total assets	0.19%	0.48%	0.44%	0.43%	0.25%

#### Allowance for Loan Losses and Reserve for Credit Losses

The allowance for loan losses and reserve for credit losses are maintained at levels that are believed to be adequate by management to absorb estimated probable loan losses inherent in the loan portfolio. The adequacy of the allowance and the reserve 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 and reserve for credit 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 part of the allowance allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios. Further assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

The allowance for loan losses was \$22.7 million at December 31, 2004, compared to \$13.3 million at December 31, 2003. The increase in the allowance for loan losses in 2004 was due primarily to the PUB merger. The ratio of the allowance for loan losses to total gross loans decreased from 1.06% to 1.00%, primarily due

## Management's Discussion & Analysis of Results of Operations and Financial Condition

to the overall decrease of historical loss factors on pass grade loans. The loan loss estimation, based on historical losses, and specific allocations of the allowance are performed on a quarterly basis. The reserve for credit losses was \$1.8 million at December 31, 2004, compared to \$1.4 million at December 31, 2003. 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 and reserve for credit 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 and reserve for credit losses are adequate as of December 31, 2004.

*As of and for the Year Ended December 31,*

<i>(Dollars in Thousands)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
<b>Allowance for loan losses:</b>					
Balance at beginning of year	\$ 13,349	\$ 11,254	\$ 9,408	\$ 11,276	\$ 10,624
Allowance for loan losses – PUB acquisition	10,566	—	—	—	—
Actual charge-offs:					
Real estate loans:					
Commercial property	—	198	—	—	—
Commercial and industrial loans	5,004	3,687	3,213	3,782	1,383
Consumer loans	481	538	358	324	399
Total charge-offs	5,485	4,423	3,571	4,106	1,782
<b>Recoveries on loans previously charged off:</b>					
Real estate loans:					
Construction	—	—	—	—	30
Commercial property	—	21	—	273	—
Residential property	—	6	—	—	—
Commercial and industrial loans	1,702	859	871	307	691
Consumer loans	78	322	105	214	163
Total recoveries	1,780	1,208	976	794	884
Net loan charge-offs	3,705	3,215	2,595	3,312	898
Provision charged to operating expenses	2,492	5,310	4,441	1,444	1,550
Balance at end of year	\$ 22,702	\$ 13,349	\$ 11,254	\$ 9,408	\$ 11,276
<b>Reserve for credit losses:</b>					
Balance at beginning of year	\$ 1,385	\$ 1,015	\$ 656	\$ 700	\$ —
Provision charged to operating expenses	415	370	359	(44)	700
Balance at end of year	\$ 1,800	\$ 1,385	\$ 1,015	\$ 656	\$ 700
<b>Ratios:</b>					
Net loan charge-offs to average total gross loans	0.19%	0.29%	0.29%	0.46%	0.16%
Net loan charge-offs to total gross loans at end of period	0.16%	0.25%	0.26%	0.42%	0.14%
Allowance for loan losses to average total gross loans	1.17%	1.19%	1.26%	1.32%	1.99%
Allowance for loan losses to total gross loans at end of period	1.00%	1.06%	1.14%	1.19%	1.78%
Net loan charge-offs to allowance for loan losses	16.32%	24.08%	23.06%	35.20%	7.96%
Net loan charge-offs to provision charged to operating expenses	148.68%	60.55%	58.43%	229.36%	57.94%
Allowance for loan losses to non-performing loans	377.55%	154.13%	173.81%	188.12%	441.68%
<b>Balances:</b>					
Average total gross loans outstanding during period	\$1,938,422	\$ 1,119,860	\$895,394	\$ 715,050	\$ 567,195
Total gross loans outstanding at end of period	\$2,262,641	\$1,265,266	\$ 988,919	\$793,045	\$634,124
Non-performing loans at end of period	\$ 6,014	\$ 8,661	\$ 6,475	\$ 5,001	\$ 2,553

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.

A 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 classified special mention and worse. 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, 2004 was composed of collateralized mortgage obligations, mortgage-backed securities, U.S. Government agency securities ("Agencies"), municipal bonds and corporate bonds.

Investment securities available for sale were 99.7% of the total investment portfolio as of December 31, 2004 and 2003. 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, 2004, 2003 or 2002.

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

<i>Investment Portfolio as of December 31,</i>						
<i>(In Thousands)</i>	<i>2004</i>		<i>2003</i>		<i>2002</i>	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
<b>Held to maturity:</b>						
Municipal bonds	\$ 691	\$ 691	\$ 690	\$ 689	\$ 1,088	\$ 1,126
Mortgage-backed securities	399	402	638	645	1,457	1,487
Corporate bonds	—	—	—	—	4,997	4,983
Total held to maturity	\$ 1,090	\$ 1,093	\$ 1,328	\$ 1,334	\$ 7,542	\$ 7,596
<b>Available for sale:</b>						
Mortgage-backed securities	\$148,706	\$149,174	\$ 117,139	\$ 117,484	\$ 78,112	\$ 79,173
Collateralized mortgage obligations	93,172	92,539	125,491	124,096	102,212	102,877
U.S. Government agency securities	89,345	89,677	80,845	81,426	53,408	53,901
Municipal bonds	71,771	73,616	60,741	61,403	17,810	18,237
Corporate bonds	8,380	8,444	13,641	13,903	594	1,188
Other	4,437	4,433	15,055	14,976	16,630	16,630
Total available for sale	\$ 415,811	\$417,883	\$412,912	\$413,288	\$268,766	\$272,006

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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, 2004:

(Dollars in Thousands)	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Collateralized mortgage obligations (1)	\$ 16,255	2.67%	\$ 64,923	4.25%	\$ 11,361	4.46%	\$ —	—
Mortgage-backed securities (1)	71,525	3.22%	44,086	4.20%	27,664	4.30%	6,298	5.14%
Obligations of other U.S. government agencies	40,074	3.95%	34,633	3.24%	14,970	4.20%	—	—
Obligations of state and local political subdivisions (2)	267	7.07%	692	6.76%	5,275	5.40%	68,073	6.56%
Corporate bonds	—	—	5,946	4.21%	2,498	4.76%	—	—
Other securities	4,433	6.69%	—	—	—	—	—	—
	\$132,554	3.50%	\$150,280	4.01%	\$61,768	4.42%	\$ 74,371	6.44%

(1) Collateralized mortgage obligations and mortgage-backed securities have contractual maturities through 2034. The above table is based on the expected prepayment schedule.

(2) The yield on obligations of state and local political subdivisions has been computed on a tax-equivalent basis, using an effective marginal rate of 35%.

### Deposits

Total deposits at December 31, 2004, 2003 and 2002 were \$2,528.8 million, \$1,445.8 million and \$1,284.0 million, respectively, representing an increase of \$1,083.0 million or 74.9% in 2004 and \$161.8 million or 12.6% in 2003. The growth of deposit volume in 2004 is primarily attributable to the acquisition of PUB on April 30, 2004. At December 31, 2004, 2003 and 2002, the total time deposits outstanding were \$1,031.7 million, \$667.8 million and \$583.5 million, respectively, representing 40.8%, 46.2% and 45.4%, respectively, of total deposits. Demand deposits and money market accounts increased by \$662.1 million or 97.2% in 2004 and \$78.8 million or 13.1% in 2003. At December 31, 2004, non-interest-bearing demand deposits represented 28.9% of total deposits compared to 32.9% at December 31, 2003.

Average deposits for the years ended December 31, 2004, 2003 and 2002 were \$2,129.7 million, \$1,416.6 million and \$1,164.6 million, respectively. Average deposits, therefore, grew by 50.3% in 2004 and 21.6% in 2003.

Core deposits (defined as demand, money market, and savings deposits) grew \$719.1 million, or 92.4%, to \$1.50 billion as of December 31, 2004 compared to \$778 million as December 31, 2003. The overall deposit increase and the change in deposit composition was mainly due to an expansion of the branch network through the merger with PUB.

The Company accepts brokered deposits on a selective basis at prudent interest rates to augment deposit growth. There were \$40.0 million of brokered deposits as of December 31, 2004. The Company also had \$200.0 million of state time deposits over \$100,000 with an average interest rate of 2.08% as of December 31, 2004.



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

(Dollars in Thousands)	For the Year Ended December 31,					
	2004		2003		2002	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Demand, non-interest-bearing	\$ 665,816		\$ 422,453		\$ 331,551	
Money market checking	466,880	1.73%	207,689	1.24%	176,089	1.72%
Savings	131,589	1.36%	97,070	1.95%	92,835	2.84%
Time deposits of \$100,000 or more	611,555	1.79%	386,701	1.92%	312,618	2.51%
Other time deposits	253,884	2.13%	302,651	2.43%	251,469	2.80%
<b>Total deposits</b>	<b>\$2,129,724</b>		<b>\$1,416,564</b>		<b>\$1,164,562</b>	

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)	2004	December 31,	
		2003	2002
Three months or less	\$378,205	\$ 261,274	\$ 231,410
Over three months through six months	232,231	57,034	46,470
Over six months through twelve months	131,775	52,815	40,520
Over twelve months	14,369	17,821	5,144
	<b>\$756,580</b>	<b>\$388,944</b>	<b>\$323,544</b>

### Borrowings

The Company's borrowings mostly take the form of advances from the Federal Home Loan Bank of San Francisco ("FHLB"), overnight Federal funds, and junior subordinated debt associated with trust preferred securities.

