C & F FINANCIAL CORP
Form 10-Q
August 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

¨ **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 000-23423

C&F Financial Corporation

(Exact name of registrant as specified in its charter)

Virginia	**54-1680165**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
802 Main Street	
West Point, VA	**23181**

(Address of principal executive offices) **(Zip Code)**

(804) 843-2360

(Registrant s telephone number, including area code)

(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. x 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 Rule 12b-2 of the Exhange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

At August 9, 2006, the latest practicable date for determination, 3,150,446 shares of common stock, $1.00 par value, of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share amounts)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and due from banks	$ 17,489	$ 13,316
Interest-bearing deposits in other banks	9,920	29,562
Total cash and cash equivalents	27,409	42,878
Securities-available for sale at fair value, amortized cost of $64,397 and $64,021, respectively	64,517	65,301
Loans held for sale, net	57,034	39,677
Loans, net	499,447	465,039
Federal Home Loan Bank stock	2,678	1,876
Corporate premises and equipment, net of accumulated depreciation	32,292	29,147
Accrued interest receivable	3,979	3,664
Goodwill	10,724	10,724
Other assets	17,591	13,651
Total assets	$ 715,671	$ 671,957
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing demand deposits	$ 91,448	$ 78,934
Savings and interest-bearing demand deposits	182,736	195,211
Time deposits	236,821	221,293
Total deposits	511,005	495,438
Short-term borrowings	26,403	13,529
Long-term borrowings	86,620	78,475
Trust preferred capital notes	10,310	10,310
Accrued interest payable	1,580	1,306
Other liabilities	16,030	12,813
Total liabilities	651,948	611,871
Commitments and contingent liabilities		
Shareholders equity		
Preferred stock ($1.00 par value, 3,000,000 shares authorized)		
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,149,646 and 3,140,868 shares issued and outstanding, respectively)	3,150	3,141
Additional paid-in capital	77	183
Retained earnings	60,418	55,930
Accumulated other comprehensive income, net	78	832
Total shareholders equity	63,723	60,086

Total liabilities and shareholders equity	$ 715,671	$ 671,957

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest income				
Interest and fees on loans	$ 14,172	$ 10,731	$ 26,767	$ 20,849
Interest on money market investments	144	70	275	238
Interest and dividends on securities				
U.S. government agencies and corporations	60	72	119	146
Tax-exempt obligations of states and political subdivisions	585	600	1,169	1,209
Corporate bonds and other	89	140	213	263
Total interest income	15,050	11,613	28,543	22,705
Interest expense				
Savings and interest bearing deposits	549	411	1,112	803
Certificates of deposit, $100 or more	750	367	1,364	672
Other time deposits	1,353	830	2,564	1,557
Borrowings	1,891	1,080	3,436	1,904
Total interest expense	4,543	2,688	8,476	4,936
Net interest income	10,507	8,925	20,067	17,769
Provision for loan losses	825	1,184	2,100	2,273
Net interest income after provision for loan losses	9,682	7,741	17,967	15,496
Noninterest income				
Gains on sales of loans	4,256	4,570	8,119	8,249
Service charges on deposit accounts	898	678	1,572	1,330
Other service charges and fees	1,260	1,246	2,352	2,256
Gains on calls of available for sale securities	50	15	81	15
Other income	418	386	744	792
Total noninterest income	6,882	6,895	12,868	12,642
Noninterest expenses				
Salaries and employee benefits	7,153	7,084	14,102	13,539
Occupancy expenses	1,326	892	2,534	1,847
Other expenses	2,660	2,277	5,133	4,607
Total noninterest expenses	11,139	10,253	21,769	19,993
Income before income taxes	5,425	4,383	9,066	8,145
Income tax expense	1,699	1,375	2,814	2,530
Net income	$ 3,726	$ 3,008	$ 6,252	$ 5,615

Per share data				
Net income basic	$ 1.18	$ .85	$ 1.99	$ 1.58
Net income assuming dilution	$ 1.14	$ .82	$ 1.91	$ 1.52
Cash dividends paid and declared	$ .29	$ .24	$ .56	$ .48
Weighted average number of shares basic	3,150,352	3,557,512	3,149,496	3,554,303
Weighted average number of shares assuming dilution	3,275,074	3,687,448	3,274,768	3,686,499

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
December 31, 2005	$ 3,141	$ 183		$ 55,930	$ 832	$ 60,086
Comprehensive income						
Net income			$ 6,252	6,252		6,252
Other comprehensive loss, net of tax						
Net change in unrealized net holding gains on securities, net of reclassification adjustment			(754)		(754)	(754)
Comprehensive income			$ 5,498			
Repurchase of common stock	(12)	(459)				(471)
Stock options granted		23				23
Stock options exercised	21	330				351
Cash dividends				(1,764)		(1,764)
June 30, 2006	$ 3,150	$ 77		$ 60,418	$ 78	$ 63,723

Disclosure of Reclassification Amount:

Change in unrealized net holding gains on securities during period	$ (701)
Less: reclassification adjustment for gains included in net income	(53)
Net change in unrealized net holding gains on securities	$ (754)

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
December 31, 2004	$ 3,539	$ 80		$ 64,323	$ 1,957	$ 69,899
Comprehensive income						
Net income			$ 5,615	5,615		5,615
Other comprehensive loss, net of tax						
Net change in unrealized net holding gains on securities, net of reclassification adjustment			(112)		(112)	(112)
Comprehensive income			$ 5,503			
Share repurchase-tender offer	(427)	(367)		(16,851)		(17,645)
Stock options exercised	20	287				307
Cash dividends				(1,708)		(1,708)
June 30, 2005	$ 3,132	$		$ 51,379	$ 1,845	$ 56,356

Disclosure of Reclassification Amount:	
Change in unrealized net holding gains on securities during period	$ (102)
Less: reclassification adjustment for gains included in net income	(10)
Net change in unrealized net holding gains on securities	$ (112)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 6,252	$ 5,615
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	992	695
Amortization of intangible assets		55
Provision for loan losses	2,100	2,273
Accretion of discounts and amortization of premiums on investment securities, net	17	9
Net realized gains on calls of securities	(81)	(15)
Proceeds from sale of loans	459,251	458,027
Origination of loans held for sale	(476,608)	(504,648)
Stock option compensation	23	
Change in other assets and liabilities:		
Accrued interest receivable	(315)	(407)
Other assets	(3,534)	1,947
Accrued interest payable	274	435
Other liabilities	3,217	3,030
Net cash used in operating activities	(8,412)	(32,984)
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	5,143	5,544
Purchase of securities available for sale	(5,455)	(3,273)
Net increase in customer loans	(36,508)	(48,550)
Purchase of corporate premises and equipment	(4,208)	(4,568)
Sale of corporate premises and equipment	71	128
Net purchases of Federal Home Loan Bank stock	(802)	(939)
Net cash used in investing activities	(41,759)	(51,658)
Cash flows from financing activities:		
Net increase in demand, interest bearing demand and savings deposits	39	2,770
Net increase in time deposits	15,528	14,234
Net increase in borrowings	21,019	56,110
Repurchase of common stock	(471)	(17,645)
Proceeds from exercise of stock options	351	307
Cash dividends	(1,764)	(1,708)
Net cash provided by financing activities	34,702	54,068
Net decrease in cash and cash equivalents	(15,469)	(30,574)
Cash and cash equivalents at beginning of period	42,878	45,186
Cash and cash equivalents at end of period	$ 27,409	$ 14,612
Supplemental disclosure		
Interest paid	$ 8,202	$ 4,501

Income taxes paid	$ 2,347	$ 2,773

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission. They do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2005.

In the opinion of C&F Financial Corporation s management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of June 30, 2006, the results of operations for the three and six months ended June 30, 2006 and 2005 and cash flows for the six months ended June 30, 2006 and 2005 have been made. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation) and its subsidiary, Citizens and Farmers Bank (the Bank), with all significant intercompany transactions and accounts being eliminated in consolidation.

Share-Based Compensation: Effective January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment,* which requires that the Corporation recognize expense related to the fair value of share-based compensation awards in net income.

Prior to January 1, 2006, the Corporation accounted for its three share-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, stock compensation expense was not recognized in net income, as all options granted under these plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. However, notes to prior financial statements included pro forma disclosures of the effect on net income and earnings per share as if the Corporation had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to share-based compensation.

