

HANMI FINANCIAL CORP

Form 10-Q

May 10, 2006

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2006
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From _____ To _____
Commission File Number: 000-30421
HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

95-4788120

(State or Other Jurisdiction of Incorporation or Organization)

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

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

90010

(Address of Principal Executive Offices)

(Zip Code)

(213) 382-2200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of May 1, 2006, there were 48,872,578 outstanding shares of the issuer's Common Stock.

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)*(Dollars in Thousands)*

	March 31,	December
	2006	31,
		2005
ASSETS		
Cash and Due From Banks	\$ 97,780	\$ 103,477
Federal Funds Sold and Securities Purchased Under Agreements to Resell		60,000
Cash and Cash Equivalents	97,780	163,477
Federal Reserve Bank Stock	12,350	12,350
Federal Home Loan Bank Stock	12,380	12,237
Securities Held to Maturity, at Amortized Cost (Fair Value: 2006 \$1,039; 2005 \$1,051)	1,039	1,049
Securities Available for Sale, at Fair Value	429,845	442,863
Loans Receivable, Net of Allowance for Loan Losses of \$26,703 and \$24,963 at March 31, 2006 and December 31, 2005, Respectively	2,640,725	2,468,015
Loans Held for Sale, at the Lower of Cost or Fair Value	1,357	1,065
Customers Liability on Acceptances	14,010	8,432
Premises and Equipment, Net	20,565	20,784
Accrued Interest Receivable	14,398	14,120
Other Real Estate Owned	545	
Deferred Income Taxes	9,344	9,651
Servicing Asset	4,035	3,910
Goodwill	209,058	209,058
Core Deposit Intangible	8,066	8,691
Bank-Owned Life Insurance	22,932	22,713
Other Assets	16,555	15,837
TOTAL ASSETS	\$ 3,514,984	\$ 3,414,252

LIABILITIES AND SHAREHOLDERS EQUITY**LIABILITIES:**

Deposits:

Noninterest-Bearing	\$ 748,530	\$ 738,618
Interest-Bearing:		
Savings	114,336	121,574
Money Market Checking	495,365	526,171
Time Deposits of \$100,000 or More	1,188,982	1,161,950
Other Time Deposits	271,653	277,801
Total Deposits	2,818,866	2,826,114
Accrued Interest Payable	12,734	11,911

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Acceptances Outstanding	14,010	8,432
Other Borrowed Funds	131,533	46,331
Junior Subordinated Debentures	82,406	82,406
Other Liabilities	16,231	12,281
Total Liabilities	3,075,780	2,987,475
SHAREHOLDERS EQUITY:		
Common Stock, \$.001 Par Value; Authorized 200,000,000 Shares; Issued 50,019,216 Shares (48,856,216 Outstanding) at March 31, 2006 and Issued 49,821,798 Shares (48,658,798 Outstanding) at December 31, 2005	50	50
Additional Paid-In Capital	341,027	339,991
Unearned Compensation		(1,150)
Accumulated Other Comprehensive Loss Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of (\$2,947) and (\$1,671) at March 31, 2006 and December 31, 2005, Respectively	(5,886)	(4,383)
Retained Earnings	124,054	112,310
	459,245	446,818
Less Treasury Stock, at Cost; 1,163,000 Shares at March 31, 2006 and December 31, 2005	(20,041)	(20,041)
Total Shareholders Equity	439,204	426,777
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 3,514,984	\$ 3,414,252

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**HANMI FINANCIAL CORPORATION AND SUBSIDIARY**
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)*(Dollars in Thousands, Except Per Share Data)*

	Three Months Ended	
	March 31,	
	2006	2005
INTEREST INCOME:		
Interest and Fees on Loans	\$ 52,637	\$ 38,226
Interest on Investments	5,099	4,648
Interest on Federal Funds Sold	289	335
Total Interest Income	58,025	43,209
INTEREST EXPENSE:		
Interest on Deposits	19,591	9,811
Interest on Borrowings	2,089	1,536
Total Interest Expense	21,680	11,347
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	36,345	31,862
Provision for Credit Losses	2,960	136
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	33,385	31,726
NON-INTEREST INCOME:		
Service Charges on Deposit Accounts	4,231	3,730
Trade Finance Fees	1,071	945
Remittance Fees	488	468
Other Service Charges and Fees	534	579
Bank-Owned Life Insurance Income	218	205
Increase in Fair Value of Derivatives	225	419
Other Income	643	621
Gain on Sales of Loans	839	308
Gain on Sales of Securities Available for Sale	5	82
Total Non-Interest Income	8,254	7,357
NON-INTEREST EXPENSES:		
Salaries and Employee Benefits	9,161	9,167
Occupancy and Equipment	2,318	2,231
Data Processing	1,215	1,165
Professional Fees	668	479
Advertising and Promotion	646	694

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Supplies and Communication	636	579
Amortization of Core Deposit Intangible	625	732
Decrease in Fair Value of Embedded Options	102	573
Other Operating Expenses	2,068	1,785
Total Non-Interest Expenses	17,439	17,405
INCOME BEFORE INCOME TAXES	24,200	21,678
Income Taxes	9,398	8,346
NET INCOME	\$ 14,802	\$ 13,332
EARNINGS PER SHARE:		
Basic	\$ 0.30	\$ 0.27
Diluted	\$ 0.30	\$ 0.27
WEIGHTED-AVERAGE SHARES OUTSTANDING:		
Basic	48,714,435	49,460,375
Diluted	49,318,397	50,247,408
DIVIDENDS DECLARED PER SHARE	\$ 0.06	\$ 0.05

See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND
COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(Dollars in Thousands)

	Common Stock - Number of Shares			Shareholders' Equity				Total Shareholders' Equity		
	Issued	Treasury Stock	Outstanding Stock	Additional Common Stock Paid-in Capital	Unearned Compensation	Other Comprehensive Income (Loss)	Retained Earnings		Treasury Stock, at Cost	
BALANCE DECEMBER 31, 2004	49,330,704		49,330,704	\$ 49	\$ 334,932	\$	\$ 1,035	\$ 63,894	\$	\$ 399,910
Exercises of Stock Options	190,973		190,973	1	1,310					1,311
Restricted Stock Award	100,000		100,000		1,815	(1,815)				
Share-Based Compensation Expense							393			393
Tax Benefit from Exercises of Stock Options					333					333
Cash Dividends								(2,481)		(2,481)
Comprehensive Income:										
Net Income								13,332		13,332
Change in Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Tax								(4,348)		(4,348)
Total Comprehensive Income										8,984
	49,621,677		49,621,677	\$ 50	\$ 338,390	\$ (1,422)	\$ (3,313)	\$ 74,745	\$	\$ 408,450

**BALANCE
MARCH 31,
2005****BALANCE
DECEMBER
31, 2005**

	49,821,798	(1,163,000)	48,658,798	\$ 50	\$ 339,991	\$ (1,150)	\$ (4,383)	\$ 112,310	\$ (20,041)	\$ 426,777
Cumulative Adjustment Share-Based Compensation Exercises of Stock Options and Stock Warrants	197,418		197,418		1,522					1,522
Share-Based Compensation Expense Tax Benefit from Exercises of Stock Options					101					101
Cash Dividends					329			(3,058)		329 (3,058)
Comprehensive Income: Net Income								14,802		14,802
Change in Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Tax								(1,503)		(1,503)
Total Comprehensive Income										13,299
BALANCE MARCH 31, 2006	50,019,216	(1,163,000)	48,856,216	\$ 50	\$ 341,027	\$	\$ (5,886)	\$ 124,054	\$ (20,041)	\$ 439,204

See Accompanying Notes to Consolidated Financial Statements.