At December 31, 2004, advances from the FHLB were \$66.4 million, a decrease of \$82.0 million, or 55.3%, from the December 31, 2003 balance of \$148.4 million. As of December 31, 2004, there were no overnight Federal funds purchased compared to \$31.5 million as of December 31, 2004.

During the first half of 2004, the Company issued two junior subordinated notes bearing interest at three-month London InterBank Offered Rate ("LIBOR") plus 2.90% totaling

\$61.8 million and one junior subordinated note bearing interest at three-month LIBOR plus 2.63% totaling \$20.6 million. The Company's outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of PUB, totaled \$82.4 million at December 31, 2003.

### 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.

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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- Sensitive	Total
<b>Assets:</b>						
Cash (non-interest-earning)	\$ —	\$ —	\$ —	\$ —	\$ 54,505	\$ 54,505
Cash (interest-earning)	62,659	—	—	—	—	62,659
Securities purchased under agreements to resell	10,000	—	—	—	—	10,000
FRB and FHLB stock	—	—	—	21,961	—	21,961
<b>Securities:</b>						
Fixed rate	27,606	38,703	150,280	136,139	—	352,728
Floating rate	9,845	716	47,827	7,857	—	66,245
<b>Loans:</b>						
Fixed rate	35,880	34,070	110,678	46,741	—	227,369
Floating rate	2,001,282	10,800	17,384	—	—	2,029,466
Non-accrual	—	—	—	—	5,806	5,806
Unearned income, allowance for loan losses and discount	—	—	—	—	(27,799)	(27,799)
Derivatives	(79,800)	—	79,800	—	—	—
Other assets	—	21,868	—	—	279,380	301,248
<b>Total assets</b>	<b>\$2,067,472</b>	<b>\$ 106,157</b>	<b>\$ 405,969</b>	<b>\$212,698</b>	<b>\$ 311,892</b>	<b>\$ 3,104,188</b>
<b>Liabilities</b>						
<b>Deposits:</b>						
Demand deposits	\$ 73,529	\$ 191,176	\$ 398,702	\$ 66,176	\$ —	\$ 729,583
Savings	17,923	46,680	78,391	10,868	—	153,862
Money market checking	81,782	202,950	260,304	68,626	—	613,662
Time deposits of \$100,000 or more	378,205	364,006	14,269	100	—	756,580
Other time deposits	156,190	99,676	19,181	73	—	275,120
Other borrowed funds	2,930	25,000	36,000	5,363	—	69,293
Junior subordinated debentures	82,406	—	—	—	—	82,406
Other liabilities	—	—	—	—	23,772	23,772
Shareholders' equity	—	—	—	—	399,910	399,910
<b>Total liabilities and shareholders' equity</b>	<b>\$ 792,965</b>	<b>\$929,488</b>	<b>\$ 806,847</b>	<b>\$151,206</b>	<b>\$423,682</b>	<b>\$ 3,104,188</b>
Repricing gap	\$ 1,274,507	\$(823,331)	\$(400,878)	\$ 61,492	\$ (111,790)	
Cumulative repricing gap	\$ 1,274,507	\$ 451,176	\$50,298	\$ 111,790	\$ —	
Cumulative repricing gap as a percentage of total assets	41.06%	14.53%	1.62%	3.60%	—	
Cumulative repricing gap as a percentage of interest-earning assets	46.00%	16.29%	1.82%	4.04%	—	

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities, i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same time period. Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates,

and liabilities are assigned based on their repricing or maturity dates. Core deposits that have no maturity dates (demand deposits, savings and money market checking) are assigned to categories based on expected decay rates. On December 31, 2004, the cumulative repricing gap as a percentage of interest-earning assets in the less-than-three month period was 46.00%. This was a large increase

from the previous year's figure of 24.33%. The increase was caused by an increase in floating rate loans. Derivatives of \$79.8 million lessened the gap impact in the period. The cumulative repricing percentage in the three to twelve-month period also moved higher, reaching 16.29%. 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 (20.01)%. The floating gap position in the less-than-one year period was 19.30%.

The following table summarizes the status of the Company's gap position as of the dates indicated.

<i>(Dollars in Thousands)</i>	<i>Less than Three Months December 31,</i>		<i>Three to Twelve Months December 31,</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Cumulative repricing gap	\$1,274,507	\$412,826	\$451,176	\$116,705
Percentage of total assets	41.06%	23.12%	14.53%	6.54%
Percentage of interest-earning assets	46.00%	24.33%	16.29%	6.88%

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect 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.

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, 2004*

<i>(Dollars in Thousands)</i>	<i>Projected Changes (%)</i>		<i>Change in Amount</i>	
	<i>Projected Net Interest Income</i>	<i>Projected Economic Value of Equity</i>	<i>Net Interest Income</i>	<i>Economic Value of Equity</i>
<i>Change in Interest Rate (bps)</i>				
200	10.98 %	(5.13)%	\$ 12,097	\$(21,582)
100	5.49 %	(2.75)%	\$ 6,046	\$(11,598)
0	0.00 %	0.00 %	\$ —	\$ —
(100)	(5.62)%	3.22 %	\$( 6,198)	\$ 13,557
(200)	(11.36)%	6.94 %	\$(12,521)	\$29,204

In the above stress simulation, for a 100 basis point decline in interest rates, the Company may be exposed to a 5.62% decline in net interest income and a 3.22% increase in the economic value of equity. For a 100 basis point increase

in interest rates, net interest income may increase by 5.49%, but the economic value of equity may decrease by 2.75%. For a 200 basis point increase in interest rates, net interest income may increase by 10.98%, but economic value of equity may decrease by 5.13%.

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For a 200 basis point decrease in interest rates, net interest income may decrease by 11.36%, but economic value of equity may increase by 6.94%. All projected changes 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 loans and 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 loans-to-assets 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 2004, but the Company still had sufficient liquid assets to meet loan demand.

	December 31,		
	2004	2003	2002
Short-term investments/ total assets	5%	6%	12%
Core deposits/total assets	41%	40%	45%
Short-term non-core funding/total assets	33%	45%	40%
Short-term investments/ short-term non-core funding dependence	23%	20%	30%

	December 31,		
	2004	2003	2002
Net loans/total assets	72%	70%	67%
Investments/deposits	20%	30%	29%
Loans and investments/ deposits	109%	116%	105%
Off-balance sheet items/ total assets	15%	18%	17%

The net loans to total assets ratio increased to 72% in 2004. Despite fluctuations during the year, net loans grew faster than assets during the year. During the year, the ratio of net loans to total assets ranged primarily from 70% to 72%.

The investments to deposits ratio decreased to 20% in 2004. The loans and investments to deposits ratio decreased to 109%. Off-balance sheet items as a percentage of total assets decreased in 2004 to 15% from 18% in 2003. The total amount increased to \$479.6 million at December 31, 2004 from \$326.2 million at December 31, 2003. The increase was primarily due to a \$114.0 million increase in unused commitments. During the year, the percentage of off-balance sheet items to total assets ranged

primarily from 13% to 16%. The ratios of short-term non-core funding to total assets and short-term investments to short-term non-core funding dependence were 33% and 23%, respectively, at December 31, 2004, compared to 45% and 20%, respectively, at December 31, 2003.

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. On a quarterly basis, the Bank monitors foreign deposits and Brazilian deposits separately, 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 \$85.0 million in credit lines. In addition, the Company maintained eight master repurchase agreements, all of which can furnish liquidity to the Company in consideration of bond collateral.

The Company also can meet its liquidity needs through borrowings from the FHLB. The Company is eligible to borrow up to 25% of its total assets from the FHLB.

As of December 31, 2004, the Company had no material commitments for capital expenditures.

The Company raises capital in the form of deposits, borrowings (primarily FHLB advances and junior subordinated debentures) and equity, and expects to continue to rely upon deposits as the primary source of capital.

#### **Factors That May Affect Future Results of Operations**

In addition to other factors set forth herein, below is a discussion of certain factors that 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.

*Our concentrations in commercial real estate loans located primarily in Southern California could have adverse effects on credit quality.* Approximately 34.6% of the Bank's loan portfolio consists of commercial real estate loans, primarily in Southern California. As a result of this concentration, a deterioration of the Southern California commercial real estate market could have adverse consequences for the Bank. Among the factors that could contribute to such a decline are general economic conditions in Southern California, interest rates and local market construction and sales activity.

*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.

*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.