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The following table presents the pro forma disclosures for the quarter and six months ended June 30, 2005.

(in 000 s, except per share amounts)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	$ 3,008	$ 5,615
Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	433	934
Pro forma net income	$ 2,575	$ 4,681
Earnings per share:		
Basic as reported	$ .85	$ 1.58
Basic pro forma	$ .72	$ 1.32
Diluted as reported	$ .82	$ 1.52
Diluted pro forma	$ .70	$ 1.27

The Corporation has elected to follow the modified prospective transition method allowed by SFAS No. 123(R). Under the modified prospective transition method, compensation expense is recognized prospectively for all unvested options outstanding at January 1, 2006 and for all awards modified or granted after that date. On December 20, 2005, the Corporation accelerated the vesting of all unvested stock options outstanding under the Corporation s three share-based compensation plans. The board of directors accelerated the vesting of these options in order to eliminate the Corporation s recognition of compensation expense associated with these options under the SFAS No. 123(R) modified prospective transition method. Because there were no unvested options outstanding at January 1, 2006, no share-based compensation expense has been recognized in 2006 for options granted prior to January 1, 2006. Compensation expense for the quarter and six months ended June 30, 2006 included $23,000 ($15,000 after tax) for options granted during the second quarter of 2006. As of June 30, 2006, there was $114,000 of total unrecognized compensation expense related to nonvested stock options that will be recognized over the remaining requisite service period.

Stock option plan activity for the six months ended June 30, 2006 is summarized below:

	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Value of Unexercised In-The Money Options (in 000 s)
Options outstanding, January 1, 2006	564,067	$ 30.65		
Granted	13,500	39.60		
Exercised	(20,800)	16.86		
Options outstanding at June 30, 2006	556,767	$ 31.38	7	$ 4,509
Options exercisable at June 30, 2006	543,267	$ 31.18	7	$ 4,509

* *Weighted average*

The total intrinsic value of in-the-money options exercised during the first half of 2006 was $463,000. Cash received from option exercises during the first half of 2006 was $351,000. The Corporation has a policy of issuing new shares, as opposed to repurchasing shares on the open market, to satisfy share options exercises.

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In November 2005, Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, was issued. This FSP provides an elective alternative simplified method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R). Companies may take up to one year from the effective date of the FSP to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Corporation is currently in the process of evaluating the alternative methods.

Note 2

Diluted net income per share has been calculated on the basis of the weighted average number of shares of common stock and common stock equivalents outstanding for the applicable periods. Potentially-dilutive common stock had no effect on income available to common shareholders.

Note 3

During the first six months of 2006, the Corporation repurchased 12,022 shares of its common stock in open-market transactions at prices from $39.43 to $40.00. There were no stock repurchases in the first six months of 2005.

On June 1, 2005, the Corporation made an offer to its shareholders to repurchase up to 180,000 shares of its common stock at a price of $41.00 per share. The initial expiration date of the offer was June 30, 2005. The number of shares tendered by the expiration date far exceeded the 180,000 shares initially authorized. Therefore, the Corporation s Board of Directors extended the expiration date of its offer until July 22, 2005 and increased the number of shares subject to the offer to up to 450,000 shares. The tender offer expired on July 22, 2005 and 427,186 tendered shares of the Corporation s common stock were accepted on July 27, 2005. The total cost of the repurchase, including transaction costs, approximated $17.6 million, which was reflected in the Corporation s financial statements as of and for the six months ended June 30, 2005.

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Note 4

Securities in an unrealized loss position at June 30, 2006, by duration of the period of unrealized loss, are shown below. No impairment has been recognized on any securities in a loss position based on management s intent and demonstrated ability to hold such securities to scheduled maturity or call dates and management s evaluation that there is no permanent impairment in the value of these securities.

(in 000 s)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	**$ 2,391**	**$ 54**	**$ 3,593**	**$ 150**	**$ 5,984**	**$ 204**
Mortgage-backed securities	**1,596**	**45**	**490**	**34**	**2,086**	**79**
Obligations of states and political subdivisions	**12,448**	**157**	**1,854**	**48**	**14,302**	**205**
Subtotal-debt securities	**16,435**	**256**	**5,937**	**232**	**22,372**	**488**
Preferred stock	**1,141**	**314**	**553**	**71**	**1,694**	**385**
Total temporarily impaired securities	**$ 17,576**	**$ 570**	**$ 6,490**	**$ 303**	**$ 24,066**	**$ 873**

The primary cause of the temporary impairments in the Corporation s investment in debt securities was the decline in prices as interest rates have risen. There are 65 securities totaling $22.4 million in the Corporation s debt securities portfolio considered temporarily impaired at June 30, 2006. Because the Corporation has the intent and demonstrated ability to hold these investments until a recovery of unrealized losses, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2006. The primary cause of the temporary impairments in the Corporation s investment in preferred stock was one holding in an energy company, which suffered a liquidity crisis as a result of damage to electric and gas facilities by Hurricanes Katrina and Rita. Despite the extent of the damage done, the energy company believes the impact will be relatively short term and that it has sufficient liquidity to meet its current obligations and fund its restoration efforts from its parent company s available cash and existing credit facility. The Corporation has evaluated the prospects of the energy company in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation s intent and demonstrated ability to hold this investment for a reasonable period of time sufficient for a forecasted recovery of unrealized losses, the Corporation does not consider this investment to be other-than-temporarily impaired at June 30, 2006.

Securities in an unrealized loss position at December 31, 2005 are shown below by duration of the period of unrealized loss.

(in 000 s)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S government agencies and corporations	$ 2,463	$ 36	$ 3,158	$ 84	$ 5,621	$ 120
Mortgage-backed securities	1,002	10	535	27	1,537	37
Obligations of states and political subdivisions	5,094	32	1,529	26	6,623	58
Subtotal-debt securities	8,559	78	5,222	137	13,781	215
Preferred stock	592	218	523	5	1,115	223
Total temporarily impaired securities	$ 9,151	$ 296	$ 5,745	$ 142	$ 14,896	$ 438

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Note 5

The Bank has a noncontributory defined benefit plan for which the components of net periodic benefit cost are as follows:

(in 000 s)	Three Months Ended June 30,	
	2006	**2005**
Service cost	**$ 188**	$ 137
Interest cost	**86**	74
Expected return on plan assets	**(107)**	(87)
Amortization of net obligation at transition	**(1)**	(1)
Amortization of prior service cost	**2**	2
Amortization of net loss	**11**	11
Net periodic benefit cost	**$ 179**	$ 136

(in 000 s)	Six Months Ended June 30,	
	2006	**2005**
Service cost	**$ 376**	$ 274
Interest cost	**172**	148
Expected return on plan assets	**(214)**	(174)
Amortization of net obligation at transition	**(2)**	(2)
Amortization of prior service cost	**4**	4
Amortization of net loss	**22**	22
Net periodic benefit cost	**$ 358**	$ 272

In December 2005, the Bank made a $28,000 contribution to the plan. This payment was the maximum tax-deductible contribution for 2005 allowable under the Internal Revenue Code.

Note 6

The Corporation operates in a decentralized fashion in three principal business segments: Retail Banking, Mortgage Banking and Consumer Finance. Revenues from Retail Banking operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from Consumer Finance consist primarily of interest earned on automobile loans.

The Corporation s other subsidiaries include:

- an investment company that derives revenues from brokerage services,
- an insurance company that derives revenues from insurance services, and
- a title company that derives revenues from title insurance services.

The results of these other subsidiaries are not significant to the Corporation as a whole and have been included in Other.