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

(In Thousands)

	Three Months Ended	
	March 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 14,802	\$ 13,332
Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents Provided		
By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	709	685
Amortization of Premiums and Accretion of Discounts on Investments, Net	83	168
Amortization of Core Deposit Intangible	625	732
Share-Based Compensation Expense	101	393
Provision for Credit Losses	2,960	136
Federal Home Loan Bank Stock Dividend	(143)	
Gain on Sales of Securities Available for Sale	(5)	(82)
Increase in Fair Value of Derivatives	(225)	(419)
Decrease in Fair Value of Embedded Options	102	573
Gain on Sales of Loans	(839)	(308)
Loss on Sales of Premises and Equipment	16	15
Tax Benefit from Exercises of Stock Options		333
Deferred Tax Benefit	(1,574)	(6,279)
Origination of Loans Held for Sale	(22,374)	(1,204)
Proceeds from Sales of Loans Held for Sale	22,921	5,320
Increase in Accrued Interest Receivable	(278)	(1,403)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(219)	(205)
(Increase) Decrease in Other Assets	(6,966)	795
Increase (Decrease) in Accrued Interest Payable	823	(462)
Increase in Other Liabilities	13,304	12,225
Net Cash and Cash Equivalents Provided By Operating Activities	23,823	24,345
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Matured or Called Securities Available for Sale	11,082	41,121
Proceeds from Matured or Called Securities Held to Maturity	10	9
Proceeds from Sales of Securities Available for Sale	5,000	1,442
Net (Increase) Decrease in Loans Receivable	(175,670)	996
Purchases of Securities Available for Sale	(6,183)	(47,238)
Purchases of Premises and Equipment	(506)	(1,737)
Net Cash and Cash Equivalents Used In Investing Activities	(166,267)	(5,407)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) Increase in Deposits	(7,248)	16,091
Proceeds from Exercises of Stock Options and Stock Warrants	1,522	1,311

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Tax Benefit from Exercises of Stock Options	329	
Cash Dividends Paid	(3,058)	(2,481)
Increase (Decrease) in Other Borrowed Funds	85,202	(2,182)
Net Cash and Cash Equivalents Provided By Financing Activities	76,747	12,739
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(65,697)	31,677
Cash and Cash Equivalents Beginning of Period	163,477	127,164
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 97,780	\$ 158,841

Supplemental Disclosures of Cash Flow Information:

Interest Paid	\$ 10,221	\$ 10,885
Income Taxes Paid	\$ 1,900	\$ 500

Supplemental Schedule of Non-Cash Investing and Financing Activities:

Transfer of Loans to Other Real Estate Owned	\$ 545	\$
Accrued Dividends	\$ 3,001	\$ 2,481

See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank. The Bank is a community bank conducting general business banking with its primary market encompassing the multi-ethnic populations of Los Angeles, Orange, San Diego, San Francisco and Santa Clara counties of the State of California. The Bank s full-service offices are located in business areas where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. As of March 31, 2006, the Bank maintained a branch network of 22 locations, serving individuals and small- to medium-sized businesses in its primary market. The Bank also has five loan production offices in California, Georgia, Illinois, Virginia and Washington.

In the opinion of management, the consolidated financial statements of Hanmi Financial Corporation and subsidiary reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim period ended March 31, 2006, but are not necessarily indicative of the results that will be reported for the entire year. In the opinion of management, the aforementioned consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America (GAAP). The interim information should be read in conjunction with our 2005 Annual Report on Form 10-K.

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

On January 20, 2005, our 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.

Stock-Based Compensation

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

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

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

		Three Months Ended March 31, 2005 (Dollars in Thousands, Except Per Share Data)
Net Income As Reported	\$	13,332
Add Share-Based Employee Compensation Expense Included in Reported Net Income, Net of Related Tax Effects		242
Deduct Total Share-Based Employee Compensation Expense Associated with Stock Options Determined Under Fair Value Method for All Option Awards, Net of Related Tax Effects		(527)
Net Income Pro Forma	\$	13,047
Earnings Per Share As Reported:		
Basic	\$	0.27
Diluted	\$	0.27
Earnings Per Share Pro Forma:		
Basic	\$	0.26
Diluted	\$	0.26

SFAS No. 123(R) requires that cash flows resulting from the realization of tax deductions in excess of the compensation cost recognized (excess tax benefits) are to be classified as financing cash flows. Before the adoption of SFAS No. 123(R), we presented all tax benefits realized from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. For the three months ended March 31, 2006 and 2005, excess tax benefits of \$329,000 and \$333,000, respectively, are shown as financing cash inflows and operating cash inflows, respectively, in the Consolidated Statements of Cash Flows.

In November 2005, the Financial Accounting Standards Board (FASB) issued Staff Position No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of the Share-Based Payment Awards*. We have adopted the alternative transition method prescribed by Staff Position No. FAS 123R-3.

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

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 2 EMPLOYEE STOCK-BASED COMPENSATION

At March 31, 2006, we had two stock incentive plans, the Year 2000 Stock Option Plan and the 2004 CEO Stock Option Plan (collectively, the Plans), which provide for the granting of non-qualified and incentive stock options and restricted stock awards to employees (including officers and directors).

Year 2000 Stock Option Plan

Under the Year 2000 Stock Option Plan, we may grant options for up to 5,430,742 shares of common stock. As of March 31, 2006, 3,071,027 shares were still available for issuance.

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

For the three months ended March 31, 2006 and 2005, the estimated weighted-average fair value of options granted under the Year 2000 Stock Option Plan was \$5.54 per share and \$5.49 per share, respectively. The weighted-average fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 1.35 percent and 1.07 percent in 2006 and 2005, respectively; expected volatility of 31.9 percent and 33.0 percent in 2006 and 2005, respectively; expected term of 4.9 years and 4.1 years in 2006 and 2005, respectively; and risk-free interest rates of 4.61 percent and 4.11 percent in 2006 and 2005, respectively.

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

The grant date fair value of options granted under the Year 2000 Stock Option Plan during the three months ended March 31, 2006 and 2005 was \$50,000 and \$250,000, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was \$1.5 million and \$3.4 million, respectively. Cash received from options exercised totaled \$426,000 and \$1.3 million for the three months ended March 31, 2006 and 2005, respectively. The actual tax benefit realized from tax deductions on options exercised during the three months ended March 31, 2006 and 2005 was \$329,000 and \$333,000, respectively.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 2 EMPLOYEE STOCK-BASED COMPENSATION (Continued)

The following is a summary of the transactions under the Year 2000 Stock Option Plan for the three months ended March 31, 2006:

	Number of Shares	Weighted- Average Exercise Price Per Share
Options Outstanding January 1, 2006	1,173,712	\$ 10.55
Options Granted	9,000	\$ 17.74
Options Cancelled/Expired	(32,470)	\$ 13.65
Options Exercised	(82,026)	\$ 5.19
Options Outstanding March 31, 2006	1,068,216	\$ 10.93
Options Exercisable March 31, 2006	539,887	\$ 8.58

The following is a summary of the transactions for non-vested stock options under the Year 2000 Stock Option Plan for the three months ended March 31, 2006:

	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Non-Vested Stock Options Outstanding January 1, 2006	652,710	\$ 4.07
Non-Vested Options Granted	9,000	\$ 5.54
Non-Vested Options Cancelled/Expired	(32,470)	\$ 4.06
Non-Vested Options Vested	(100,911)	\$ 3.73
Non-Vested Options Outstanding March 31, 2006	528,329	\$ 4.16

As of March 31, 2006, the total compensation cost not yet recognized under the Year 2000 Stock Option Plan was \$1.3 million with a weighted-average recognition period of 2.8 years.