## Management's Discussion & Analysis of Results of Operations and Financial Condition

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 effect 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 nonperformance, 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 Arrangements

For a discussion of off-balance sheet arrangements, see "Item I. Business – Small Business Administration Guaranteed Loans" and "Item I. Business – Off-Balance Sheet Commitments," in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

### Contractual Obligations

The Company's contractual obligations as of December 31, 2004 are as follows:

<i>(In Thousands)</i>	<i>Less Than One Year</i>	<i>More Than One Year and Less Than Three Years</i>	<i>More Than Three Years and Less Than Five Years</i>	<i>More Than Five Years</i>	<i>Total</i>
<b>Contractual Obligations</b>					
Time deposits	\$ 998,077	\$ 24,770	\$ 8,680	\$ 173	\$1,031,700
Long-term debt obligations	—	30,000	6,000	87,967	123,967
Operating lease obligations	2,614	6,600	7,657	6,545	23,416
Total contractual obligations	\$1,000,691	\$ 61,370	\$22,337	\$94,685	\$1,179,083

### Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R (revised 2004), "Share-Based Payment." SFAS No. 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method that is currently used and requires that such transactions be accounted for using a fair value-based method and recognized as expense in the Consolidated Statement of Income. The effective date of SFAS No. 123R is for interim and annual periods beginning after June 15, 2005. The Company has been providing pro forma disclosures under SFAS No. 123. See "Notes to Consolidated Financial Statements, Note 1 – Summary of Significant Accounting Policies."

In March 2004, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF No. 03-1"). This EITF describes a model involving three steps: (1) determine whether an investment is impaired; (2) determine whether the impairment is other-than-temporary; and (3) recognize any impairment loss in earnings. The EITF also requires several additional disclosures for cost-method investments. In September 2004, the FASB approved the deferral of the effective date for EITF No. 03-1 pending reconsideration of implementation guidance relating to debt securities that are impaired solely due to market interest rate fluctuation. Adoption is not expected to have a material impact on our financial position or results of operations.

In December 2003, the American Institute of Certified Public Accountants ("AICPA") released Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable to credit quality. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Non-Monetary Assets, an Amendment of APB Opinion No. 29, 'Accounting for Non-Monetary Transactions.'" SFAS No. 153 is based on the principle that exchange of non-monetary assets should be measured based on the fair market value of the assets exchanged. SFAS No. 153 eliminates the exception of non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary asset exchanges in fiscal periods beginning after June 15, 2005. The Company is currently assessing the provisions of SFAS No. 153 and its impact on its consolidated financial statements.

### 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."

## Management's Report on Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

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

Management assessed the effectiveness of Hanmi's internal control over financial reporting as of December 31, 2004. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Hanmi's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2004, Hanmi maintained effective internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm who audited and reported on the consolidated financial statements of Hanmi, have issued a report on management's assessment of Hanmi's internal control over financial reporting as of December 31, 2004. The report expresses unqualified opinions on management's assessment and on the effectiveness of Hanmi's internal control over financial reporting as of December 31, 2004.

March 16, 2005



**The Board of Directors and Stockholders****Hanmi Financial Corporation:**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Hanmi Financial Corporation and subsidiary maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hanmi Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Hanmi Financial Corporation's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are

being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that the Hanmi Financial Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Hanmi Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Hanmi Financial Corporation and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 16, 2005 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

*Los Angeles, California  
March 16, 2005*

**Report of Independent Registered Public Accounting Firm****The Board of Directors and Stockholders****Hanmi Financial Corporation:**

We have audited the accompanying consolidated statements of financial condition of Hanmi Financial Corporation and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hanmi Financial Corporation and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hanmi Financial Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

**KPMG LLP**

*Los Angeles, California*

*March 16, 2005*

**Consolidated Statements of Financial Condition**

	December 31,	
(Dollars in Thousands)	2004	2003
<b>Assets</b>		
Cash and due from banks	\$ 55,164	\$ 62,595
Federal funds sold and securities purchased under agreements to resell	72,000	—
Cash and cash equivalents	127,164	62,595
Federal Reserve Bank stock	12,099	2,935
Federal Home Loan Bank stock	9,862	7,420
Securities held to maturity, at amortized cost (fair value: 2004 — \$1,093; 2003 — \$1,334)	1,090	1,328
Securities available for sale, at fair value	417,883	413,288
Loans receivable, net of allowance for loan losses of \$22,702 and \$13,349 at December 31, 2004 and 2003, respectively	2,230,992	1,222,945
Loans held for sale, at the lower of cost or fair value	3,850	25,454
Customers' liability on acceptances	4,579	3,930
Premises and equipment, net	19,691	8,435
Accrued interest receivable	10,029	6,686
Deferred income taxes	5,009	7,207
Servicing asset	3,846	2,364
Goodwill	209,643	1,831
Core deposit intangible	11,476	212
Bank-owned life insurance — cash surrender value	21,868	11,137
Other assets	15,107	9,372
<b>Total assets</b>	<b>\$3,104,188</b>	<b>\$1,787,139</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Non-interest-bearing	\$ 729,583	\$ 475,100
Interest-bearing:		
Savings	153,862	96,869
Money market checking	613,662	206,086
Time deposits of \$100,000 or more	756,580	388,944
Other time deposits	275,120	278,836
<b>Total deposits</b>	<b>2,528,807</b>	<b>1,445,835</b>
Accrued interest payable	7,100	4,403
Acceptances outstanding	4,579	3,930
Other borrowed funds	69,293	182,999
Junior subordinated debentures	82,406	—
Other liabilities	12,093	10,505
<b>Total liabilities</b>	<b>2,704,278</b>	<b>1,647,672</b>
<b>Commitments and contingencies (Notes 16 and 17)</b>		
<b>Shareholders' equity</b>		
Common stock, \$.001 par value; authorized 200,000,000 shares; issued and outstanding, 49,330,704 shares and 28,326,820 shares at December 31, 2004 and 2003, respectively	49	14
Additional paid-in capital	334,932	103,082
Accumulated other comprehensive income — unrealized gain on securities available for sale and interest rate swaps, net of income taxes of \$744 and \$220 at December 31, 2004 and 2003, respectively	1,035	386
Retained earnings	63,894	35,985
<b>Total shareholders' equity</b>	<b>399,910</b>	<b>139,467</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$3,104,188</b>	<b>\$1,787,139</b>

See accompanying notes to consolidated financial statements

**Consolidated Statements of Income**

(Dollars in Thousands, Except Per Share Data)	Years Ended December 31,		
	2004	2003	2002
<b>Interest income:</b>			
Interest and fees on loans	\$ 116,612	\$ 64,211	\$56,398
Interest on investments	17,372	12,410	11,363
Interest on term federal funds sold	—	225	630
Interest on federal funds sold	183	277	925
Total interest income	134,167	77,123	69,316
<b>Interest expense</b>	<b>32,617</b>	<b>20,796</b>	<b>21,345</b>
<b>Net interest income before provision for credit losses</b>	<b>101,550</b>	<b>56,327</b>	<b>47,971</b>
<b>Provision for credit losses</b>	<b>2,907</b>	<b>5,680</b>	<b>4,800</b>
<b>Net interest income after provision for credit losses</b>	<b>98,643</b>	<b>50,647</b>	<b>43,171</b>
<b>Non-interest income:</b>			
Service charges on deposit accounts	14,441	10,339	9,195
Trade finance fees	4,044	2,887	2,410
Remittance fees	1,653	952	786
Other service charges and fees	1,685	1,513	1,094
Bank-owned life insurance income	731	499	552
Increase in fair value of derivatives	232	35	1,368
Other income	1,681	840	659
Gain on sales of loans	2,997	2,157	1,875
Gain on sales of securities available for sale	134	1,094	3,265
Total non-interest income	27,598	20,316	21,204
<b>Non-interest expenses:</b>			
Salaries and employee benefits	33,540	21,214	17,931
Occupancy and equipment	8,098	5,198	4,330
Data processing	4,540	3,080	2,784
Advertising and promotional expense	3,001	1,635	1,523
Supplies and communication	2,433	1,496	1,466
Professional fees	2,068	1,167	1,003
Amortization of core deposit intangible	1,872	121	8
Impairment of securities	—	—	4,416
Other operating expense	8,961	5,414	4,872
Merger-related expenses	2,053	—	—
Total non-interest expenses	66,566	39,325	38,333
<b>Income before provision for income taxes</b>	<b>59,675</b>	<b>31,638</b>	<b>26,042</b>
<b>Provision for income taxes</b>	<b>22,975</b>	<b>12,425</b>	<b>9,012</b>
<b>Net income</b>	<b>\$36,700</b>	<b>\$ 19,213</b>	<b>\$17,030</b>
<b>Earnings per share:</b>			
Basic	\$ 0.87	\$ 0.68	\$ 0.62
Diluted	\$ 0.84	\$ 0.67	\$ 0.60
<b>Weighted-average shares outstanding:</b>			
Basic	42,268,964	28,092,708	27,647,570
Diluted	43,517,257	28,662,026	28,306,492