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(in 000 s)	Three Months Ended June 30, 2006					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	**$ 10,003**	**$ 643**	**$ 5,175**	**$**	**$ (771)**	**$ 15,050**
Gains on sales of loans		**4,265**			**(9)**	**4,256**
Other	**1,332**	**897**	**107**	**290**		**2,626**
Total operating income	**11,335**	**5,805**	**5,282**	**290**	**(780)**	**21,932**
Expenses:						
Interest expense	**3,354**	**324**	**1,651**		**(786)**	**4,543**
Provision for loan losses	**(250)**		**1,075**			**825**
Personnel expenses	**3,173**	**2,992**	**761**	**208**	**19**	**7,153**
Other	**1,969**	**1,495**	**484**	**38**		**3,986**
Total operating expenses	**8,246**	**4,811**	**3,971**	**246**	**(767)**	**16,507**
Income before income taxes	**3,089**	**994**	**1,311**	**44**	**(13)**	**5,425**
Provision for income taxes	**807**	**381**	**498**	**17**	**(4)**	**1,699**
Net income	**$ 2,282**	**$ 613**	**$ 813**	**$ 27**	**$ (9)**	**$ 3,726**
Total assets	**$ 582,242**	**$ 70,660**	**$ 128,359**	**$ 70**	**$ (65,660)**	**$ 715,671**
Capital expenditures	**$ 1,330**	**$ 67**	**$ 37**	**$ 3**	**$**	**$ 1,437**

(in 000 s)	Three Months Ended June 30, 2005					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 7,485	$ 834	$ 4,069	$	$ (775)	$ 11,613
Gains on sales of loans		4,568			2	4,570
Other	997	980	79	269		2,325
Total operating income	8,482	6,382	4,148	269	(773)	18,508
Expenses:						
Interest expense	1,899	393	1,191		(795)	2,688
Provision for loan losses	100		1,084			1,184
Personnel expenses	2,753	3,481	695	122	33	7,084
Other	1,643	1,274	201	51		3,169
Total operating expenses	6,395	5,148	3,171	173	(762)	14,125
Income before income taxes	2,087	1,234	977	96	(11)	4,383
Provision for income taxes	498	469	372	36		1,375
Net income	$ 1,589	$ 765	$ 605	$ 60	$ (11)	$ 3,008
Total assets	$ 573,581	$ 101,566	$ 114,127	$ 15	$ (117,131)	$ 672,158
Capital expenditures	$ 2,712	$ 87	$ 13	$	$	$ 2,812

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(in 000 s)	Six Months Ended June 30, 2006					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	**$ 18,633**	**$ 1,219**	**$ 10,145**	**$**	**$ (1,454)**	**$ 28,543**
Gains on sales of loans		**8,143**			**(24)**	**8,119**
Other	**2,370**	**1,657**	**215**	**507**		**4,749**
Total operating income	**21,003**	**11,019**	**10,360**	**507**	**(1,478)**	**41,411**
Expenses:						
Interest expense	**6,263**	**607**	**3,110**		**(1,504)**	**8,476**
Provision for loan losses	**(250)**		**2,350**			**2,100**
Personnel expenses	**6,333**	**5,891**	**1,485**	**355**	**38**	**14,102**
Other	**3,816**	**2,799**	**974**	**78**		**7,667**
Total operating expenses	**16,162**	**9,297**	**7,919**	**433**	**(1,466)**	**32,345**
Income before income taxes	**4,841**	**1,722**	**2,441**	**74**	**(12)**	**9,066**
Provision for income taxes	**1,205**	**658**	**927**	**28**	**(4)**	**2,814**
Net income	**$ 3,636**	**$ 1,064**	**$ 1,514**	**$ 46**	**$ (8)**	**$ 6,252**
Total assets	**$ 582,242**	**$ 70,660**	**$ 128,359**	**$ 70**	**$ (65,660)**	**$ 715,671**
Capital expenditures	**$ 3,895**	**$ 180**	**$ 130**	**$ 3**	**$**	**$ 4,208**

(in 000 s)	Six Months Ended June 30, 2005					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 14,352	$ 1,344	$ 8,301	$	$ (1,292)	$ 22,705
Gains on sales of loans		8,235			14	8,249
Other	2,072	1,753	140	428		4,393
Total operating income	16,424	11,332	8,441	428	(1,278)	35,347
Expenses:						
Interest expense	3,500	551	2,212		(1,327)	4,936
Provision for loan losses	200		2,073			2,273
Personnel expenses	5,471	6,346	1,386	273	63	13,539
Other	3,270	2,288	798	98		6,454
Total operating expenses	12,441	9,185	6,469	371	(1,264)	27,202
Income before income taxes	3,983	2,147	1,972	57	(14)	8,145
Provision for income taxes	944	815	750	21		2,530
Net income	$ 3,039	$ 1,332	$ 1,222	$ 36	$ (14)	$ 5,615
Total assets	$ 573,581	$ 101,566	$ 114,127	$ 15	$ (117,131)	$ 672,158
Capital expenditures	$ 4,436	$ 92	$ 40	$	$	$ 4,568

The Retail Banking segment extends a warehouse line of credit to the Mortgage Banking segment, providing the funds needed to originate mortgage loans. The Retail Banking segment charges the Mortgage Banking segment interest at the daily FHLB advance rate plus 50 basis points. The

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Retail Banking segment also provides the Consumer Finance segment with a portion of the funds needed to originate loans and charges the Consumer Finance segment interest at LIBOR plus 180 basis points. The Retail Banking segment acquires certain lot and permanent loans, second mortgage loans and home equity lines of credit from the Mortgage Banking segment at prices similar to those paid by third-party investors. These transactions are eliminated to reach consolidated totals. Certain corporate overhead costs incurred by the Retail Banking segment are not allocated to the Mortgage Banking, Consumer Finance and Other segments.

Note 7

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement 140*. SFAS No. 156 amends SFAS No. 140 with respect to separately-recognized servicing assets and liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract and requires all servicing assets and liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits entities to subsequently measure servicing assets and liabilities using an amortization method or fair value measurement method. Under the amortization method, servicing assets and liabilities are amortized in proportion to and over the estimated period of servicing. Under the fair value measurement method, servicing assets are measured at fair value at each reporting date and changes in fair value are reported in net income for the period the change occurs. Adoption of SFAS No. 156 is required as of the beginning of fiscal years beginning subsequent to September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements. The Corporation does not anticipate that SFAS No. 156 will have a material effect on its financial statements.

In November 2005, FSP 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, was issued. The guidance in FSP 115-1 amends SFAS No. 115 and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP 115-1 applies to investments in debt and equity securities and cost-method investments. The application guidance within FSP 115-1 includes items to consider in determining whether an investment is impaired, in evaluating if an impairment is other-than-temporary and recognizing impairment losses equal to the difference between the investment s cost and its fair value when an impairment is determined. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required for all reporting periods beginning after December 15, 2005. Adoption of FSP 115 did not have a material effect on the Corporation s financial statements.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3*. The new standard changes the requirements for the accounting for and reporting of a change in accounting principle. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented using the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle and (2) correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Adoption of SFAS No. 154 did not have a material effect on the Corporation s financial statements.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the Corporation s expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements may constitute forward-looking statements as defined by federal securities laws. These statements may address issues that involve estimates and assumptions made by management and risks and uncertainties. Actual results could differ materially from historical results or those anticipated by such statements. Factors that could have a material adverse effect on the operations and future prospects of the Corporation include, but are not limited to, changes in:

1) interest rates;

2) general economic conditions;

3) the legislative/regulatory climate;

4) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;

5) the quality or composition of the loan or investment portfolios;

6) demand for loan products;

7) deposit flows;

8) competition;

9) demand for financial services in the Corporation s market area;

10) technology;

11) reliance on third parties for key services; and

12) accounting principles, policies and guidelines.

These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein. We caution readers not to place undue reliance on those statements, which speak only as of the date of this report.

The following discussion supplements and provides information about the major components of the results of operations, financial condition, liquidity and capital resources of the Corporation. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires us to make estimates and assumptions. Those accounting policies with the greatest uncertainty and that required our most difficult, subjective or complex judgments affecting the application of these policies, and the likelihood that materially different amounts would be reported under different conditions, or using different assumptions, are described below.

Allowance for Loan Losses: We establish the allowance for loan losses through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance when we believe that the collection of the principal is unlikely. Subsequent recoveries of losses previously charged against the allowance are credited to the allowance. The allowance represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Our judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as changes in the nature and volume of the loan

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portfolio, current economic conditions that may affect a borrower s ability to repay, overall portfolio quality, concentrations of credit risk and specific potential losses. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available.

Impairment of Loans: We measure impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan (or, as a practical expedient, at the loan s observable market price) or the fair value of the collateral if the loan is collateral dependent. We consider a loan impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimate collection of all amounts due. A valuation allowance is maintained to the extent that the measure of the impaired loan is less than the recorded investment. The loans currently designated as impaired are being valued based on collateral. The reserves that we have established are based on appraisals of the collateral and have been adjusted for items such as selling costs and current conditions. We believe these adjustments are reasonable.