As of March 31, 2006, stock options outstanding under the Year 2000 Stock Option Plan were as follows:

Options Outstanding				Options Exercisable			
Exercise	Number	Intrinsic	Weighted- Average Exercise Contractual	Weighted- Average Remaining	Number	Intrinsic	Weighted- Average Exercise Contractual

Price Range	Outstanding	Value	Price Per Share	Life	Outstanding	Value	Price Per Share	Life
<i>(Dollars in Thousands, Except Per Share Data)</i>								
\$ 3.27 to \$ 3.99	156,666	\$ 592	\$ 3.78	4.5 years	156,666	\$ 592	\$ 3.78	4.5 years
\$ 4.00 to \$ 7.99	260,572	1,840	\$ 7.06	5.1 years	182,419	1,290	\$ 7.07	4.9 years
\$ 8.00 to \$11.99	2,624	27	\$ 10.44	0.1 years	2,624	27	\$ 10.44	0.1 years
\$12.00 to \$15.99	558,800	7,641	\$ 13.67	8.0 years	189,067	2,555	\$ 13.51	7.9 years
\$16.00 to \$19.10	89,554	1,578	\$ 17.62	9.1 years	9,111	170	\$ 18.66	8.9 years
	1,068,216	\$ 11,678	\$ 10.93	6.9 years	539,887	\$ 4,634	\$ 8.58	5.9 years

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 2 EMPLOYEE STOCK-BASED COMPENSATION (Continued)**2004 CEO Stock Option Plan**

Under the 2004 CEO Stock Option Plan, a total of 350,000 stock options were granted to our Chief Executive Officer. As of March 31, 2006, there were no additional shares available for issuance.

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

There were no stock options granted under the 2004 CEO Stock Option Plan during the three months ended March 31, 2006 and 2005.

The following is a summary of the transactions under the 2004 CEO Stock Option Plan for the three months ended March 31, 2006:

	Number of Shares	Exercise Price Per Share
Options Outstanding January 1, 2006	350,000	\$ 17.17
Options Outstanding March 31, 2006	350,000	\$ 17.17
Options Exercisable March 31, 2006	58,333	\$ 17.17

The following is a summary of the transactions for non-vested stock options under the 2004 CEO Stock Option Plan for the three months ended March 31, 2006:

	Number of Shares	Grant Date Fair Value Per Share
Non-Vested Stock Options Outstanding January 1, 2006	350,000	\$ 4.82
Non-Vested Options Vested	(58,333)	\$ 4.82
Non-Vested Options Outstanding March 31, 2006	291,667	\$ 4.82

As of March 31, 2006, the total compensation cost not yet recognized under the 2004 CEO Stock Option Plan was \$1.1 million with a recognition period of 3.8 years.

As of March 31, 2006, stock options outstanding under the 2004 CEO Stock Option Plan were as follows:

Options Outstanding				Options Exercisable			
		Exercise Price	Remaining			Exercise Price	Remaining
Number	Intrinsic	Per	Contractual	Number	Intrinsic	Per	Contractual

Outstanding	Value	Share	Life	Outstanding	Value	Share	Life
<i>(Dollars in Thousands, Except Per Share Data)</i>							
350,000	\$ 6,008	\$ 17.17	8.6 years	58,333	\$ 1,001	\$ 17.17	8.6 years

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 3 EARNINGS PER SHARE

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

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

	Income (Numerator)	Weighted- Average Shares (Denominator)	Per Share Amount
	<i>(Dollars in Thousands, Except Per Share Data)</i>		
Three Months Ended March 31, 2006:			
Basic EPS	\$ 14,802	48,714,435	\$ 0.30
Effect of Dilutive Securities		603,962	
Diluted EPS	\$ 14,802	49,318,397	\$ 0.30
Three Months Ended March 31, 2005:			
Basic EPS	\$ 13,332	49,460,375	\$ 0.27
Effect of Dilutive Securities		787,033	
Diluted EPS	\$ 13,332	50,247,408	\$ 0.27

As of March 31, 2006 and 2005, there were 49,554 and 125,554 options, respectively, outstanding that were not included in the computation of diluted EPS because their exercise price was greater than the quarterly average market price of the common shares and, therefore, the effect would be anti-dilutive.

NOTE 4 OFF-BALANCE SHEET COMMITMENTS

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

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

	March 31, 2006	December 31, 2005
	<i>(In Thousands)</i>	
Commitments to Extend Credit	\$ 584,685	\$ 555,736

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Commercial Letters of Credit	61,715	58,036
Standby Letters of Credit	30,825	42,768
Unused Credit Card Lines	16,241	14,892
Total Undisbursed Loan Commitments	\$ 693,466	\$ 671,432

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (Continued)

NOTE 5 RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and SFAS No. 140* (SFAS No. 155). This Statement:

permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;

clarifies which interest-only strips and principal-only strips are not subject to SFAS No. 133;

establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or hybrid financial instruments that contain an embedded derivative requiring bifurcation;

clarifies that concentrations of credit risks in the form of subordinations are not embedded derivatives; and

amends SFAS No. 140 to eliminate the prohibition on a Qualified Special Purpose Entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Early adoption of this statement is allowed. We have not determined the financial impact of the adoption of SFAS No. 155 or whether we will adopt SFAS No. 155 in 2006.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, which amends the guidance in SFAS No. 140. SFAS No. 156 requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations. Such servicing assets or servicing liabilities are required to be measured initially at fair value, if practicable. SFAS No. 156 also allows an entity to measure its servicing assets and servicing liabilities subsequently using either the amortization method, which existed under SFAS No. 140, or the fair value measurement method. SFAS No. 156 will be effective in the fiscal year beginning January 1, 2007. We do not expect the adoption of SFAS No. 156 to have a material impact on our financial condition or results of operations.

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

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

CRITICAL ACCOUNTING POLICIES

We have established various accounting policies that govern the application of 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 in our Annual Report on Form 10-K for the year ended December 31, 2005. Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial's Board of Directors.

We believe the allowance for loan losses and allowance for off-balance sheet items are critical accounting policies that require significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements. See Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items and Results of Operations Provision for Credit Losses for a description of the methodology used to determine the allowance for loan losses and allowance for off-balance sheet items.

SELECTED FINANCIAL DATA

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

	Three Months Ended	
	March 31,	
	2006	2005
	<i>(Dollars in Thousands, Except Per Share Data)</i>	
AVERAGE BALANCES:		
Average Gross Loans, Net of Deferred Loan Fees	\$ 2,547,421	\$ 2,239,174
Average Securities	\$ 437,676	\$ 420,774
Average Interest-Earning Assets	\$ 3,036,300	\$ 2,736,771
Average Total Assets	\$ 3,423,419	\$ 3,103,486
Average Deposits	\$ 2,810,313	\$ 2,519,229
Average Interest-Bearing Liabilities	\$ 2,215,781	\$ 1,926,399
Average Shareholders' Equity	\$ 434,220	\$ 406,067
Average Tangible Equity ⁽¹⁾	\$ 216,723	\$ 185,222
Common Shares Outstanding	48,856,216	49,621,677
PER SHARE DATA:		
Earnings Per Share - Basic	\$ 0.30	\$ 0.27
Earnings Per Share - Diluted	\$ 0.30	\$ 0.27
Book Value Per Share ⁽²⁾	\$ 8.99	\$ 8.23
Tangible Book Value Per Share ⁽³⁾	\$ 4.55	\$ 3.79
Cash Dividends Per Share	\$ 0.06	\$ 0.05

(1)

Average tangible equity is calculated by subtracting average goodwill and average core deposit intangible assets from average shareholders equity.