See accompanying notes to consolidated financial statements

## Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

(Dollars in Thousands)	Years Ended December 31, 2004, 2003 and 2002					
	Number of Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
<b>Balance, December 31, 2001</b>	25,124,458	\$25	\$ 81,078	\$1,003	\$ 22,767	\$104,873
Stock options exercised	444,044	1	1,468	—	—	1,469
Stock dividends	2,262,364	2	17,381	—	(17,382)	1
Cash paid for fractional shares	—	—	—	—	(7)	(7)
Comprehensive income:						
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
<b>Balance, December 31, 2002</b>	27,830,866	28	99,927	2,105	22,408	124,468
Stock options exercised	495,954	—	3,141	—	—	3,141
Cash dividends	—	—	—	—	(5,636)	(5,636)
Comprehensive income:						
Net income	—	—	—	—	19,213	19,213
Change in unrealized gain on securities available for sale and interest rate swaps, net of tax	—	—	—	(1,719)	—	(1,719)
Total comprehensive income						17,494
<b>Balance, December 31, 2003</b>	28,326,820	28	103,068	386	35,985	139,467
Stock options exercised	670,576	1	3,234	—	—	3,235
Warrants exercised	20,000	—	190	—	—	190
Stock issued through private placement	7,894,654	8	71,702	—	—	71,710
Stock issued in PUB acquisition	12,418,654	12	156,738	—	—	156,750
Cash dividends	—	—	—	—	(8,791)	(8,791)
Comprehensive income:						
Net income	—	—	—	—	36,700	36,700
Change in unrealized gain on securities available for sale and interest rate swaps, net of tax	—	—	—	649	—	649
Total comprehensive income						37,349
<b>Balance, December 31, 2004</b>	49,330,704	\$49	\$334,932	\$1,035	\$63,894	\$399,910

See accompanying notes to consolidated financial statements

**Consolidated Statements of Cash Flows**

(In Thousands)	Years Ended December 31,		
	2004	2003	2002
<b>Cash flows from operating activities:</b>			
Net income	\$ 36,700	\$ 19,213	\$ 17,030
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization of premises and equipment	2,447	1,559	1,397
Amortization of premiums and discounts on investments	3,246	121	22
Amortization of core deposit intangible	1,872	212	8
Provision for credit losses	2,907	5,680	4,800
Federal Reserve Bank stock and Federal Home Loan Bank stock dividend	(497)	(107)	(895)
Gain on sales of securities available for sale	(134)	(1,094)	(3,265)
Change in fair value of derivatives	(232)	(35)	(1,368)
Impairment loss on investment security held to maturity	—	—	4,416
Gain on sales of loans	(2,997)	(2,157)	(1,875)
Gain on sales of other real estate owned	—	(82)	—
Loss on sales of premises and equipment	15	67	—
Deferred tax provision (benefit)	6,573	(2,069)	(469)
Origination of loans held for sale	(53,855)	(45,858)	(33,226)
Proceeds from sales of loans held for sale	54,311	35,100	37,508
Change in:			
Decrease (increase) in accrued interest receivable	155	(1,153)	(125)
Increase in cash surrender value of bank-owned life insurance	(731)	(500)	(634)
Decrease (increase) in other assets	1,149	(1,832)	(2,045)
(Decrease) increase in accrued interest payable	(444)	1,018	(1,341)
(Decrease) increase in other liabilities	(12,751)	5,506	1,011
Net cash and cash equivalents provided by operating activities	37,733	13,588	20,949
<b>Cash flows from investing activities:</b>			
Proceeds from matured term federal funds sold	—	30,000	—
Proceeds from sale of Federal Home Loan Bank stock	5,031	—	—
Proceeds from matured or called securities available for sale	120,389	170,346	105,245
Proceeds from matured or called securities held to maturity	239	6,214	10,012
Proceeds from sale of securities available for sale	53,063	45,051	102,343
Proceeds from termination of interest rate swap	—	—	1,368
Proceeds from sale of other real estate owned	—	204	—
Net increase in loans receivable	(120,651)	(265,641)	(190,284)
Purchase of Federal Reserve Bank stock and Federal Home Loan Bank stock	(9,884)	(5,669)	(522)
Purchases of securities available for sale	(22,384)	(358,218)	(283,726)
Purchases of bank-owned life insurance	(10,000)	—	—
Purchases of premises and equipment, net	(2,049)	(2,031)	(1,832)
Acquisition of PUB, net of cash acquired	(63,498)	—	—
Net cash and cash equivalents used in investing activities	(49,743)	(379,744)	(257,396)

(In Thousands)	2004	Years Ended December 31,	
		2003	2002
<b>Cash flows from financing activities:</b>			
Increase in deposits	146,273	161,856	241,626
Issuance of junior subordinated debentures	82,406	—	—
Proceeds from exercise of stock options	3,235	3,141	1,469
Proceeds from exercise of stock warrants	190	—	—
Stock issued through private placement	71,710	—	—
Cash dividends paid	(7,740)	(4,220)	—
(Decrease) increase in proceeds from other borrowed funds	(219,495)	145,202	34,925
Cash paid for fractional shares on dividends	—	—	(7)
Net cash and cash equivalents provided by financing activities	76,579	305,979	278,013
Net increase (decrease) in cash and cash equivalents	64,569	(60,177)	41,566
Cash and cash equivalents, beginning of year	62,595	122,772	81,206
<b>Cash and cash equivalents, end of year</b>	<b>\$ 127,164</b>	<b>\$ 62,595</b>	<b>\$ 122,772</b>
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	\$ 29,920	\$ 19,778	\$ 22,686
Income taxes paid	\$ 25,400	\$ 9,469	\$ 9,125
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Transfer of loans to other real estate owned	\$ —	\$ 122	\$ —
Transfer of retained earnings to common stock and additional paid-in capital for stock dividend	\$ —	\$ —	\$ 17,382
Accrued dividend	\$ 2,467	\$ 1,416	\$ —
<b>Reconciliation of acquisition of PUB, net of cash acquired:</b>			
Fair value of assets acquired	\$1,383,782	\$ —	\$ —
Cash and cash equivalents acquired	(104,383)	—	—
Non-cash financing of purchase price and liabilities assumed:			
Issuance of common stock	(156,750)	—	—
Liabilities assumed	(1,059,151)	—	—
Acquisition of PUB, net of cash acquired	\$ 63,498	\$ —	\$ —

See accompanying notes to consolidated financial statements

## Notes to Consolidated Financial Statements

### Note 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. Hanmi Bank is a community bank conducting general business banking with its primary market encompassing the multi-ethnic population of Los Angeles, Orange, San Diego, San Francisco and Santa Clara counties. Hanmi Bank's full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. Hanmi Bank's client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered, FDIC-insured financial institution.

On April 30, 2004, the Company completed its acquisition of Pacific Union Bank ("PUB"), a \$1.2 billion (assets) commercial bank headquartered in Los Angeles that, like Hanmi, served primarily the Korean-American community. As of December 31, 2004, the Bank maintained a branch network of 23 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:

1. 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;
2. Securities that are bought and held principally for the purpose of selling them in the near future are classified as "trading securities" and reported at fair value. Unrealized gains and losses are recognized in earnings; and
3. Securities not classified as held-to-maturity or trading securities are classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of 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 using the effective interest method, 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 and a new cost basis established for the security.

The Company also has a minority investment of 4.99% 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

The Company accounts for derivatives in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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.

### 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. 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 \$2,172,000 and \$652,000 of servicing assets during 2004 and 2003, respectively, and amortized \$690,000 and \$352,000 during the years ended December 31, 2004 and 2003, 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 their 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 in interest income as a yield adjustment using the effective interest method. Discounts or premiums associated with purchased loans are accreted or amortized to interest income using the interest method over the contractual lives of the loans, adjusted for prepayments. Accretion of discounts and deferred loan fees is discontinued when loans are placed on non-accrual status.

Loans are placed on non-accrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. 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

## Notes to Consolidated Financial Statements

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, 2004, the allowance for loan losses is adequate to provide for probable losses inherent in the loan portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on previous loan loss experience; volume, growth and composition of the loan portfolio; the value of collateral; and current economic conditions. The Company's lending is concentrated in consumer, commercial, construction and real estate loans in the greater Los Angeles/Orange County area. Although management believes the level of the allowance as of December 31, 2004 is adequate to absorb probable losses inherent in the loan portfolio, a decline in the local economy may result in increasing losses that cannot reasonably be predicted at this date.

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

Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. The amount of impairment and any subsequent changes are recorded through the provision for

credit losses as an adjustment to the allowance for loan losses. Accounting standards require that an impaired loan be measured based on:

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

The 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 \$209.6 million and \$1.8 million as of December 31, 2004 and 2003, respectively. The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), effective January 1, 2002. SFAS No. 142 required that goodwill be recorded at the reporting unit level. Reporting units are defined as an operating segment. We have identified one reporting unit – our banking operations. SFAS No. 142 prohibits the amortization of goodwill but requires that it be tested for impairment at least annually, 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 value 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, 2004, 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 five 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, 2004. 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, 2004, management is not aware of any circumstances that would indicate impairment of the CDI assets, and no impairment charges were recorded through earnings in 2004.