Impairment of Securities: Impairment of investment securities results in a write-down that must be included in net income when a market value decline below cost is other-than-temporary. We regularly review each investment security for impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market value decline, the financial health of and specific prospects for the issuer and our ability and intention with regard to holding the security to maturity.

Goodwill: Goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment using a two-step process that begins with an estimation of the fair value of the reporting unit. In assessing the recoverability of the Corporation s goodwill, all of which was recognized in connection with the Bank s acquisition of C&F Finance in September 2002, we must make assumptions in order to determine the fair value of the respective assets. Major assumptions used in determining impairment were increases in future income, sales multiples in determining terminal value and the discount rate applied to future cash flows. As part of the impairment test, we performed a sensitivity analysis by increasing the discount rate, lowering sales multiples and reducing increases in future income. We completed the annual test for impairment during the fourth quarter of 2005 and determined there was no impairment to be recognized in 2005. If the underlying estimates and related assumptions change in the future, we may be required to record impairment charges.

Defined Benefit Pension Plan: The Bank maintains a non-contributory, defined benefit pension plan for eligible full-time employees as specified by the plan. Plan assets, which consist primarily of marketable equity securities and corporate and government fixed income securities, are valued using market quotations. The Bank s actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions include the discount rate, the estimated future return on plan assets and the anticipated rate of future salary increases. Changes in these assumptions in the future, if any, may impact pension expense as measured in accordance with SFAS No. 87, *Employers Accounting for Pensions*.

Accounting for Income Taxes: Determining the Corporation s effective tax rate requires judgment. In the ordinary course of business, there are transactions and calculations for which the ultimate tax outcomes are uncertain. In addition, the Corporation s tax returns are subject to audit by various tax authorities. Although we believe that the estimates are reasonable, no assurance can be given that the final tax outcome will not be materially different than that which is reflected in the income tax provision and accrual.

For further information concerning accounting policies, refer to Note 1 of the Corporation s Consolidated Financial Statements in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

OVERVIEW

Our primary financial goals are to maximize the Corporation s earnings and to deploy capital in profitable growth initiatives that will enhance shareholder value. We track three primary performance measures in order to assess the level of success in achieving these goals: (i) return on average assets (ROA), (ii) return on average equity (ROE) and (iii) growth in earnings. In addition to these financial performance measures, we track the performance of the Corporation s three principal business activities: retail banking, mortgage banking and consumer finance. We also actively manage our capital through growth, stock repurchases and dividends.

Financial Performance Measures. For the Corporation, net income increased 23.9 percent to $3.73 million, or $1.14 per share assuming dilution, for the second quarter ended June 30, 2006 compared to $3.01 million, or 82 cents per share assuming dilution, for the second quarter of 2005. Net income for the first half of 2006 increased 11.3 percent to $6.25 million, or $1.91 per share assuming dilution, compared to $5.62 million, or $1.52 per share assuming dilution, for the first half of 2005. Earnings per share assuming dilution increased 39.0 percent for the second quarter of 2006 and 25.7 percent for the first six months of 2006 over the same periods in 2005. Highlights thus far in 2006 are the Corporation s continued earnings strength, double-digit percentage growth in earnings per share, expansion within our markets and resolution of the Corporation s single largest nonperforming loan relationship. These highlights reflect the impact of our strategic capital management and growth initiatives. While expenses associated with our growth initiatives increased during 2006, higher net income in 2006 coupled with the effect of our large share repurchase in 2005 resulted in an increase in earnings per share.

Net income for the second quarter and the first six months of 2006 included $728,000, after tax, attributable to the recovery of past due interest and a reduction in the Corporation s loan loss allowance in connection with the pay-off of previously nonperforming loans of one commercial relationship. Excluding the 22 cents per share after-tax effect of this transaction, the Corporation s earnings were $3.00 million, or 92 cents per share assuming dilution, for the second quarter ended June 30, 2006 and $5.52 million, or $1.69 per share assuming dilution, for the first half of 2006, which represents a 12.2 percent and an 11.2 percent increase in earnings per share for the three and six months ended June 30, 2006, respectively, over the same periods in 2005.

The Corporation s annualized ROE and annualized ROA were 23.72 percent and 2.16 percent, respectively, for the second quarter of 2006 and 20.25 percent and 1.84 percent, respectively, for the first half of 2006. Excluding the effect of the commercial loan pay-off, the Corporation s annualized ROE was 19.09 percent for the second quarter and 17.89 percent for the first six months of 2006, compared with 16.48 percent for the second quarter and 15.60 percent for the first half of last year. The annualized ROA, excluding the effect of the commercial loan pay-off, was 1.73 percent for the second quarter and 1.62 percent for the first six months of this year, compared with 1.90 percent for the second quarter and 1.81 percent for the first half of last year. The increase in ROE in 2006, excluding the effect of the commercial loan pay-off, resulted from the accretive effect of the share repurchase in July 2005. The decline in ROA in 2006, excluding the effect of the commercial loan pay-off, resulted from a slight decline in earnings coupled with an approximate ten percent increase in average assets, primarily loans held for investment and new facilities.

Principal Business Activities. An overview of the financial results for each of the Corporation s principal segments is presented below. A more detailed discussion is included in Results of Operations.

Retail Banking: Second quarter net income for C&F Bank increased to $2.28 million in 2006 compared to $1.59 million in 2005. Net income for the first half of 2006 increased to $3.64 million compared to $3.04 million in 2005. Net income for the second quarter and the first six months of 2006 included $728,000, after tax, recognized in connection with the pay-off of previously nonperforming loans of one commercial relationship. Excluding this amount, the Bank s second quarter net income was $1.55 million and net income for the first half of 2006 was $2.91 million. Earnings in 2006 included the effect on operating expenses of the Virginia Peninsula branch expansion and the operations center relocation, as well as interest expense on borrowings and trust preferred securities to fund our share repurchase in 2005 and higher operational and administrative personnel costs to support growth. Higher expenses were offset in part by an increase in net interest income, which resulted from an increase in both the amount of and yield on earning assets and an increase in service charges on deposit accounts. The Bank s net interest margin has benefited in the short term as variable-rate loans have repriced as short-term interest rates have increased while deposits have repriced at a more gradual pace. Future earnings of the Retail Banking segment may be impacted by net interest margin compression if the lag in deposit repricing continues to diminish.

Mortgage Banking: Second quarter net income for C&F Mortgage Corporation decreased to $613,000 in 2006 compared to $765,000 in 2005. Net income for the first half of 2006 decreased to $1.06 million compared to $1.33 million in 2005. These declines reflected reduced loan volume as demand for residential mortgage loans and refinancings has moderated as interest rates have increased. Gains on loan sales have declined due to increasingly narrow profit margins resulting from competition and ancillary fees have declined due to a decline in loan originations. C&F Mortgage has also experienced a decrease in net interest income resulting from a lower average balance of loans held for sale and net interest margin compression due to the increasing cost of funds. For the second quarter of 2006, the amount of loan originations at C&F Mortgage resulting from refinancings was $65.58 million compared to $87.4 million for the second quarter of 2005. Loans originated for new and resale home purchases for these two time periods were $196.74 million and $214.3 million, respectively. For the first half of 2006, the amount of loan originations at C&F Mortgage resulting from refinancings was $138.44 million compared to $166.50 million for the first half of 2005. Loans originated for new and resale home purchases for these two six-month periods were $338.17 million compared to $338.10 million. Future earnings of the Mortgage Banking segment may be negatively affected if the upward trend in interest rates continues and there are fewer new and resale home sales and loan refinancings. C&F Mortgage s 2006 results included a $75,000 pre-tax charge to income in the second quarter for an insurance deductible associated with an embezzlement of funds as described in Item 4.-Controls and Procedures.