- (2) Shareholders equity divided by common shares outstanding.
- (3) Tangible equity divided by common shares outstanding.

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	Three Months Ended March 31,	
	2006	2005
SELECTED PERFORMANCE RATIOS:		
Return on Average Assets ⁽⁴⁾ ⁽⁵⁾	1.75%	1.74%
Return on Average Shareholders' Equity ⁽⁴⁾ ⁽⁶⁾	13.83%	13.32%
Return on Average Tangible Equity ⁽⁴⁾ ⁽⁷⁾	27.70%	29.19%
Net Interest Spread ⁽⁸⁾	3.78%	4.01%
Net Interest Margin ⁽⁹⁾	4.85%	4.72%
Efficiency Ratio ⁽¹⁰⁾	39.10%	44.38%
Dividend Payout Ratio ⁽¹¹⁾	20.27%	18.61%
Average Shareholders' Equity to Average Total Assets	12.68%	13.08%
SELECTED CAPITAL RATIOS: ⁽¹²⁾		
Total Risk-Based Capital Ratio:		
Hanmi Financial	11.97%	12.34%
Hanmi Bank	11.87%	12.16%
Tier 1 Risk-Based Capital Ratio:		
Hanmi Financial	10.94%	11.32%
Hanmi Bank	10.84%	11.13%
Tier 1 Leverage Ratio:		
Hanmi Financial	9.57%	9.41%
Hanmi Bank	9.49%	9.25%
SELECTED ASSET QUALITY RATIOS:		
Non-Performing Loans to Total Gross Loans ⁽¹³⁾	0.38%	0.31%
Non-Performing Assets to Total Assets ⁽¹⁴⁾	0.31%	0.22%
Net Loan Charge-Offs to Average Total Gross Loans ⁽¹⁵⁾	0.19%	0.01%
Allowance for Loan Losses to Total Gross Loans	1.00%	1.00%
Allowance for Loan Losses to Non-Performing Loans	259.5%	327.9%

⁽⁴⁾ Calculation based upon annualized net income.

⁽⁵⁾ Net income divided by average total assets.

⁽⁶⁾ Net income divided by average shareholders equity.

⁽⁷⁾

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

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

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

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

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

Table of Contents**Non-GAAP Financial Measures**

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

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

	Three Months Ended	
	March 31,	
	2006	2005
	<i>(Dollars in Thousands)</i>	
Average Shareholders' Equity	\$ 434,220	\$ 406,067
Less Average Goodwill and Core Deposit Intangible Assets	(217,497)	(220,845)
Average Tangible Equity	\$ 216,723	\$ 185,222
Return on Average Shareholders' Equity	13.83%	13.32%
Effect of Average Goodwill and Core Deposit Intangible Assets	13.87%	15.87%
Return on Average Tangible Equity	27.70%	29.19%

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

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

	Three Months Ended	
	March 31,	
	2006	2005
	<i>(Dollars in Thousands, Except Per Share Data)</i>	
Total Shareholders' Equity	\$ 439,204	\$ 408,450

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Less Goodwill and Core Deposit Intangible Assets	(217,124)	(220,446)
Tangible Equity	\$ 222,080	\$ 188,004
Book Value Per Share	\$ 8.99	\$ 8.23
Effect of Goodwill and Core Deposit Intangible Assets	(4.44)	(4.44)
Tangible Book Value Per Share	\$ 4.55	\$ 3.79

Table of Contents**FORWARD-LOOKING STATEMENTS**

Some of the statements under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or the negative of such terms and comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. For additional information concerning these factors, see our Form 10-K filed with the Securities and Exchange Commission on March 16, 2006 under Risk Factors, Interest Rate Risk Management and Liquidity and Capital Resources. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

RESULTS OF OPERATIONS**Overview**

For the three months ended March 31, 2006, net income was \$14.8 million, or \$0.30 per diluted share, compared to \$13.3 million, or \$0.27 per diluted share, for the three months ended March 31, 2005. The 11.0 percent increase in net income for 2006 as compared to 2005 was attributable to increases in net interest margin and average interest-earning assets. Net interest income before provision for credit losses increased \$4.5 million, or 14.1 percent, due to ongoing growth in the loan portfolio. The net interest margin was 4.85 percent for the three months ended March 31, 2006, compared to 4.72 percent for the same period of 2005.

Our results of operations are significantly affected by the provision for credit losses. The provision for credit losses was \$3.0 million and \$136,000 for the three months ended March 31, 2006 and 2005, respectively, reflecting changes in the classification of certain credits as well as growth in the loan portfolio in the respective quarters.

Non-interest income increased by \$897,000, or 12.2 percent, mainly due to an increase in service charges on deposit accounts and higher gain on sales of loans. Non-interest expenses increased by \$34,000, or 0.2 percent, due to effective expense control and a comparatively lower decrease in fair value of embedded options. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and non-interest income) for the first quarter of 2006 was 39.10 percent, compared to 44.38 percent for the same quarter in 2005.

The annualized return on average assets was 1.75 percent for the three months ended March 31, 2006, compared to 1.74 percent for the same period of 2005. The annualized return on average shareholders' equity was 13.83 percent for the three months ended March 31, 2006, and return on average tangible equity was 27.70 percent, compared to 13.32 percent and 29.19 percent, respectively, for the same period in 2005.

Table of Contents**Net Interest Income Before Provision for Credit Losses**

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

For the three months ended March 31, 2006 and 2005, net interest income before provision for credit losses was \$36.3 million and \$31.9 million, respectively. The net interest spread and net interest margin for the three months ended March 31, 2006 were 3.78 percent and 4.85 percent, respectively, compared to 4.01 percent and 4.72 percent, respectively, for the three months ended March 31, 2005.

Average interest-earning assets increased 10.9 percent to \$3,036.3 million for the three months ended March 31, 2006 from \$2,736.8 million for the same period in 2005. Average gross loans increased 13.8 percent to \$2,547.4 million for the three months ended March 31, 2006 from \$2,239.2 million for the same period in 2005, and average investment securities increased 4.0 percent to \$437.7 million for the three months ended March 31, 2006 from \$420.8 million for the same period in 2005. Total loan interest income increased by 37.7 percent for the three months ended March 31, 2006 due to the increase in average gross loans outstanding and the increase in the average yield on loans from 6.92 percent for the three months ended March 31, 2005 to 8.38 percent for the same period in 2006. The average interest rate charged on loans increased 146 basis points, reflecting the increase in the average Wall Street Journal Prime Rate of 199 basis points from 5.44 percent for the three months ended March 31, 2005 to 7.43 percent for the same period in 2006. The yield on average interest-earning assets increased by 135 basis points from 6.40 percent for the three months ended March 31, 2005 to 7.75 percent for the three months ended March 31, 2006, reflecting a shift in the mix of interest-earning assets from 81.8 percent loans, 15.4 percent securities and 2.8 percent other interest-earning assets for the three months ended March 31, 2005 to 83.9 percent loans, 14.4 percent securities and 1.7 percent other interest-earning assets for the same period in 2006.

The majority of interest-earning assets growth was funded by a \$291.1 million, or 11.6 percent, increase in average total deposits. Total average interest-bearing liabilities grew by 15.0 percent to \$2,215.8 million for the three months ended March 31, 2006 compared to \$1,926.4 million for the same period in 2005. The average interest rate paid for interest-bearing liabilities increased by 158 basis points from 2.39 percent for the three months ended March 31, 2005 to 3.97 percent for the three months ended March 31, 2006. In the second half of 2005, due to competitive pricing, the Bank increased its rates on certificates of deposit to maintain relationships with valued customers and to fund loan growth.