#### 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," the Company's net income and earnings per share for the years ended December 31, 2004, 2003 and 2002 would have been reduced to the pro forma amounts indicated below:

<i>(Dollars in Thousands, Except Per Share Data)</i>			
	2004	2003	2002
<b>Net income:</b>			
As reported	\$36,700	\$19,213	\$17,030
Compensation expense	408	521	791
Pro forma	\$36,292	\$18,692	\$16,239
<b>Earnings per share:</b>			
As reported:			
Basic	\$ 0.87	\$ 0.68	\$ 0.62
Diluted	\$ 0.84	\$ 0.67	\$ 0.60
Pro forma:			
Basic	\$ 0.86	\$ 0.67	\$ 0.59
Diluted	\$ 0.83	\$ 0.65	\$ 0.57

The estimated weighted-average fair value of options granted was \$3.94 per share in 2004, \$3.30 per share in 2003 and \$2.52 per share in 2002. The weighted-average fair value of options granted under the Company's fixed stock option plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 1.40%, 0.00% and 0.00% in 2004, 2003 and 2002, respectively; expected volatility of 32.4%, 31.0% and 37.0% in 2004, 2003 and 2002; respectively; expected lives of 4.2 years, 4.5 years and 4.5 years in 2004, 2003 and 2002, respectively; and risk-free interest rates of 2.90%, 1.87% and 2.39% in 2004, 2003 and 2002, respectively.

## Notes to Consolidated Financial Statements

### Stock Split

On January 20, 2005, the Company's Board of Directors declared a two-for-one stock split, to be effected in the form of a 100 percent common stock dividend. The new shares were distributed on February 15, 2005 to shareholders of record on the close of business on January 31, 2005. All share and per share amounts have been restated to reflect the stock split for all periods presented.

### 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.

### Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net 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 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R (revised 2004), *"Share-Based Payment."* SFAS No. 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method that is currently used and requires that such transactions be accounted for using a fair value-based method and recognized as expense in the Consolidated Statement of Income. The effective date of SFAS No. 123R is for interim and annual periods beginning after June 15, 2005. The Company has been providing pro forma disclosures under SFAS No. 123, which are included in "Note 1 — Stock-Based Compensation."

In March 2004, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 03-1, *"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* ("EITF No. 03-1"). This EITF describes a model involving three steps: (1) determine whether an investment is impaired; (2) determine whether the impairment is other-than-temporary; and (3) recognize any impairment loss in earnings. The EITF also requires several additional disclosures for cost-method investments. In September 2004, the FASB approved the deferral of the effective date for EITF No. 03-1 pending reconsideration of implementation guidance relating to debt securities that are impaired solely due to market interest rate fluctuation. Adoption is not expected to have a material impact on our financial position or results of operations.

In December 2003, the American Institute of Certified Public Accountants ("AICPA") released Statement of Position 03-3, *"Accounting for Certain Loans or Debt Securities Acquired in a Transfer"*

("SOP 03-3"). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable to credit quality. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption in 2005 did not have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Non-Monetary Assets, an Amendment of APB Opinion No. 29, 'Accounting for Non-Monetary Transactions.'" SFAS No. 153 is based on the principle that exchange of non-monetary assets should be measured based on the fair market value of the assets exchanged. SFAS No. 153 eliminates the exception of non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary asset exchanges in fiscal periods beginning after June 15, 2005. The Company is currently assessing the provisions of SFAS No. 153 and its impact on its consolidated financial statements.

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

**Note 2 – Business Combination**

On April 30, 2004, the Company completed its acquisition of PUB and merged PUB with Hanmi Bank. The Company paid \$164.5 million in cash to acquire 5,537,431 of the PUB shares owned by Korea Exchange Bank. All of the remaining PUB shares were converted in the acquisition into shares of the Company's common stock based on an exchange ratio of 2.312 Hanmi shares for each PUB share.

In addition, all outstanding PUB employee stock options were converted into 137,414 options to purchase Hanmi stock valued at \$1.1 million in total. Based on Hanmi's average price of \$12.53 for the five-day trading period from April 28 through May 4, 2004, the total consideration paid for PUB was \$324.6 million and resulted in the recognition of goodwill aggregating \$207.8 million.

**Purchase Price and Acquisition Costs**

For purposes of the accompanying pro forma combined financial data, the purchase price has been estimated as follows (dollars in thousands, except share prices):

*(Dollars in Thousands; Except Share Prices)*

**Common stock:**

Number of shares of PUB stock outstanding as of April 30, 2004	10,908,821
Less shares acquired for cash	(5,537,431)
Number of shares of PUB stock to be exchange for Hanmi stock	5,371,390
Exchange ratio	2.312
Stock issued in PUB acquisition	12,418,654
Multiplied by Hanmi's average stock price for the period two days before and two days after the April 29, 2004 pricing of the merger agreement	\$ 12.53
	155,606

**Stock options:**

Estimated fair value of 137,414 Hanmi stock options to be issued in exchange for 59,443 PUB outstanding stock options, calculated using the Black-Scholes option pricing model, modified for dividends, with model assumptions estimated as of April 30, 2004 and a Hanmi stock price of \$12.53, the average stock price for the period two days before through two days after the April 29, 2004 pricing of the merger agreement	1,063
Cash	164,562

**Transaction costs:**

Cash	3,320
Stock warrants	145
Total estimated purchase price	\$ 324,696

**Notes to Consolidated Financial Statements**

For the purposes of these pro forma condensed combined financial statements, the purchase price estimated above has been allocated based on estimates of the fair values of the assets

acquired and liabilities assumed. The final valuation of net assets acquired will be completed as soon as possible but no later than one year from the acquisition date. To the extent estimates need to be adjusted, they will be adjusted.

(Dollars in Thousands)

Book value of net assets acquired	\$ 110,683
<b>Adjustments:</b>	
Adjustment to record acquired securities at estimated fair value	(1,489)
Adjustment to record acquired loans at estimated fair value	376
Adjustment to record acquired fixed assets at estimated fair value	5,459
Adjustment to record core deposit intangible asset	13,137
Adjustment to record various other assets at estimated fair value	15
Adjustment to record interest-bearing deposits at fair value	(264)
Adjustment to record other borrowings at fair value	(789)
Adjustment to record severance benefits associated with the elimination of positions, termination of certain contractual obligations of PUB and other miscellaneous adjustments	(4,512)
Adjustment to record deferred tax liability	(7,948)
Adjustment to record goodwill associated with the acquisition of PUB	210,028
<b>Total estimated purchase price</b>	<b>\$324,696</b>

The fair value of PUB net assets acquired was as follows:

(In Thousands)

**Assets:**

Cash and due from banks	\$ 27,483
Federal fund sold	76,900
Federal Home Loan Bank stock	6,256
Securities available for sale	157,905
Loans receivable, net of allowance for loan losses	865,743
Premises and equipment	11,668
Accrued interest receivable	3,498
Goodwill	207,812
Core deposit intangible	13,136
Other assets	13,381
<b>Total assets</b>	<b>\$1,383,782</b>

**Liabilities:**

Deposits	\$ 936,699
Borrowings	105,789
Other liabilities	16,663
<b>Total liabilities</b>	<b>\$ 1,059,151</b>
<b>Net assets acquired</b>	<b>\$ 324,631</b>

The core deposit intangible is being amortized over its estimated useful life of five years. None of the goodwill balance is expected to be deductible for income tax purposes.

Merger-related costs recognized as expenses during 2004 consist of employee retention bonuses, the costs of vacating duplicative branches within Hanmi's existing network and the impairment of fixed assets (primarily leasehold improvements) associated with such branches. Of the \$2,053,000 provided, \$777,000 was utilized and charged against the related liability in the 2004. The remaining balance of \$1,276,000 is anticipated to be utilized by the end of 2005, excluding certain lease commitments that may continue into 2006.

Certain costs (primarily PUB employee severance, data processing contract termination costs, and the costs of vacating duplicative branches within PUB's network) were recognized as liabilities assumed in the business combination or impairments of fixed assets associated with such branches. Accordingly, they have been considered part of the purchase price of PUB and recorded as an increase in the balance of goodwill. Of the \$4,515,000 provided, \$2,444,000 was utilized and charged against the related liability in 2004. The remaining balance of \$2,071,000 is anticipated to be utilized by the end of 2005, excluding certain lease commitments that may continue into 2009.

The Company incurred the following merger-related costs through December 31, 2004.

<i>(In Thousands)</i>	<i>Expensed</i>	<i>Included in Cost of Acquisition</i>
<b>Merger-related costs:</b>		
Employee termination costs	\$ 1,364	\$1,425
Contract termination costs	—	1,828
Leasehold termination costs	348	1,262
Asset impairments	341	—
<b>Total merger-related costs</b>	<b>\$2,053</b>	<b>\$4,515</b>

### Pro Forma Combined Financial Data Reflecting the PUB Acquisition

The Pro Forma Combined Income Statements presented below give effect to the acquisition of PUB as if it had been consummated as of January 1, 2003. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been completed as of January 1, 2003, nor is it necessarily indicative of future results of operations.