Consumer Finance: Second quarter net income for C&F Finance Company increased to $813,000 in 2006 compared to $605,000 in 2005. Net income for the first half of 2006 increased to $1.51 million compared to $1.22 million in 2005. The earnings improvements in the second quarter and the first half of 2006 resulted from respective 15.7 percent and 17.3 percent increases in average loans outstanding, which more than offset the decline in C&F Finance s net interest margins attributable to increases in the cost of borrowings resulting from rising interest rates and operating expenses to support growth. Operating results in 2006 benefited from the completion of C&F Finance s conversion to a new loan system, the consolidation and relocation of its operations center to a new location in Richmond, Virginia, and a change in the third-party lender for its secured revolving line of credit with financing terms that provide for a rate reduction from the prior terms and lower administration fees all of which occurred after the first quarter of 2005. We believe that with these improvements we have

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established a platform with the capacity to support current operations and future growth, which will enhance long-term earnings. In addition to earnings growth during 2006, nonaccrual consumer finance loans as a percentage of total consumer finance loans was at an all-time low of less than one percent as of June 30, 2006, which reflected C&F Finance Company s overall effort to reduce nonperforming assets. Future earnings at the Consumer Finance segment will be further impacted by economic conditions including, but not limited to, the employment market, interest rate levels and the resale market for used automobiles.

Capital Management. Total assets grew by $43.71 million to $715.67 million during the first half of 2006. A detailed discussion of the changes in our financial position since December 31, 2005 is included in the section Financial Condition. Dividends for the first half of 2006 were 56 cents per share, a 16.7 percent increase over 48 cents per share in the first half of 2005. The weighted average number of shares outstanding in the first half of 2006 was 3,149,496 compared to 3,554,303 in the first half of 2005. This decrease resulted from the repurchase of approximately 427,000 shares of the Corporation s common stock in 2005, which was accretive to earnings per share and ROE. On November 4, 2005, the Corporation s board of directors approved the repurchase of up to an additional 5 percent of the Corporation s common stock (approximately 156,783 shares) over the twelve months ending November 3, 2006. Since inception, 12,122 shares have been repurchased under this authorization.

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RESULTS OF OPERATIONS

Net Interest Income

Selected Average Balance Sheet Data and Net Interest Margin

(in 000 s)	Three Months Ended			
	June 30, 2006		June 30, 2005	
	Average Balance	Yield/ Cost	Average Balance	Yield/ Cost
Securities	**$ 67,855**	**6.22%**	$ 70,067	6.56%
Loans held for sale	**39,913**	**6.44**	62,193	5.36
Loans	**510,203**	**10.11**	441,815	9.16
Interest bearing deposits in other banks	**11,906**	**4.84**	9,802	2.90
Total earning assets	**$ 629,877**	**9.36%**	$ 583,877	8.33%
Time and savings deposits	**$ 409,597**	**2.59%**	$ 375,346	1.71%
Borrowings	**127,374**	**5.94**	97,485	4.43
Total interest bearing liabilities	**$ 536,971**	**3.38%**	$ 472,831	2.27%
Net interest margin		**6.48%**		6.49%

(in 000 s)	Six Months Ended			
	June 30, 2006		June 30, 2005	
	Average Balance	Yield/ Cost	Average Balance	Yield/ Cost
Securities	**$ 67,247**	**6.38%**	$ 70,011	6.57%
Loans held for sale	**40,322**	**6.05**	51,365	5.23
Loans	**500,518**	**10.05**	428,086	9.13
Interest bearing deposits in other banks	**11,674**	**4.71**	19,049	2.51
Total earning assets	**$ 619,761**	**9.29%**	$ 568,511	8.24%
Time and savings deposits	**$ 409,477**	**2.46%**	$ 373,055	1.62%
Borrowings	**119,732**	**5.74**	88,145	4.32
Total interest bearing liabilities	**$ 529,209**	**3.20%**	$ 461,200	2.14%
Net interest margin		**6.55%**		6.51%

Interest income and expense are affected by fluctuations in interest rates, by changes in the volume of earning assets and interest-bearing liabilities, and by the interaction of rate and volume factors. The following tables show the direct causes of the changes in the components of net interest income on a taxable-equivalent basis from the second quarter of 2005 to the second quarter of 2006 and from the first half of 2005 to the first half of 2006. Rate/volume variances, the third element in the calculation, are not shown separately in the table, but are allocated to the rate and volume variances in proportion to the relationship of the absolute dollar amounts of the change in each. Loans include both nonaccrual loans and loans held for sale.

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(in 000 s)	Three Months Ended June 30, 2006 Increase(Decrease) Due to Changes in Rate	Volume	Total Increase (Decrease)
Interest income:			
Securities	$ (60)	$ (35)	$ (95)
Loans	2,156	1,090	3,246
Interest-bearing deposits in other banks	55	19	74
Total interest income	2,151	1,074	3,225
Interest expense:			
Time and savings deposits	775	269	1,044
Borrowings	409	402	811
Total interest expense	1,184	671	1,855
Change in net interest income	$ 967	$ 403	$ 1,370

(in 000 s)	Six Months Ended June 30, 2006 Increase(Decrease) Due to Changes in Rate	Volume	Total Increase (Decrease)
Interest income:			
Securities	$ (89)	$ (66)	$ (155)
Loans	3,090	2,825	5,915
Interest-bearing deposits in other banks	154	(117)	37
Total interest income	3,155	2,642	5,797
Interest expense:			
Time and savings deposits	1,514	494	2,008
Borrowings	748	784	1,532
Total interest expense	2,262	1,278	3,540
Change in net interest income	$ 893	$ 1,364	$ 2,257

Net interest income, on a taxable equivalent basis, for the second quarter of 2006 was $10.85 million compared to $9.48 million for the second quarter of 2005. Net interest income, on a taxable equivalent basis, for the first half of 2006 was $20.73 million compared to $18.49 million for the first half of 2005. The net interest margin was 6.48 percent for the second quarter of 2006 compared to 6.49 percent for the second quarter of 2005, and 6.55 percent for the first half of 2006 compared to 6.51 percent for the first half of 2005. The higher net interest income for both periods resulted primarily from increases in the average balance of interest-earning assets of 7.9 percent for the second quarter of 2006 and 9.0 percent for the first half of 2006 compared to the same periods in 2005. In addition, interest income for both the quarter and the six months ended June 30, 2006 included $870,000 of nonaccrual and default interest attributable to the repayment of previously nonperforming loans of one commercial relationship. Excluding the effect of the commercial loan pay-off, net interest margin decreased to 6.34 percent for the second quarter of 2006 and to 6.41 percent for the first half of 2006. These decreases were a result of a 111 basis point increase for the second quarter of 2006 and a 106 basis point increase for the first half of 2006 in the rate on interest-bearing liabilities that was offset in part by an 89 basis point increase and a 91 basis point increase for the respective periods in the yield on interest-earning assets.

Average loans held for investment increased $68.39 million and $72.43 million in the second quarter and the first half of 2006, respectively, compared to the same periods in 2005. The Retail Banking segment s average loan portfolio increased $52.42 million in the second quarter of 2006 and $55.43 million in the first half of 2006. These increases were mainly attributable to loan production in the Virginia Peninsula market and residential construction loan growth. The Consumer Finance segment s average loan portfolio increased $15.97 million in the second quarter of 2006 and $17.00 million in the first half of 2006. These increases were mainly attributable to overall growth at existing

locations. Average loans held for sale at the Mortgage Banking segment decreased $22.28 million in the second quarter of 2006 and $11.04 million in the first half of 2006. Mortgage interest rates have progressively risen over the last twelve months resulting in a decline of 13.1 percent in loan origination volume during the second quarter of 2006. The yield on loans held for investment and loans held for sale increased as a result of a general increase in interest rates since mid-2004.

Average securities available for sale decreased $2.21 million and $2.76 million for the second quarter and the first half of 2006, respectively, compared to the same periods in 2005. In addition, their average yield declined 34 basis points and 19 basis points for the second quarter and the first half of 2006, respectively. The decline in the average balance resulted from the utilization of proceeds from maturities and calls to partially fund the increase in loan demand. The yield decreases reflected the impact of the flat yield curve on long-term interest rates.

Average interest earning deposits at other banks, primarily the FHLB, increased $2.10 million and decreased $7.38 million for the second quarter and first half of 2006, respectively, compared to the same periods in 2005. Fluctuations in the average balance of these low-yielding deposits occurred in response to loan demand. The average yield on interest-earning deposits at other banks increased 194 basis points and 220 basis points for the second quarter and first half of 2006, respectively. The yield increases reflected increases in short-term interest rates, which began in mid-2004.