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

	Three Months Ended					
	March 31, 2006			March 31, 2005		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	<i>(Dollars in Thousands)</i>					
ASSETS						
Interest-Earning Assets:						
Gross Loans, Net ⁽¹⁾	\$ 2,547,421	\$ 52,637	8.38%	\$ 2,239,174	\$ 38,226	6.92%
Municipal Securities ⁽²⁾	73,770	778	6.49%	74,050	776	6.54%
Obligations of Other U.S. Government Agencies	126,498	1,303	4.12%	96,217	934	3.94%
Other Debt Securities	237,308	2,692	4.54%	250,507	2,665	4.31%
Equity Securities	24,610	325	5.28%	21,961	273	5.04%
Federal Funds Sold	26,593	289	4.35%	54,862	335	2.48%
Interest-Earning Deposits	100	1	4.15%			
Total Interest-Earning Assets	3,036,300	58,025	7.75%	2,736,771	43,209	6.40%
Noninterest-Earning Assets:						
Cash and Cash Equivalents	94,501			84,659		
Allowance for Loan Losses	(25,011)			(22,730)		
Other Assets	317,629			304,786		
Total Noninterest-Earning Assets	387,119			366,715		
Total Assets	\$ 3,423,419			\$ 3,103,486		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
Deposits:						
Money Market Checking	\$ 519,628	3,714	2.90%	\$ 592,211	3,008	2.06%
Savings	117,761	482	1.66%	150,261	556	1.50%
Time Deposits of \$100,000 or More	1,167,270	12,784	4.44%	797,141	5,002	2.54%
Other Time Deposits	272,760	2,611	3.88%	234,662	1,245	2.15%
Other Borrowed Funds	138,362	2,089	6.12%	152,124	1,536	4.09%
Total Interest-Bearing Liabilities	2,215,781	21,680	3.97%	1,926,399	11,347	2.39%
Noninterest-Bearing Liabilities:						

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Demand Deposits	732,894	744,954
Other Liabilities	40,524	26,066
Total Noninterest-Bearing Liabilities	773,418	771,020
Total Liabilities	2,989,199	2,697,419
Shareholders' Equity	434,220	406,067
Total Liabilities and Shareholders' Equity	\$ 3,423,419	\$ 3,103,486

Net Interest Income **\$ 36,345** **\$ 31,862**

Net Interest Spread ⁽³⁾ **3.78%** **4.01%**

Net Interest Margin ⁽⁴⁾ **4.85%** **4.72%**

(1) Loans are net of deferred fees and related direct costs, but excluding the allowance for loan losses. Non-accrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were \$1.3 million and \$1.5 million for the three months ended March 31, 2006 and 2005, respectively.

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

tax-equivalent basis, using an effective marginal rate of 35 percent.

- (3) *Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
- (4) *Represents annualized net interest income as a percentage of average interest-earning assets.*

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

	Three Months Ended March 31, 2006 vs. 2005 Increases (Decreases) Due to Change in		
	Volume	Rate	Total
	<i>(In Thousands)</i>		
Interest Income:			
Gross Loans, Net	\$ 5,700	\$ 8,711	\$ 14,411
Municipal Securities	(2)	4	2
Obligations of Other U.S. Government Agencies	301	68	369
Other Debt Securities	(142)	169	27
Equity Securities	33	19	52
Federal Funds Sold	(227)	181	(46)
Interest-Earning Deposits	1		1
 Total Interest Income	 5,664	 9,152	 14,816
 Interest Expense:			
Money Market Checking	(404)	1,110	706
Savings	(129)	55	(74)
Time Deposits of \$100,000 or More	2,988	4,794	7,782
Other Time Deposits	229	1,137	1,366
Other Borrowed Funds	(150)	703	553
 Total Interest Expense	 2,534	 7,799	 10,333
 Change in Net Interest Income	 \$ 3,130	 \$ 1,353	 \$ 4,483

Provision for Credit Losses

For the three months ended March 31, 2006, the provision for credit losses was \$3.0 million, compared to \$136,000 for the three months ended March 31, 2005. The allowance for loan losses remained at 1.00 percent of total gross loans at March 31, 2006 and 2005, with the increase in the dollar amount allowed for credit losses due to changes in the classification of certain credits as well as growth in the loan portfolio, including growth in loan types that historically have experienced charge-offs. Non-performing assets increased from \$10.1 million, or 0.30 percent of total assets, as of December 31, 2005 to \$10.8 million, or 0.31% of total assets, as of March 31, 2006. The \$175.6 million, or 7.0 percent, increase in the loan portfolio and the \$705,000, or 7.0 percent, increase in non-performing assets required the provision to increase to \$3.0 million for the three months ended March 31, 2006 to maintain the necessary allowance level.

Table of Contents**Non-Interest Income**

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

	Three Months Ended		Increase (Decrease)	
	March 31,	March 31,	Amount	Percentage
	2006	2005		
	<i>(Dollars in Thousands)</i>			
Service Charges on Deposit Accounts	\$ 4,231	\$ 3,730	\$ 501	13.4%
Trade Finance Fees	1,071	945	126	13.3%
Remittance Fees	488	468	20	4.3%
Other Service Charges and Fees	534	579	(45)	(7.8%)
Bank-Owned Life Insurance Income	218	205	13	6.3%
Increase in Fair Value of Derivatives	225	419	(194)	(46.3%)
Other Income	643	621	22	3.5%
Gain on Sales of Loans	839	308	531	172.4%
Gain on Sales of Securities Available for Sale	5	82	(77)	(93.9%)
Total Non-Interest Income	\$ 8,254	\$ 7,357	\$ 897	12.2%

Non-interest income is earned from three major sources: service charges on deposit accounts, fees generated from international trade finance and gain on sales of loans. For the three months ended March 31, 2006, non-interest income was \$8.3 million, an increase of 12.2 percent from \$7.4 million for the three months ended March 31, 2005. The overall increase in non-interest income is primarily due to expansion in the Bank's loan and deposit portfolios.

Service charges on deposit accounts increased by \$501,000, or 13.4 percent, from \$3.7 million for the three months ended March 31, 2005 to \$4.2 million for three months ended March 31, 2006. Service charge income on deposit accounts increased due to higher deposit volume and number of accounts. Average deposits increased by 11.6 percent from \$2,519.2 million for three months ended March 31, 2006 to \$2,810.3 million for the three months ended March 31, 2006. Service charges are regularly reviewed to maximize service charge income while still maintaining a competitive position.

Fees generated from international trade finance increased by \$126,000, or 13.3 percent, from \$945,000 for the three months ended March 31, 2005 to \$1.1 million for the three months ended March 31, 2006 due to higher volume. Trade finance fees related primarily to import and export letters of credit.

The changes in the fair value of derivatives are caused by movements in the indexes to which interest rates on certain certificates of deposit are tied. In 2005 and 2004, the Bank offered certificates of deposit tied to either the Standard & Poor's 500 Index or a basket of Asian currencies. The Bank entered into swap transactions to hedge the market risk associated with such certificates of deposit. The swaps and the related derivatives embedded in the certificates of deposit are accounted for at fair value. The increase in the fair value of the swaps of \$225,000 and \$419,000 recorded in non-interest income for the three months ended March 31, 2006 and 2005, respectively, are partially offset by changes in the fair value of the embedded derivatives recorded in non-interest expenses.