<i>(Dollars in Thousands; Except Per Share Data)</i>	<i>2004</i>	<i>2003</i>
Net interest income	\$121,259	\$90,819
Provision for credit losses	3,307	7,580
Non-interest income	33,366	33,399
Non-interest expenses	86,029	70,726
Provision for income taxes	25,110	18,190
<b>Net income</b>	<b>\$ 40,179</b>	<b>\$27,722</b>
<b>Weighted-average shares outstanding:</b>		
Basic	48,928,260	48,406,100
Diluted	49,760,374	49,557,118
<b>Earnings per share:</b>		
Basic	\$ 0.82	\$ 0.57
Diluted	\$ 0.81	\$ 0.56

### Note 4 – Securities

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

<i>(In Thousands)</i>	<i>Amortized Cost</i>	<i>Gross Unrealized Gain</i>	<i>Gross Unrealized Loss</i>	<i>Estimated Fair Value</i>
<b>2004</b>				
Municipal bonds	\$ 691	\$ —	\$ —	\$ 691
Mortgage-backed securities	399	3	—	402
	<b>\$1,090</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$1,093</b>
<b>2003</b>				
Municipal bonds	\$ 690	\$ —	\$ 1	\$ 689
Mortgage-backed securities	638	7	—	645
	<b>\$ 1,328</b>	<b>\$ 7</b>	<b>\$ 1</b>	<b>\$1,334</b>

### Note 3 – 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.

The following is a summary of the securities purchased under agreements to resell at December 31, 2004:

<i>(Dollars in Thousands)</i>	
Balance at year-end	\$10,000
Average balance outstanding during the year	\$ 55
Maximum amount outstanding at any month-end during the year	\$10,000
Weighted-average interest rate during the year	2.33%

## Notes to Consolidated Financial Statements

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

(In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<b>2004</b>				
Mortgage-backed securities	\$148,706	\$ 1,014	\$ 546	\$ 149,174
Collateralized mortgage obligations	93,172	236	869	92,539
U.S. Government agencies	89,345	381	49	89,677
Municipal bonds	71,771	1,938	93	73,616
Corporate bonds	8,380	76	12	8,444
Other	4,437	34	38	4,433
	\$ 415,811	\$3,679	\$1,607	\$417,883
<b>2003</b>				
Mortgage-backed securities	\$ 117,139	\$ 830	\$ 485	\$ 117,484
Collateralized mortgage obligations	125,491	274	1,669	124,096
U.S. Government agencies	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

The amortized cost and estimated fair value of investment securities at December 31, 2004, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have

contractual maturities through 2034, 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.

(In Thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 4,261	\$ 4,261	\$ —	\$ —
Over one year through five years	71,120	71,340	—	—
Over five years through ten years	32,450	32,749	—	—
Over ten years	65,664	67,382	691	691
	173,495	175,732	691	691
Mortgage-backed securities	148,706	149,174	399	402
Collateralized mortgage obligations	93,172	92,539	—	—
Asset-backed securities	438	438	—	—
	242,316	242,151	399	402
	\$ 415,811	\$417,883	\$1,090	\$1,093

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, were as follows as of December 31, 2004:

(In Thousands)	Less than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>Available for sale:</b>						
Mortgage-backed securities	\$ 135	\$22,747	\$ 411	\$37,428	\$ 546	\$ 60,175
Collateralized mortgage obligations	264	13,780	605	39,824	869	53,604
U.S. Government agency securities	49	14,883	—	—	49	14,883
Municipal bonds	—	—	93	3,775	93	3,775
Corporate bonds	12	3,103	—	—	12	3,103
Other	—	—	38	1,962	38	1,962
	\$460	\$54,513	\$1,147	\$82,989	\$1,607	\$137,502



All individual securities that have been in a continuous unrealized loss position for 12 months or longer at December 31, 2004 had investment grade ratings upon purchase. The issuers of these securities have not, to our knowledge, established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status at December 31, 2004. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, the Company has the ability, and management intends to hold these securities until their fair values recover to cost. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2004 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2004 are warranted.

Securities with carrying values of \$307.5 million and \$278.5 million as of December 31, 2004 and 2003, 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. ("WorldCom") corporate bond in its available for sale portfolio with an amortized carrying value of \$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 \$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 \$4.0 million par value of this bond and recognized gains of \$782,000. In 2004, the Company sold its remaining WorldCom securities, recognizing a gain of \$100,000.

There were \$0.1 million, \$1.1 million and \$3.3 million in net realized gains on sales of securities available for sale during the years ended December 31, 2004, 2003 and 2002, respectively. During 2004, \$983,000 (\$713,000 net of tax) of unrealized losses arose during

the year and were included in comprehensive income and \$167,000 (\$122,000 net of tax) of previously unrealized losses were realized in earnings. In 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 were realized in earnings.

#### Note 5 – Loans Receivable and Allowance for Loan Losses

Loans receivable consisted of the following at December 31:

<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>
<b>Real estate loans:</b>		
Commercial property	\$ 783,539	\$ 397,853
Construction	92,521	43,047
Residential property	80,786	58,477
Total real estate loans	956,846	499,377
Commercial and industrial loans	1,214,419	685,557
Consumer loans	87,526	54,878
Total gross loans	2,258,791	1,239,812
Allowance for loans losses	(22,702)	(13,349)
Deferred loan fees	(5,097)	(3,518)
Loans receivable, net	\$2,230,992	\$1,222,945

At December 31, 2004 and 2003, the Company serviced loans sold to unaffiliated parties in the amounts of \$173.7 million and \$97.9 million, respectively.

Changes in loan servicing rights, net of amortization, were as follows:

	<i>December 31,</i>	
<i>(In Thousands)</i>	<i>2004</i>	<i>2003</i>
Balance, beginning of year	\$2,364	\$2,064
Additions	2,172	652
Amortization	(690)	(352)
Balance, end of year	\$3,846	\$2,364

## Notes to Consolidated Financial Statements

Activity in the allowance for loan losses and reserve for credit losses was as follows:

(In Thousands)	As of and for the Years Ended December 31,								
	2004			2003			2002		
	Allowance for Loan Losses	Reserve for Credit Losses	Total	Allowance for Loan Losses	Reserve for Credit Losses	Total	Allowance for Loan Losses	Reserve for Credit Losses	Total
Balance, beginning of year	\$ 13,349	\$ 1,385	\$ 14,734	\$ 11,254	\$ 1,015	\$ 12,269	\$ 9,408	\$ 656	\$ 10,064
Allowance for loan losses acquired in PUB acquisition	10,566	—	10,566	—	—	—	—	—	—
Provision charged to operating expense	2,492	415	2,907	5,310	370	5,680	4,441	359	4,800
Loans charged off	(5,485)	—	(5,485)	(4,423)	—	(4,423)	(3,571)	—	(3,571)
Recoveries, net of charge-offs	1,780	—	1,780	1,208	—	1,208	976	—	976
Balance, end of year	\$22,702	\$1,800	\$24,502	\$13,349	\$1,385	\$14,734	\$11,254	\$1,015	\$12,269

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

(In Thousands)	December 31,	
	2004	2003
Recorded investment in impaired loans	\$ 7,653	\$ 6,285
Related allowance for loan losses	\$ 3,039	\$ 2,972
Impaired loans without specific allowances	\$ 3,262	\$ 392

The average recorded investment in impaired loans during the years ended December 31, 2004, 2003 and 2002 was \$9.9 million, \$6.4 million and \$4.8 million, respectively. Interest income of \$350,000, \$204,000 and \$273,000 was recognized on impaired loans during the years ended December 31, 2004, 2003 and 2002, respectively.

Loans on non-accrual status totaled \$5.8 million and \$8.1 million at December 31, 2004 and 2003, respectively. If interest on non-accrual loans had been recognized at the original interest rates, interest income would have increased \$678,000, \$362,000 and \$203,000 during the years ended December 31, 2004, 2003 and 2002, 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 \$208,000 and \$557,000 at December 31, 2004 and 2003, respectively. Restructured loans totaled \$2.6 million and \$640,000 at December 31, 2004 and 2003, respectively.

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.

(In Thousands)	December 31,	
	2004	2003
Outstanding balance, beginning of year	\$ 885	\$ 2,645
Credit granted, including renewals	951	127
Repayments	(284)	(1,887)
Outstanding balance, end of year	\$ 1,552	\$ 885

Income from these loans totaled \$70,000 and \$153,000 for the years ended December 31, 2004 and 2003, respectively, and is reflected in the accompanying Consolidated Statements of Income.