Although average interest-bearing deposits increased $34.25 million and $36.42 million for the second quarter and the first half of 2006, respectively, the increase in interest on deposits was influenced to a greater extent by the increase in deposit rates. The average cost of deposits increased 88 basis points for the second quarter of 2006 and 84 basis points for the first half of 2006 due to the increase in short-term interest rates, coupled with the repricing of maturing deposits at higher interest rates.

Average borrowings increased $29.89 million and $31.59 million for the second quarter and the first half of 2006, respectively, compared to the same periods in 2005. These increases resulted from additional borrowings from a third-party lender to fund the increase in loans at the Consumer Finance segment, and a new line of credit from a third-party and the issuance of trust preferred capital securities to fund the Corporation s repurchase of 427,186 shares of its common stock in 2005. The majority of these borrowings is indexed to short-term interest rates and reprice as short-term interest rates change. Accordingly, the average cost of borrowings increased 151 basis points and 142 basis points for the second quarter and the first half of 2006, respectively.

The net interest margin has benefited in the short term as prime-based loans have repriced as the prime rate has changed. However, we expect that the favorable impact of the deposit repricing lag will neutralize in the longer term and the cost of borrowings will continue to increase as short-term interest rates rise.

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Noninterest Income

(in 000 s)	Three Months Ended June 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Gains on sales of loans	$	$ 4,265	$	$ (9)	$ 4,256
Service charges on deposit accounts	898				898
Other service charges and fees	306	892	62		1,260
Gain on calls of available for sale securities	50				50
Other income	78	5	45	290	418
Total noninterest income	$ 1,332	$ 5,162	$ 107	$ 281	$ 6,882

(in 000 s)	Three Months Ended June 30, 2005				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Gains on sales of loans	$	$ 4,568	$	$ 2	$ 4,570
Service charges on deposit accounts	678				678
Other service charges and fees	270	976			1,246
Gain on calls of available for sale securities	15				15
Other income	34	4	79	269	386
Total noninterest income	$ 997	$ 5,548	$ 79	$ 271	$ 6,895

(in 000 s)	Six Months Ended June 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Gains on sales of loans	$	$ 8,143	$	$ (24)	$ 8,119
Service charges on deposit accounts	1,572				1,572
Other service charges and fees	579	1,644	129		2,352
Gain on calls of available for sale securities	81				81
Other income	138	13	86	507	744
Total noninterest income	$ 2,370	$ 9,800	$ 215	$ 483	$ 12,868

(in 000 s)	Six Months Ended June 30, 2005				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Gains on sales of loans	$	$ 8,235	$	$ 14	$ 8,249
Service charges on deposit accounts	1,330				1,330
Other service charges and fees	513	1,743			2,256
Gain on calls of available for sale securities	15				15
Other income	214	10	140	428	792

Total noninterest income	$ 2,072	$ 9,988	$ 140	$ 442	$ 12,642

Total noninterest income declined approximately 0.19 percent to $6.88 million for the second quarter of 2006 and increased 1.80 percent to $12.87 million for the first half of 2006. Total noninterest income decreased for the three and six months ended June 30, 2006 at the Mortgage Banking segment

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because of (1) lower gains on sales of loans as a result of increasingly narrow profit margins due to competition and (2) lower ancillary fees as a result of a decline in loan originations. Total noninterest income increased at the Retail Banking and Consumer Finance segments for the three and six months ended June 30, 2006 because of (1) higher service charges and fees on deposit accounts at the Retail Banking segment resulting from deposit account growth, coupled with the expansion of our overdraft protection services to PIN-generated debit card and ATM transactions and (2) higher service charges and fees at the Consumer Finance segment resulting from fees generated from loan processing and collection.

Noninterest Expenses

(in 000 s)	Three Months Ended June 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Salaries and employee benefits	**$ 3,173**	**$ 2,992**	**$ 761**	**$ 227**	**$ 7,153**
Occupancy expense	**844**	**403**	**73**	**6**	**1,326**
Other expenses	**1,125**	**1,092**	**411**	**32**	**2,660**
Total noninterest expense	**$ 5,142**	**$ 4,487**	**$ 1,245**	**$ 265**	**$ 11,139**

(in 000 s)	Three Months Ended June 30, 2005				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Salaries and employee benefits	$ 2,753	$ 3,481	$ 695	$ 155	$ 7,084
Occupancy expense	524	319	43	6	892
Other expenses	1,119	955	158	45	2,277
Total noninterest expense	$ 4,396	$ 4,755	$ 896	$ 206	$ 10,253

(in 000 s)	Six Months Ended June 30, 2006				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Salaries and employee benefits	**$ 6,333**	**$ 5,891**	**$ 1,485**	**$ 393**	**$ 14,102**
Occupancy expense	**1,571**	**817**	**134**	**12**	**2,534**
Other expenses	**2,245**	**1,982**	**840**	**66**	**5,133**
Total noninterest expense	**$ 10,149**	**$ 8,690**	**$ 2,459**	**$ 471**	**$ 21,769**

(in 000 s)	Six Months Ended June 30, 2005				
	Retail Banking	Mortgage Banking	Consumer Finance	Other and Eliminations	Total
Salaries and employee benefits	$ 5,471	$ 6,346	$ 1,386	$ 336	$ 13,539
Occupancy expense	1,128	619	88	12	1,847
Other expenses	2,142	1,669	710	86	4,607
Total noninterest expense	$ 8,741	$ 8,634	$ 2,184	$ 434	$ 19,993

Total noninterest expense increased 8.6 percent to $11.14 million for the second quarter of 2006 compared to the second quarter of 2005 and 8.9 percent to $21.77 million for the first half of 2006 compared to the first half of 2005. The Retail Banking and the Consumer Finance segments reported increases in total noninterest expense for the three and six months ended June 30, 2006 that were primarily attributable to higher personnel and operating expenses to support growth and technology enhancements at both segments. Noninterest expense of the Retail Banking segment included costs associated with our new Hampton and Kiln Creek retail banking branches on the Virginia Peninsula, both of which opened in 2006, and our new operations center, which opened in late 2005. Total noninterest expense declined in the second quarter of 2006 and remained approximately the same in the first half of 2006 at the Mortgage Banking segment because of lower personnel costs due to lower origination volume in the second quarter.

Income Taxes

Income tax expense for the second quarter of 2006 totaled $1.70 million, an effective tax rate of 31.3 percent, compared with $1.38 million, or 31.4 percent, for the second quarter of 2005. Income tax expense for the first six months of 2006 totaled $2.81 million, an effective tax rate of 31.0 percent, compared with $2.53 million, or 31.1 percent, for the first six months of 2005.

ASSET QUALITY

Allowance for Loan Losses

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduces the allowance. The following tables summarize the allowance activity for periods indicated:

(in 000 s)	Three Months Ended June 30, 2006		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	$ 4,685	$ 8,773	$ 13,458
Provision for loan losses	(250)	1,075	825
	4,435	9,848	14,283
Loans charged off	(79)	(1,008)	(1,087)
Recoveries of loans previously charged off	47	347	394
Net loans charged off	(32)	(661)	(693)
Allowance, end of period	$ 4,403	$ 9,187	$ 13,590

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(in 000 s)	Three Months Ended June 30, 2005		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	$ 4,525	$ 7,223	$ 11,748
Provision for loan losses	100	1,084	1,184
	4,625	8,307	12,932
Loans charged off	(21)	(867)	(888)
Recoveries of loans previously charged off	15	330	345
Net loans charged off	(6)	(537)	(543)
Allowance, end of period	$ 4,619	$ 7,770	$ 12,389

(in 000 s)	Six Months Ended June 30, 2006		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	**$ 4,718**	**$ 8,346**	**$ 13,064**
Provision for loan losses	**(250)**	**2,350**	**2,100**
	4,468	**10,696**	**15,164**
Loans charged off	**(226)**	**(2,124)**	**(2,350)**
Recoveries of loans previously charged off	**161**	**615**	**776**
Net loans charged off	**(65)**	**(1,509)**	**(1,574)**
Allowance, end of period	**$ 4,403**	**$ 9,187**	**$ 13,590**

(in 000 s)	Six Months Ended June 30, 2005		
	Retail and Mortgage Banking	Consumer Finance	Total
Allowance, beginning of period	$ 4,460	$ 6,684	$ 11,144
Provision for loan losses	200	2,073	2,273
	4,660	8,757	13,417
Loans charged off	(72)	(1,657)	(1,729)
Recoveries of loans previously charged off	31	670	701
Net loans charged off	(41)	(987)	(1,028)
Allowance, end of period	$ 4,619	$ 7,770	$ 12,389

There was a $315,000 decline in 2006 in the allowance for loan losses at the combined Retail Banking and Mortgage Banking segments compared to December 31, 2005. The Bank s nonperforming and accruing loans past due 90 days or more at December 31, 2005 consisted primarily of one commercial relationship to which we had allocated $865,000 of the allowance for loan losses. In May

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2006, the borrower consummated the sale of the real estate collateral for these loans and the loans were repaid in full from the sale proceeds. The decline in the allowance for loan losses resulting from the resolution of this nonperforming loan relationship was offset in part by the allocation of additional amounts in the loan loss allowance to loans downgraded during the second quarter and increased allocations for certain loans based on risks associated with industry concentrations. We believe that the current level of the allowance for loan losses of the combined Retail and Mortgage Banking segments is adequate to absorb any losses on existing loans that may become uncollectible.