Gain on sales of loans increased by \$531,000, or 172.4 percent, from \$308,000 for the three months ended March 31, 2005 to \$839,000 for the three months ended March 31, 2006. The increase in gain on sales of loans resulted primarily from an increase of \$10.9 million, or 186.6 percent, in sales activity for SBA loans. The guaranteed portion of a substantial percentage of SBA loans is sold in the secondary markets, and servicing rights are retained.

Table of Contents**Non-Interest Expenses**

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

	Three Months Ended		Increase (Decrease)	
	March 31,	March 31,	Amount	Percentage
	2006	2005		
	<i>(Dollars in Thousands)</i>			
Salaries and Employee Benefits	\$ 9,161	\$ 9,167	\$ (6)	(0.1%)
Occupancy and Equipment	2,318	2,231	87	3.9%
Data Processing	1,215	1,165	50	4.3%
Professional Fees	668	479	189	39.5%
Advertising and Promotion	646	694	(48)	(6.9%)
Supplies and Communications	636	579	57	9.8%
Amortization of Core Deposit Intangible	625	732	(107)	(14.6%)
Decrease in Fair Value of Embedded Options	102	573	(471)	(82.2%)
Other Operating Expenses	2,068	1,785	283	15.9%
Total Non-Interest Expenses	\$ 17,439	\$ 17,405	\$ 34	0.2%

For the three months ended March 31, 2006 and 2005, non-interest expenses were \$17.4 million. The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for credit losses and non-interest income) for the first quarter of 2006 was 39.10 percent, compared to 44.38 percent for the same quarter in 2005. The improvement in the efficiency ratio was due to effective expense control and a comparatively lower decrease in fair value of embedded options.

Salaries and employee benefits were \$9.2 million for the three months ended March 31, 2006 and 2005. Salaries, incentive compensation and employee benefits increased \$464,000, net of a decrease in share-based compensation of \$292,000, which increase was offset by a \$474,000 increase in salaries and employee benefits capitalized as direct loan originating costs.

Professional fees were \$668,000 for the three months ended March 31, 2006, representing an increase of \$189,000, or 39.5 percent, compared to \$479,000 for the three months ended March 31, 2005. The increase was caused primarily by increased regulatory compliance consulting fees.

Core deposit premium amortization decreased to \$625,000 for the three months ended March 31, 2006, representing a decrease of \$107,000, or 14.6 percent, compared to \$732,000 for the three months ended March 31, 2005. The decrease is due to the core deposit premium being amortized using the level yield amortization method.

Other operating expenses for the three months ended March 31, 2006 increased \$283,000, or 15.9 percent, to \$2.1 million from \$1.8 million for the three months ended March 31, 2005. The increase is primarily attributable to amortization expense of \$243,000 related to the termination in the fourth quarter of 2005 of interest rate swaps that had unrealized losses.

Income Taxes

For the three months ended March 31, 2006, income taxes of \$9.4 million were recognized on pre-tax income of \$24.2 million, representing an effective tax rate of 38.8 percent, compared to income taxes of \$8.3 million recognized on pre-tax income of \$21.7 million, representing an effective tax rate of 38.5 percent, for the three months ended March 31, 2005.

Table of Contents**FINANCIAL CONDITION****Summary of Changes in Balance Sheets March 31, 2006 Compared to December 31, 2005**

As of March 31, 2006, total assets were \$3.51 billion, an increase of \$100.7 million, or 3.0 percent, from the December 31, 2005 balance of \$3.41 billion. The increase in assets was mainly funded by overnight Federal funds purchased and FHLB advances, which increased by \$85.2 million, or 183.9 percent, to \$131.5 million at March 31, 2006 from \$46.3 million at December 31, 2005. As of March 31, 2006 and December 31, 2005, loans receivable, net of deferred loan fees and allowance for loan losses, and loans held for sale totaled \$2.64 billion and \$2.47 billion, respectively, an increase of \$173.0 million, or 7.0 percent. Investment securities decreased \$13.0 million, or 2.9 percent, to \$430.9 million at March 31, 2006 from \$443.9 million at December 31, 2005.

Investment Portfolio

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

As of March 31, 2006, held to maturity securities totaled \$1.0 million and available for sale securities totaled \$429.8 million, compared to \$1.0 million and \$442.9 million, respectively, at December 31, 2005.

	March 31, 2006			December 31, 2005		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
	<i>(In Thousands)</i>					
Held to Maturity:						
Municipal Bonds	\$ 692	\$ 692	\$	\$ 692	\$ 692	\$
Mortgage-Backed Securities	347	347		357	359	2
Total Held to Maturity	\$ 1,039	\$ 1,039	\$	\$ 1,049	\$ 1,051	\$ 2
Available for Sale:						
Mortgage-Backed Securities	\$ 143,163	\$ 139,628	\$ (3,535)	\$ 149,311	\$ 147,268	\$ (2,043)
U.S. Government Agency Securities	129,638	127,274	(2,364)	129,589	127,813	(1,776)
Collateralized Mortgage Obligations	79,506	77,407	(2,099)	83,068	81,456	(1,612)
Municipal Bonds	71,252	72,660	1,408	71,536	73,220	1,684
Corporate Bonds	8,199	7,922	(277)	8,235	8,053	(182)
Other Securities	4,999	4,954	(45)	4,999	5,053	54
Total Available for Sale	\$ 436,757	\$ 429,845	\$ (6,912)	\$ 446,738	\$ 442,863	\$ (3,875)

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The amortized cost and estimated fair value of investment securities at March 31, 2006, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2036, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	<i>(In Thousands)</i>			
Within One Year	\$ 14,986	\$ 14,882	\$	\$
Over One Year Through Five Years	129,546	126,951		
Over Five Years Through Ten Years	8,050	8,153	692	692
Over Ten Years	61,506	62,824		
	214,088	212,810	692	692
Mortgage-Backed Securities	143,163	139,628	347	347
Collateralized Mortgage Obligations	79,506	77,407		
	222,669	217,035	347	347
	\$ 436,757	\$ 429,845	\$ 1,039	\$ 1,039

Loan Portfolio

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

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

	March 31, 2006	December 31, 2005	Increase (Decrease)	
			Amount	Percentage
	<i>(Dollars in Thousands)</i>			
Real Estate Loans:				
Commercial Property	\$ 766,248	\$ 733,650	\$ 32,598	4.4%
Construction	169,422	152,080	17,342	11.4%
Residential Property ⁽¹⁾	85,356	88,442	(3,086)	(3.5%)
Total Real Estate Loans	1,021,026	974,172	46,854	4.8%
Commercial and Industrial Loans:				
Commercial Term Loans	994,089	945,210	48,879	5.2%
Commercial Lines of Credit	240,115	224,271	15,844	7.1%
SBA Loans	195,885	155,491	40,394	26.0%

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International Loans	128,446	106,520	21,926	20.6%
Total Commercial and Industrial Loans	1,558,535	1,431,492	127,043	8.9%
Consumer Loans	93,828	92,154	1,674	1.8%
Total Loans Gross	2,673,389	2,497,818	175,571	7.0%
Deferred Loan Fees	(4,604)	(3,775)	(829)	22.0%
Allowance for Loan Losses	(26,703)	(24,963)	(1,740)	7.0%
Net Loans Receivable	\$ 2,642,082	\$ 2,469,080	\$ 173,002	7.0%

(1) Amount includes loans held for sale, at the lower of cost or market, of \$1.4 million and \$1.1 million at March 31, 2006 and December 31, 2005, respectively.