### Note 6 – Premises and Equipment

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

(In Thousands)	December 31,	
	2004	2003
Land	\$ 6,120	\$ 1,820
Buildings and improvements	7,354	3,034
Furniture and equipment	11,116	8,052
Leasehold improvements	7,845	5,826
	32,435	18,732
Accumulated depreciation and amortization	(12,744)	(10,297)
Total premises and equipment, net	\$ 19,691	\$ 8,435

### Note 7 – Deposits

Time deposits by maturity were as follows:

(In Thousands)	December 31,	
	2004	2003
Less than three months	\$ 534,394	\$ 429,129
After three months to six months	289,134	116,983
After six months to twelve months	174,548	99,094
After twelve months	33,624	22,574
Total time deposits	\$ 1,031,700	\$ 667,780

A summary of interest expense on deposits was as follows for the years ended December 31, 2004, 2003 and 2002:

(In Thousands)	2004	2003	2002
Money market checking	\$ 8,098	\$ 2,584	\$ 3,036
Savings	1,790	1,894	2,632
Time deposits of \$100,000 or more	10,966	7,415	7,838
Other time deposits	5,414	7,354	7,034
Total interest expense on deposits	\$26,268	\$19,247	\$20,540

#### Note 8 – Other Borrowed Funds

Other borrowed funds consisted of the following:

(In Thousands)	December 31,	
	2004	2003
FHLB advances	\$66,363	\$148,400
Note issued to U.S. Treasury	2,930	3,104
Federal funds purchased and securities sold under agreements to resell	—	31,495
Total other borrowed funds	\$69,293	\$182,999

FHLB advances represent collateralized obligations with the FHLB of San Francisco, and are summarized by contractual maturity as follows:

(In Thousands)	Amount
Year	
2005	\$25,000
2006	10,000
2007	20,000
2008	—
2009	6,000
Thereafter	5,363
	\$66,363

The Company has pledged investment securities available for sale with a carrying value of \$68.8 million as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is \$757.1 million, of which \$690.7 million remained available as of December 31, 2004.

For the years ended December 31, 2004, 2003 and 2002, interest expense on other borrowed funds totaled \$3,305,000, \$1,549,000 and \$805,000, respectively, and the weighted-average interest rates were 2.14%, 2.45% and 3.68%, respectively.

In 2004, the Company obtained additional lines of credit of \$18.0 million. Total credit lines for borrowing amounted to \$85.0 million at December 31, 2004.

#### Note 9 – Junior Subordinated Debentures

During the first half of 2004, the Company issued two junior subordinated notes bearing interest at three-month London InterBank Offered Rate (“LIBOR”) plus 2.90% totaling \$61.8 million and one junior subordinated note bearing interest at three-month LIBOR plus 2.63% totaling \$20.6 million. The Company’s outstanding subordinated debentures related to these offerings, the proceeds of which were used to finance the purchase of PUB, totaled \$82.4 million at December 31, 2004. For the year ended December 31, 2004, interest expense on the junior subordinated debentures totaled \$3,044,000 with a weighted-average interest rate of 4.41%.

#### Note 10 – Income Taxes

A summary of income tax provision for the years ended December 31, 2004, 2003 and 2002 follows:

(In Thousands)	2004	2003	2002
<b>Current:</b>			
Federal	\$16,010	\$10,852	\$8,410
State	6,271	3,642	1,071
	22,281	14,494	9,481
<b>Deferred:</b>			
Federal	1,032	(1,732)	(390)
State	(338)	(337)	(79)
	694	(2,069)	(469)
Provision for income taxes	\$22,975	\$12,425	\$9,012

As of December 31, 2004 and 2003, the Federal and state deferred tax assets are as follows:

(In Thousands)	December 31,	
	2004	2003
<b>Deferred tax assets:</b>		
Credit loss provision	\$11,232	\$6,754
Depreciation	816	667
State taxes	1,475	895
Other	42	31
Total deferred tax assets	13,565	8,347
<b>Deferred tax liabilities:</b>		
Purchase accounting	(7,022)	(142)
Unrealized gain on securities available for sale and interest rate swaps	(744)	(220)
Other	(790)	(98)
Total deferred tax liabilities	(8,556)	(460)
Valuation allowance	—	(680)
Net deferred tax assets	\$5,009	\$7,207

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.

## Notes to Consolidated Financial Statements

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:

	2004	2003	2002
Statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefits	6.5%	6.6%	2.4%
Tax-exempt municipal securities	(1.8%)	(1.5%)	(1.1%)
Reversal of valuation allowance	(0.7%)	—	—
Other	(0.5%)	(0.8%)	(1.7%)
Effective tax rate	38.5%	39.3%	34.6%

At December 31, 2004, net current taxes receivable of \$2.4 million were included in Other Assets in the Consolidated Statements of Financial Condition. At December 31, 2003,

net current taxes payable of \$5.0 million were included in Other Liabilities in the Consolidated Statements of Financial Condition.

### Note 11 – Shareholders' Equity

#### Stock Options

The Bank adopted a Stock Option Plan in 1992, which was replaced by the Hanmi Financial Corporation Year 2000 Stock Option Plan (the "Plan"), under which options to purchase shares of the Company's common stock may be granted to key employees and directors. 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:

	2004		2003		2002	
	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	1,500,064	\$ 5.52	2,137,012	\$5.32	2,612,846	\$ 6.41
Options granted	1,141,000	\$14.63	80,000	\$8.75	80,000	\$ 7.75
Options assumed in PUB acquisition	137,414	\$ 5.11	—	\$ —	—	\$ —
Options exercised	(670,576)	\$ 4.82	(495,954)	\$4.53	(444,044)	\$ 3.31
Options cancelled/expired	(139,066)	\$ 9.61	(220,994)	\$6.99	(111,790)	\$ 7.01
Options outstanding, end of year	1,968,836	\$10.72	1,500,064	\$5.52	2,137,012	\$5.32
Options exercisable at year-end	487,242	\$ 6.10	655,154	\$5.26	771,368	\$4.66

Exercise Prices	Options Outstanding		Options Exercisable
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Outstanding
\$2.76	35,462	0.8 years	35,462
\$3.27	28,482	5.8 years	28,482
\$3.89	292,992	5.7 years	109,872
\$4.10	4,272	1.4 years	4,272
\$4.36	4,102	1.6 years	4,102
\$7.04	407,542	6.6 years	191,068
\$7.52	11,328	2.7 years	11,328
\$7.92	18,032	4.0 years	18,032
\$8.75	80,000	8.5 years	80,000
\$10.44	4,624	4.2 years	4,624
\$12.85	14,000	9.4 years	—
\$13.35	20,000	9.5 years	—
\$13.52	694,000	9.2 years	—
\$15.56	4,000	9.8 years	—
\$17.17	350,000	9.8 years	—
	1,968,836		487,242

The number and price per share of outstanding options have been adjusted to reflect the stock dividends in January 2005 and 2002.

#### Stock Warrants

In 2004, the Company issued stock warrants to affiliates of Castle Creek Financial LLC ("Castle Creek") for services rendered in connection with the placement of the Company's equity securities. Under the terms of the warrants, the warrant holders can purchase a total of 508,558 shares of common stock at an exercise price of \$9.50 per share. The warrants were immediately exercisable and expire after five years. During 2004, 20,000 shares of common stock were issued for the exercise of stock warrants.

### Note 12 – 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 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2004 and 2003, the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2004, 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 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. 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 were as follows:

(Dollars in Thousands)	Amount	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as “Well Capitalized”	
		Ratio	Amount	Ratio	Amount	Ratio	
<b>December 31, 2004</b>							
Total capital (to risk-weighted assets):							
Company	\$281,684	11.98%	\$ 188,173	8.00%	N/A	N/A	
Bank	\$277,075	11.80%	\$ 187,921	8.00%	\$ 234,901	10.00%	
Tier 1 capital (to risk-weighted assets):							
Company	\$ 257,182	10.93%	\$ 94,087	4.00%	N/A	N/A	
Bank	\$252,573	10.75%	\$ 93,960	4.00%	\$140,940	6.00%	
Tier 1 capital (to average assets):							
Company	\$257,182	8.93%	\$ 115,235	4.00%	N/A	N/A	
Bank	\$252,573	8.78%	\$ 115,055	4.00%	\$ 143,818	5.00%	
<b>December 31, 2003</b>							
Total capital (to risk-weighted assets):							
Company	\$151,336	11.13%	\$ 108,757	8.00%	N/A	N/A	
Bank	\$150,547	11.09%	\$108,630	8.00%	\$ 135,788	10.00%	
Tier 1 capital (to risk-weighted assets):							
Company	\$136,602	10.05%	\$ 54,379	4.00%	N/A	N/A	
Bank	\$135,813	10.00%	\$ 54,315	4.00%	\$ 81,473	6.00%	
Tier 1 capital (to average assets):							
Company	\$136,602	7.80%	\$ 70,088	4.00%	N/A	N/A	
Bank	\$ 135,813	7.75%	\$ 70,067	4.00%	\$ 87,584	5.00%	

The average reserve balance required to be maintained with the Federal Reserve Bank was \$1.5 million as of December 31, 2004 and 2003.

## Notes to Consolidated Financial Statements

### Note 13 – Earnings Per Share

The Company declared a 100% stock dividend on January 20, 2005 and a 9% stock dividend on February 20, 2002.