The increase in the provision for loan losses during 2006 in the Consumer Finance segment, consisting solely of C&F Finance Company, occurred as a result of loan growth and higher charge-offs. The increase in charge-offs is partially attributable to fewer loan losses being deducted from dealer bad debt reserves, which are no longer being withheld from dealers. We believe that the current level of the allowance for loan losses of the Consumer Finance segment is adequate to absorb any losses on existing loans that may become uncollectible.

Nonperforming Assets

Retail and Mortgage Banking

(in 000 s)	**June 30, 2006**	**December 31, 2005**
Nonperforming assets*	**$ 1,104**	$ 4,083
Accruing loans past due for 90 days or more	**$ 3,739**	$ 3,826
Allowance for loan losses	**$ 4,403**	$ 4,718
Nonperforming assets to total loans**	**.28%**	1.11%
Allowance for loan losses to total loans**	**1.12**	1.29
Allowance for loan losses to nonperforming assets	**398.82**	115.56

* Nonperforming assets consist solely of nonaccrual loans for each period presented.

** Loans exclude Consumer Finance segment loans presented below.

Consumer Finance

(in 000 s)	**June 30, 2006**	**December 31, 2005**
Nonaccrual loans	**$ 642**	$ 1,819
Accruing loans past due for 90 days or more	**$ 32**	$ 26
Allowance for loan losses	**$ 9,187**	$ 8,346
Nonaccrual consumer finance loans to total consumer finance loans	**.53%**	1.64%
Allowance for loan losses to total consumer finance loans	**7.57%**	7.51

Nonperforming assets and accruing loans past due 90 days or more of the combined Retail and Mortgage Banking segments at December 31, 2005 consisted primarily of one commercial relationship. As previously described, these loans were repaid in full during the second quarter of 2006, which accounted for the decline in nonperforming assets in 2006. Accruing loans past due 90 days or more did not similarly decline because of the inclusion of another borrower whose loans approximating $1.89 million were repaid subsequent to June 30, 2006.

Nonaccrual loans of the Consumer Finance segment as a percentage of total consumer finance loans declined 111 basis points since December 31, 2005. Despite the improvement in asset quality, we have maintained the ratio of the allowance for loan losses to total loans at 7.57 percent because of cyclical behavior in consumer finance delinquency trends and an increase in the amount of delinquent payment deferrals. In accordance with its policies and guidelines, C&F Finance, at times, offers payment deferrals to borrowers, whereby the borrower is allowed to move up to two delinquent payments within a twelve-month rolling period to the end of the loan, generally by paying a fee. An

account for which all delinquent payments are deferred is classified as current at the time the deferment is granted and therefore is not included as a delinquent account. Thereafter, such an account is aged based on the timely payment of future installments in the same manner as any other account. We evaluate the results of this deferment strategy based upon the amount of cash installments that are collected on accounts after they have been deferred versus the extent to which the collateral underlying the deferred accounts has depreciated over the same period of time. Based on this evaluation, we believe that payment deferrals granted according to our policies and guidelines are an effective portfolio management technique and result in higher ultimate cash collections from the portfolio. Payment deferrals may affect the ultimate timing of when an account is charged off. Increased use of deferrals may result in a lengthening of the loss confirmation period, which would increase expectations of credit losses inherent in the loan portfolio and therefore increase the allowance for loan losses and related provision for loan losses.

FINANCIAL CONDITION

At June 30, 2006, the Corporation had total assets of $715.67 million compared to $671.96 million at December 31, 2005. The increase was principally a result of an increase in loans held for sale, loans held for investment and corporate premises and equipment, which was offset in part by a decline in interest-bearing deposits in other banks. Growth in loan demand was funded by reducing the amount the Corporation placed in lower-yielding overnight funds and additional borrowings. The increase in corporate premises resulted from expenditures associated with the completion of the Bank s Hampton and Kiln Creek branches, which opened in 2006, and the ongoing renovation of two branch buildings acquired in 2005 and located in the Richmond, Virginia area.

Loan Portfolio

The following table sets forth the composition of the Corporation s loans held for investment in dollar amounts and as a percentage of the Corporation s total gross loans held for investment at the dates indicated:

(in 000 s)	**June 30, 2006**		**December 31, 2005**	
	Amount	**Percent**	**Amount**	**Percent**
Real estate - mortgage	**$ 104,125**	**20%**	$ 96,850	21%
Real estate - construction	**17,191**	**3**	20,222	4
Commercial, financial and agricultural	**236,151**	**46**	216,081	45
Equity lines	**24,984**	**5**	24,662	5
Consumer	**9,697**	**2**	9,574	2
Consumer- C&F Finance	**121,315**	**24**	111,141	23
Total loans	**513,463**	**100%**	478,530	100%
Less unearned loan fees	**(426)**		(427)	
Less allowance for loan losses				
Retail and Mortgage Banking	**(4,403)**		(4,718)	
Consumer Finance	**(9,187)**		(8,346)	
Total loans, net	**$ 499,447**		$ 465,039	

The increase in loans held for investment occurred predominantly in (1) the variable-rate category of commercial loans and (2) the fixed-rate category of consumer loans at C&F Finance. Typically, growth in the variable-rate categories will favorably impact net interest margin in a rising interest rate environment. Fixed-rate consumer loans at C&F Finance are funded by variable-rate borrowings; therefore, net interest margin will be negatively impacted in a rising interest rate environment.

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Investment Securities

The following table sets forth the composition of the Corporation s securities available for sale in dollar amounts at fair value and as a percentage of the Corporation s total securities available for sale at the dates indicated:

(in 000 s)	June 30, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
U.S. government agencies and corporations	**$ 5,984**	**9%**	$ 6,118	9%
Mortgage-backed securities	**2,519**	**4**	2,562	4
Obligations of states and political subdivisions	**52,303**	**81**	52,524	81
Total debt securities	**60,806**	**94**	61,204	94
Preferred stock	**3,711**	**6**	4,097	6
Total available for sale securities	**$ 64,517**	**100%**	$ 65,301	100%

Deposits

Deposits totaled $511.01 million at June 30, 2006 compared to $495.44 million at December 31, 2005. This increase was primarily attributable to (i) the increase in noninterest bearing deposits, which totaled $91.45 million at June 30, 2006 compared with $78.93 million at December 31, 2005 and (ii) the increase in time deposits, which totaled $236.82 million at June 30, 2006 compared with $221.29 million at December 31, 2005. The increase in noninterest bearing deposits resulted from seasonal funds management requirements of our depositors. The increase in time deposits resulted from the effect of our competitive rate-setting strategies.

Other Borrowings

Borrowings totaled $113.02 million at June 30, 2006 compared with $92.00 million at December 31, 2005. This increase occurred in (i) the Bank s short-term borrowings from the FHLB to fund the increase in loans held for sale at C&F Mortgage and (ii) C&F Finance s line of credit to fund loan growth.