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At March 31, 2006 and December 31, 2005, loans, net of deferred loan fees, allowance for loan losses and loans held for sale, totaled \$2.64 billion and \$2.47 billion, respectively. Real estate loans, composed of commercial property, residential property and construction loans, increased \$46.9 million, or 4.8 percent, to \$1,021.0 million at March 31, 2006 from \$974.2 million at December 31, 2005, representing 38.2 percent and 39.0 percent, respectively, of the total loan portfolio. Total commercial and industrial loans, composed of domestic commercial property and lines of credit, trade financing and SBA loans, increased \$127.0 million, or 8.9 percent, to \$1.56 billion at March 31, 2006 from \$1.43 billion at December 31, 2005, representing 58.3 percent and 57.3 percent, respectively, of the total loan portfolio. Consumer loans increased \$1.7 million, or 1.8 percent, to \$93.8 million at March 31, 2006 from \$92.2 million at December 31, 2005.

As of March 31, 2006, there was \$323.5 million of loans outstanding, or 12.10 percent of total gross loans outstanding, to borrowers who were involved in the accommodation/hospitality industry. There was no other concentration of loans to any one type of industry exceeding 10 percent of total gross loans.

Non-Performing Assets

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

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

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

	March 31, 2006	December 31, 2005	Increase	
			Amount	Percentage
	<i>(Dollars in Thousands)</i>			
Non-Accrual Loans	\$ 10,282	\$ 10,122	\$ 160	1.6%
Loans 90 Days or More Past Due and Still Accruing	9	9		
Total Non-Performing Loans	10,291	10,131	160	1.6%
Other Real Estate Owned	545		545	
Total Non-Performing Assets	\$ 10,836	\$ 10,131	\$ 705	7.0%

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

Provisions to the allowance for loan losses are made quarterly to recognize probable loan losses. The quarterly provision is based on the allowance need, which is calculated using a formula designed to provide adequate allowances for 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 prior loss history by type of loan, adjusted for current economic factors.

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

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

As of March 31, 2006, the allowance for loan losses was \$26.7 million, an increase of \$1.7 million, or 7.0 percent, compared to \$25.0 million at December 31, 2005. The increase in the allowance for loan losses reflects changes in the classification of certain credits as well as growth in the loan portfolio, including loan types that historically have experienced charge-offs. As of March 31, 2006 and December 31, 2005, the allowance for off-balance sheet items was \$2.1 million.

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

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We determine the appropriate overall allowance for loan losses and allowance for off-balance sheet items based on the foregoing analysis, taking into account management's judgment. The allowance methodology is reviewed on a periodic basis and modified as appropriate. Based on this analysis, including the aforementioned factors, we believe that the allowance for loan losses and allowance for off-balance sheet items are adequate as of March 31, 2006 and December 31, 2005.

	Three Months Ended	
	March 31,	December
	2006	31,
		2005
	<i>(Dollars in Thousands)</i>	
Allowance for Loan Losses:		
Balance at Beginning of Period	\$ 24,963	\$ 24,523
Actual Charge-Offs	(1,328)	(1,356)
Recoveries on Loans Previously Charged Off	108	250
Net Loan Charge-Offs	(1,220)	(1,106)
Provision Charged to Operating Expenses	2,960	1,546
Balance at End of Period	\$ 26,703	\$ 24,963
Allowance for Off-Balance Sheet Items:		
Balance at Beginning of Period	\$ 2,130	\$ 2,024
Provision Charged to Operating Expenses		106
Balance at End of Period	\$ 2,130	\$ 2,130
Ratios:		
Net Loan Charge-Offs to Average Total Gross Loans ⁽¹⁾	0.19%	0.18%
Net Loan Charge-Offs to Total Gross Loans at End of Period ⁽¹⁾	0.19%	0.18%
Allowance for Loan Losses to Average Total Gross Loans	1.05%	1.00%
Allowance for Loan Losses to Total Gross Loans at End of Period	1.00%	1.00%
Net Loan Charge-Offs to Allowance for Loan Losses ⁽¹⁾	18.53%	17.58%
Net Loan Charge-Offs to Provision Charged to Operating Expenses	41.22%	66.95%
Allowance for Loan Losses to Non-Performing Loans	259.5%	246.4%
Balances:		
Average Total Gross Loans Outstanding During Period	\$ 2,551,228	\$ 2,498,947
Total Gross Loans Outstanding at End of Period	\$ 2,673,389	\$ 2,497,818
Non-Performing Loans at End of Period	\$ 10,291	\$ 10,131

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

We concentrate the majority of our interest-earning assets in loans. In all forms of lending, there are inherent risks. We concentrate the preponderance of our loan portfolio in 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 we believe that our underwriting criteria are prudent, outside factors can adversely impact credit quality.

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

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

reviewing the adversely graded, delinquent or otherwise questionable loans;

generating an estimate of the loss potential in each such loan;

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

evaluating the present status of each loan.

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

Deposits

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

	March 31, 2006	December 31, 2005	Increase (Decrease)	
			Amount	Percentage
	<i>(Dollars in Thousands)</i>			
Deposits:				
Demand Noninterest-Bearing	\$ 748,530	\$ 738,618	\$ 9,912	1.3%
Interest-Bearing:				
Money Market Checking	495,365	526,171	(30,806)	(5.9%)
Savings	114,336	121,574	(7,238)	(6.0%)
Time Deposits of \$100,000 or More	1,188,982	1,161,950	27,032	2.3%
Other Time Deposits	271,653	277,801	(6,148)	(2.2%)
Total Deposits	\$ 2,818,866	\$ 2,826,114	\$ (7,248)	(0.3%)

Demand deposits increased \$9.9 million, or 1.3 percent, to \$748.5 million at March 31, 2006 from \$738.6 million at December 31, 2005. This increase was due to continued efforts to increase the net interest margin by changing the deposit composition mix between interest-bearing and noninterest-bearing accounts. Money market checking, savings and other time deposits decreased \$30.8 million, or 5.9 percent, \$7.2 million, or 6.0 percent, and \$6.1 million, or 2.2 percent, respectively, to \$495.4 million, \$114.3 million and \$271.7 million, respectively, at March 31, 2006 from \$526.2 million, \$121.6 million and \$277.8 million, respectively, at December 31, 2005. These accounts decreased because customers shifted their balances into higher yielding certificates of deposit. Time deposits of \$100,000 or more increased \$27.0 million, or 2.3 percent, to \$1.19 billion at March 31, 2006 from \$1.16 billion at December 31, 2005. This growth reflects the shift away from low-yielding accounts that normally occurs as interest rates rise and depositors take advantage of the greater interest rate differentials available in the market.

Other Borrowed Funds

Other borrowed funds consist of advances from the Federal Home Loan Bank of San Francisco (FHLB) and overnight Federal funds. At March 31, 2006 and December 31, 2005, advances from the FHLB were \$93.4 million and \$43.5 million, respectively. Overnight Federal funds totaled \$38.0 million at March 31, 2006. There were no overnight Federal funds as of December 31, 2005. Among the advances from the FHLB and overnight Federal funds, short-term borrowings with a remaining maturity of less than one year were \$93.1 million, and the weighted-average interest rate thereon was 4.86 percent.