The following is a reconciliation of the numerators and denominators (adjusted for the 100% stock dividend in January 2005 and the 9% stock dividend in 2002) of the basic and diluted per share computations for the years ended December 31, 2004, 2003 and 2002:

	Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
<b>2004:</b>			
Basic EPS – income available to common shareholders	\$36,700	42,268,964	\$ 0.87
Effect of dilutive securities – options and warrants	–	1,248,293	(0.03)
Diluted EPS – income available to common shareholders	\$36,700	43,517,257	\$ 0.84
<b>2003:</b>			
Basic EPS – income available to common shareholders	\$ 19,213	28,092,708	\$ 0.68
Effect of dilutive securities – options	–	569,318	(0.01)
Diluted EPS – income available to common shareholders	\$ 19,213	28,662,026	\$ 0.67
<b>2002:</b>			
Basic EPS – income available to common shareholders	\$ 17,030	27,647,570	\$ 0.62
Effect of dilutive securities – options	–	658,922	(0.02)
Diluted EPS – income available to common shareholders	\$ 17,030	28,306,492	\$ 0.60

### Note 14 – Employee Benefits

The Company has profit sharing and section 401(k) plans 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 to the profit sharing plan in 2004, 2003 or 2002.

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, 2004, 2003 and 2002 of \$858,000, \$553,000 and \$524,000, respectively.

In 2001 and 2004, the Company purchased single premium life insurance policies 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.

### Note 15 – Derivative Financial Instruments

During 2004, the Company entered into one interest rate swap agreement, wherein the Company received a fixed rate of 7.29%, at quarterly intervals, and paid Prime-based floating rates, at quarterly intervals, on a total notional amount of \$10.0 million. This swap agreement matures in 2009 and was designated as a cash flow hedge for accounting purposes. The total notional amount of interest rate swaps was \$70.0 million as of December 31, 2004. During 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 \$60.0 million. All four of the swap agreements mature in 2008. These swaps were designated as hedges for accounting purposes.

As of December 31, 2004, the fair value of the interest rate swaps was in an unfavorable position of \$293,000. A total of (\$170,000), net of tax, was included in Other Comprehensive Income. 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, was included in Other Comprehensive Income. Income of \$19,000 and \$35,000 related to hedge ineffectiveness was recognized in 2004 and 2003, respectively.

In 2004, the Bank offered a certificate of deposit (“CD”) product that pays interest tied to the movement in the Standard & Poors 500 Index. The economic characteristics and risks of the embedded option are not clearly and closely related to the CD. Therefore, the embedded option is separated from the CD and accounted for separately in liabilities. As of December 31, 2004, the fair value of the embedded option was \$1,396,000 and the change in the liability during 2004 was \$242,000. The change was recognized in earnings.

To economically hedge the interest risk, the Bank entered into an agreement to purchase an equity swap. As of December 31, 2004, the fair value of the equity swap was \$212,000, which was also equal to the change during the year. The change was recognized in earnings.

**Note 16 – Commitments and Contingencies**

The Company leases its premises under non-cancelable operating leases. At December 31, 2004, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, are as follows for the years ended December 31:

<i>(In Thousands)</i>	
<i>Year</i>	<i>Amount</i>
2005	\$ 2,614
2006	2,567
2007	2,286
2008	1,747
2009	1,112
Thereafter	6,545
	<u>\$16,871</u>

Rental expenses recorded under such leases in 2004, 2003 and 2002 amounted to \$3.2 million, \$2.0 million and \$1.8 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 in-house or 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.

**Note 17 – Off-Balance Sheet Commitments**

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.

## Notes to Consolidated Financial Statements

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

(In Thousands)	December 31,	
	2004	2003
Commitments to extend credit	\$367,708	\$253,722
Standby letters of credit	47,901	34,434
Commercial letters of credit	49,699	34,261
Unused credit card lines	14,324	3,801
<b>Total undisbursed loan commitments</b>	<b>\$479,632</b>	<b>\$326,218</b>

### Note 18 – 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:

(In Thousands)	December 31, 2004		December 31, 2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 127,164	\$ 127,164	\$ 62,595	\$ 62,595
Federal Reserve Bank stock	12,099	12,099	2,935	2,935
Federal Home Loan Bank stock	9,862	9,862	7,420	7,420
Securities held to maturity	1,090	1,093	1,328	1,334
Securities available for sale	417,883	417,883	413,288	413,288
Loans receivable, net	2,230,992	2,229,096	1,222,945	1,226,300
Loans held for sale	3,850	4,026	25,454	25,501
Accrued interest receivable	10,029	10,029	6,686	6,686
Interest rate swaps	(293)	(293)	253	253
Equity swap	212	212	—	—
<b>Liabilities:</b>				
Non-interest-bearing deposits	729,853	729,853	475,100	475,100
Interest-bearing deposits	1,799,224	1,799,224	970,735	977,670
Other borrowed funds and junior subordinated debentures	151,699	153,541	182,999	184,497
Accrued interest payable	7,100	7,100	4,403	4,403
Embedded derivative	1,396	1,396	—	—



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

(a) *Cash and Cash Equivalents* – The carrying amounts approximate fair value due to the short-term nature of these instruments.

(b) *Federal Reserve Bank Stock and Federal Home Loan Bank Stock* – The carrying amounts approximate fair value as the stock may be resold to the issuer at carrying value.

(c) *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.

(d) *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, 2004 and 2003 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.

(e) *Accrued Interest Receivable* – The carrying amount of accrued interest receivable approximates its fair value.

(f) *Deposits* – The fair value of non-maturity deposits is the amount payable on demand at the reporting date. Non-maturity deposits include non-interest-bearing demand deposits, savings accounts and money market checking. 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.

(g) *Other Borrowed Funds* – Discounted cash flows have been used to value other borrowed funds.

(h) *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, 2004 and 2003.

### Note 19 – Condensed Financial Information of Parent Company

#### Statements of Financial Condition

	December 31,	
(In Thousands)	2004	2003
<b>Assets:</b>		
Cash	\$ 5,376	\$ 1,454
Receivable from Hanmi Bank	455	231
Investment in Hanmi Bank	475,302	138,678
Investment in unconsolidated subsidiaries	2,986	511
Other assets	1,799	1,081
Total assets	\$485,918	\$141,955
<b>Liabilities and shareholders' equity:</b>		
Liabilities:		
Junior subordinated debentures	\$ 82,406	\$ —
Other liabilities	3,602	2,488
Shareholders' equity	399,910	139,467
Total liabilities and shareholders' equity	\$485,918	\$141,955

#### Statements of Income

	Years ended December 31,		
(In Thousands)	2004	2003	2002
Equity in earnings of Hanmi Bank	\$ 39,574	\$19,578	\$ 17,371
Other expenses, net	(4,673)	(602)	(521)
Income tax benefit	1,799	237	180
Net income	\$36,700	\$ 19,213	\$17,030

**Notes to Consolidated Financial Statements****Statements of Cash Flows**

(In Thousands)	Years Ended December 31,		
	2004	2003	2002
<b>Cash flows from operating activities:</b>			
Net income	\$ 36,700	\$ 19,213	\$17,030
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Earnings of Hanmi Bank	(39,574)	(19,578)	(17,371)
(Increase) decrease in receivable from Hanmi Bank	(224)	(231)	368
Increase in other assets	(718)	(1,968)	(11)
Increase in other liabilities	132	1,065	6
Net cash (used in) provided by operating activities	(3,684)	(1,499)	22
<b>Cash flows from investing activities:</b>			
Dividends received from Hanmi Bank	11,990	2,300	—
Capital contribution to Hanmi Bank	(80,000)	—	—
Acquisition of Pacific Union Bank	(71,710)	—	—
Purchase of investment in unconsolidated subsidiaries	(2,475)	(161)	—
Net cash (used in) provided by investing activities	(142,195)	2,139	—
<b>Cash flows from financing activities:</b>			
Issuance of junior subordinated debentures	82,406	—	—
Proceeds from exercise of stock options	3,425	3,141	1,469
Stock issued through private placement	71,710	—	—
Cash dividends paid	(7,740)	(4,220)	(7)
Net cash provided by (used in) financing activities	149,801	(1,079)	1,462
Net increase (decrease) in cash	3,922	(439)	1,484
Cash, beginning of year	1,454	1,893	409
Cash, end of year	\$ 5,376	\$ 1,454	\$ 1,893

**Note 20 – Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data follows:

	March 31	June 30	September 30	December 31
<b>2004</b>				
Net interest income	\$16,828	\$23,974	\$ 29,815	\$30,933
Provision for credit losses	\$ 900	\$ 850	\$ —	\$ 1,157
Net income	\$ 6,386	\$ 7,545	\$ 11,069	\$ 11,700
Basic earnings per share	\$ 0.23	\$ 0.18	\$ 0.23	\$ 0.24
Diluted earnings per share	\$ 0.22	\$ 0.18	\$ 0.22	\$ 0.23
<b>2003</b>				
Net interest income	\$12,058	\$13,680	\$14,290	\$ 16,298
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	\$ 0.15	\$ 0.18	\$ 0.18	\$ 0.18
Diluted earnings per share	\$ 0.15	\$ 0.18	\$ 0.17	\$ 0.18

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