INTEREST RATE RISK MANAGEMENT

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

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The following table shows the status of the gap position as of March 31, 2006:

	Within Three Months	After Three Months But Within One Year	After One Year But Within Five Years	After Five Years	Non- Interest- Sensitive	Total
<i>(Dollars in Thousands)</i>						
ASSETS						
Cash	\$	\$	\$	\$	\$ 97,780	\$ 97,780
FRB and FHLB Stock				24,730		24,730
Securities:						
Fixed Rate	10,584	25,983	225,655	120,739		382,961
Floating Rate	6,179		33,919	7,825		47,923
Loans:						
Fixed Rate	35,926	36,335	271,471	202,451		546,183
Floating Rate	1,955,669	13,525	147,730			2,116,924
Non-Accrual					10,282	10,282
Deferred Loan Fees and Allowance for Loan Losses					(31,307)	(31,307)
Other Assets		22,932		7,461	289,115	319,508
Total Assets	\$ 2,008,358	\$ 98,775	\$ 678,775	\$ 363,206	\$ 365,870	\$ 3,514,984
LIABILITIES AND SHAREHOLDERS EQUITY						
Liabilities:						
Deposits:						
Demand Deposits	\$ 72,911	\$ 195,178	\$ 412,879	\$ 67,562	\$	\$ 748,530
Savings	17,927	35,787	53,562	7,060		114,336
Money Market Checking	66,072	163,916	210,109	55,268		495,365
Time Deposits:						
Fixed Rate	580,612	718,873	15,253	237		1,314,975
Floating Rate	145,660					145,660
Other Borrowed Funds	88,108	5,000	33,372	5,053		131,533
Junior Subordinated Debentures	82,406					82,406
Other Liabilities					42,975	42,975
Shareholders Equity					439,204	439,204
Total Liabilities and Shareholders Equity	\$ 1,053,696	\$ 1,118,754	\$ 725,175	\$ 135,180	\$ 482,179	\$ 3,514,984

Repricing Gap	\$ 954,662	\$ (1,019,979)	\$ (46,400)	\$ 228,026	\$ (116,309)
Cumulative Repricing Gap	\$ 954,662	\$ (65,317)	\$ (111,717)	\$ 116,309	\$
Cumulative Repricing Gap as a Percentage of Total Assets	27.16%	(1.86%)	(3.18%)	3.31%	
Cumulative Repricing Gap as a Percentage of Interest- Earning Assets	30.61%	(2.09%)	(3.58%)	3.73%	

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

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On March 31, 2006, the cumulative repricing gap as a percentage of interest-earning assets in the less-than-three month period was 30.61 percent. This was a slight decrease from the previous quarter's figure of 32.25 percent. The decrease was caused by growth in the fixed rate loan portfolio, including an increase of \$129.4 million in fixed rate loans maturing after three months, funded by a \$60.0 million decrease in Federal funds sold and securities purchased under agreements to resell, and an \$85.2 million increase in other borrowed funds, offset by a decrease of \$119.8 million in fixed-rate certificates of deposit maturing in less than three months as we increased the duration of our certificates of deposit portfolio. The cumulative repricing gap as a percentage of interest-earning assets in the three to twelve-month period also decreased, reaching (2.09) percent, reflecting the decrease in short-term liquid assets and increase in other borrowed funds. In terms of fixed and floating gap positions, which are used internally to control repricing risk, the accumulated fixed gap position between assets and liabilities as a percentage of interest-earning assets was (8.22) percent. The floating gap position in the less-than-one year period was 4.04 percent.

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

	Less than Three Months		Three to Twelve Months	
	March 31, 2006	December 31, 2005	March 31, 2006	December 31, 2005
	<i>(Dollars in Thousands)</i>			
Cumulative Repricing Gap	\$ 954,662	\$ 972,608	\$ (65,317)	\$ 94,299
Percentage of Total Assets	27.16%	28.49%	(1.86%)	2.76%
Percentage of Interest-Earning Assets	30.61%	32.25%	(2.09%)	3.13%

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Liquidity risk may increase when the Bank has few short-duration securities available for sale and/or is not capable of raising funds as quickly as necessary at acceptable rates in the capital or money markets. A heavy and sudden increase in cash demands for loans and/or deposits can tighten the liquidity position. Several ratios are reviewed on a daily, monthly and quarterly basis to manage the liquidity position and to preempt any liquidity crisis. 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 regularly for liquidity management purposes.

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The maintenance of a proper level of liquid assets is critical for both the liquidity and the profitability of the Bank. Since the primary purpose of the investment portfolio is to ensure the Bank has adequate liquidity management maintains appropriate levels of liquid assets to avoid exposure to higher than necessary liquidity risk.

At March 31, 2006, short-term investments totaled 1.22 percent of the Bank's total assets, compared to 3.15 percent at December 31, 2005. Core deposits, expressed as a percentage of the Bank's total assets, decreased to 34.00 percent at March 31, 2006 from 35.25 percent at December 31, 2005, while short-term non-core funding as a percentage of the Bank's total assets increased to 43.77 percent at March 31, 2006 from 41.85 percent at December 31, 2005. The ratio of short-term investments to short-term non-core funding decreased to 13.06 percent at March 31, 2006 from 18.31 percent at December 31, 2005. Off-balance sheet items, primarily unused credit lines, as a percentage of the Bank's total assets, increased to 19.75 percent at March 31, 2006 from 19.68 percent at December 31, 2005. During the three months ended March 31, 2006, the Bank continued to see strong demand for loans. Net loans as a percentage of the total assets increased to 75.2 percent at March 31, 2006 from 72.4 percent at December 31, 2005.

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, cash generated from operations, and access to capital from financial markets or the issuance of additional securities, including common stock or notes, to meet our capital needs. Total shareholders' equity was \$439.2 million at March 31, 2006, which represented an increase of \$12.4 million, or 2.9 percent, over total shareholders' equity of \$426.8 million at December 31, 2005.

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

At March 31, 2006, Hanmi Financial's Tier 1 capital (shareholders' equity plus junior subordinated debentures less intangible assets) was \$307.2 million. This represented an increase of \$36.2 million, or 13.4 percent, over Tier 1 capital of \$271.0 million at March 31, 2005. At March 31, 2006, Hanmi Financial had a ratio of total capital to total risk-weighted assets of 11.97 percent and a ratio of Tier 1 capital to total risk-weighted assets of 10.94 percent. The Tier 1 leverage ratio was 9.57 percent at March 31, 2006.

The capital ratios of Hanmi Financial and Hanmi Bank were as follows as of March 31, 2006:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(Dollars in Thousands)</i>					
Total Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 335,989	11.97%	\$ 224,639	8.00%	N/A	N/A
Hanmi Bank	\$ 333,024	11.87%	\$ 224,400	8.00%	\$ 280,500	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Hanmi Financial	\$ 307,157	10.94%	\$ 112,320	4.00%	N/A	N/A
Hanmi Bank	\$ 304,192	10.84%	\$ 112,200	4.00%	\$ 168,300	6.00%
Tier 1 Capital (to Average Total Assets):						
Hanmi Financial	\$ 307,157	9.57%	\$ 128,376	4.00%	N/A	N/A
Hanmi Bank	\$ 304,192	9.49%	\$ 128,257	4.00%	\$ 160,321	5.00%

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Dividends

On March 16, 2006, we declared a quarterly cash dividend of \$0.06 per common share for the first quarter of 2006. The dividend was paid on April 14, 2006. Future dividend payments are subject to the future earnings and legal requirements and the discretion of the Board of Directors.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of March 31, 2006, Hanmi Financial carried out an evaluation, under the supervision and with the participation of Hanmi Financial's management, including Hanmi Financial's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Hanmi Financial's disclosure controls and procedures and internal controls over financial reporting pursuant to Securities and Exchange Commission (SEC) rules. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that:

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

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

During the quarter ended March 31, 2006, there have been no significant changes in Hanmi Financial's internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the evaluation date.

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

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit

Number

Document

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

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SIGNATURES

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

HANMI FINANCIAL CORPORATION

Date: May 10, 2006

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

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

By: /s/ Michael J. Winiarski

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

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