Off-Balance Sheet Arrangements

As of June 30, 2006, there have been no material changes to the off-balance sheet arrangements disclosed in Management s Discussion and Analysis in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

Contractual Obligations

As of June 30, 2006, there have been no material changes outside the ordinary course of business to the contractual obligations disclosed in Management s Discussion and Analysis in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

Liquidity

Liquid assets, which include unrestricted cash and due from banks, interest bearing deposits at other banks and nonpledged securities available-for-sale, at June 30, 2006 totaled $53.68 million. The Corporation s funding sources consist of an established federal funds line with a regional correspondent bank of $14.0 million that had no outstanding balance as of June 30, 2006, an established line with the FHLB that had $30.0 million outstanding under a total line of $126.85 million as of June 30, 2006, an unsecured revolving line of credit with a third-party lender that had $7.0 million outstanding under a total line of $7.0 million as of June 30, 2006 and a revolving line of credit with a third party bank that had $71.62 million outstanding under a total line of $100.0 million as of June 30, 2006. We have no reason to believe these arrangements will not be renewed at their respective maturities.

As a result of the Corporation s management of liquid assets and the ability to generate liquidity through liability funding, we believe that the Corporation maintains overall liquidity sufficient to satisfy its operational requirements and contractual obligations.

Capital Resources

The Corporation s and the Bank s actual capital amounts and ratios are presented in the following table.

	Actual		**Minimum Capital Requirements**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
(in 000 s)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2006:						
Total Capital (to Risk-Weighted Assets)						
Corporation	**$ 69,901**	**12.1%**	**$ 46,195**	**8.0%**	**N/A**	**N/A**
Bank	**72,434**	**12.7**	**45,785**	**8.0**	**$ 57,232**	**10.0%**
Tier I Capital (to Risk-Weighted Assets)						
Corporation	**62,605**	**10.8**	**23,097**	**4.0**	**N/A**	**N/A**
Bank	**65,201**	**11.4**	**22,893**	**4.0**	**34,339**	**6.0**
Tier I Capital (to Average Assets)						
Corporation	**62,605**	**9.2**	**27,235**	**4.0**	**N/A**	**N/A**
Bank	**65,201**	**9.7**	**27,040**	**4.0**	**33,800**	**5.0**
As of December 31, 2005:						
Total Capital (to Risk-Weighted Assets)						
Corporation	$ 65,295	12.2%	$ 42,707	8.0%	N/A	N/A
Bank	67,144	12.7	42,291	8.0	$ 52,864	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Corporation	58,531	11.0	21,354	4.0	N/A	N/A
Bank	60,463	11.4	21,146	4.0	31,718	6.0
Tier I Capital (to Average Assets)						
Corporation	58,531	8.9	26,270	4.0	N/A	N/A
Bank	60,463	9.3	26,025	4.0	32,531	5.0

The capital ratios presented above for the Corporation include the effect of the Corporation s repurchase of 427,186 shares of its common stock at $41 per share on July 27, 2005. On July 21, 2005, the Corporation issued $10.0 million of trust preferred securities through a statutory business trust to partially fund the share repurchase. The trust preferred securities are treated as Tier 1 capital for regulatory capital adequacy determination purposes up to 25 percent of Tier 1 capital after their inclusion. Accordingly, the entire $10.0 million of the Corporation s trust preferred securities is included in Tier 1 capital in the Corporation s capital ratios presented above.

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Effects of Inflation

The effect of changing prices on financial institutions is typically different from other industries as the Corporation s assets and liabilities are monetary in nature. Interest rates are significantly impacted by inflation, but neither the timing nor the magnitude of the changes is directly related to price level indices. Impacts of inflation on interest rates, loan demand and deposits are reflected in the consolidated financial statements.

Use of Certain Non-GAAP Financial Measures

In addition to results presented in accordance with United States generally accepted accounting principles (GAAP), we have presented certain non-GAAP financial measures throughout this Form 10-Q, which are reconciled to GAAP financial measures below. We believe these non-GAAP financial measures provide information useful to investors in understanding the Corporation s performance trends and facilitate comparisons with its peers. Specifically, we believe the exclusion of a significant recovery of income recognized in a single accounting period permits a comparison of results for ongoing business operations, and it is on this basis that we internally assesses the Corporation s performance and establish goals for future periods. Although we believe the non-GAAP financial measures presented in this Form 10-Q enhance investors understandings of the Corporation s performance, these non-GAAP financial measures should not be considered an alternative to GAAP basis financial statements.

Reconciliation of Certain Non-GAAP Financial Measures

(dollars in thousands, except for per share data)

	*	For the Quarter Ended 6/30/06	For the Quarter Ended 6/30/05	For the Six Months Ended 6/30/06	For the Six Months Ended 6/30/05
Net Income and Earnings Per Share					
Net income (GAAP)	A	$ 3,726	$ 3,008	$ 6,252	$ 5,615
Nonaccrual and default interest attributable to loan transaction, net of income taxes (GAAP)		(565)		(565)	
Reduction in loan loss allowance attributable to loan transaction, net of income taxes (GAAP)		(163)		(163)	
Net income, excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B	$ 2,998	$ 3,008	$ 5,524	$ 5,615
Weighted average shares assuming dilution (GAAP)	C	3,275	3,687	3,275	3,687
Weighted average shares basic (GAAP)	D	3,150	3,558	3,149	3,554

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Reconciliation of Certain Non-GAAP Financial Measures (Continued)

(dollars in thousands, except for per share data)

	*	For the Quarter Ended 6/30/06	For the Quarter Ended 6/30/05	For the Six Months Ended 6/30/06	For the Six Months Ended 6/30/05
Net Income and Earnings Per Share (Continued)					
Earnings per share assuming dilution					
GAAP	A/C	$ 1.14	$ .82	$ 1.91	$ 1.52
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/C	$ .92	$ .82	$ 1.69	$ 1.52
Earnings per share basic					
GAAP	A/D	$ 1.18	$ .85	$ 1.99	$ 1.58
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	B/D	$ .95	$ .85	$ 1.75	$ 1.58
Annualized Return on Average Assets					
Average assets (GAAP)	E	$ 691,600	$ 634,472	$ 681,210	$ 620,093
Annualized return on average assets					
GAAP	(A/E)*4	2.16%	1.90%		
GAAP	(A/E)*2			1.84%	1.81%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/E)*4	1.73%	1.90%		
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/E)*2			1.62%	1.81%
Annualized Return on Average Equity					
Average equity (GAAP)	F	$ 62,824	$ 73,013	$ 61,763	$ 71,969
Annualized return on average assets					
GAAP	(A/F)*4	23.72%	16.48%		
GAAP	(A/F)*2			20.25%	15.60%
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/F)*4	19.09%	16.48%		
Excluding nonaccrual and default interest and reduction in loan loss allowance attributable to loan transaction	(B/F)*2			17.89%	15.60%

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Reconciliation of Certain Non-GAAP Financial Measures (Continued)

(dollars in thousands, except for per share data)

		For the Quarter Ended		For the Six Months Ended	
	*	6/30/06	6/30/05	6/30/06	6/30/05
Retail Banking Segment Net Income					
Net income (GAAP)		$ 00000">			
	$ 245,709	$ 232,289	$ 226,707	$ 258,620	$ 254,617

Non-performing Assets

Non-performing assets consist of non-accrual loans, accruing loans that are 90 days or more past due, accruing restructured loans and OREO.

Loans are placed on non-accrual status when they become 90 days or more past due, unless the loan is both well-secured and in the process of collection. Loans may be placed on non-accrual status earlier if the full and timely collection of principal or interest becomes uncertain. When a loan is placed on non-accrual status, unpaid accrued interest is charged against interest income. Loans are charged off when the collection is determined unlikely. Loans are restructured when, for economic or legal reasons related to the borrower s financial difficulties, the bank grants a concession to the borrower that it would not otherwise consider. OREO consists of real estate acquired by the Bank through foreclosure or similar means, including by deed from the owner in lieu of foreclosure, and is held for sale.

Non-performing assets were $80.5 million at December 31, 2010, compared to $118.1 million at December 31, 2009. The change in non-performing assets in 2010 was primarily due to decreases in restructured loans. Restructured loans as defined by FASB ASC 310-40 Troubled Debt Restructurings by Creditors , decreased during 2010 to $35.1 million at December 31, 2010, compared to $64.3 million at December 31, 2009. Of the $29.2 million in decreased levels of non-performing TDR s, $13.6 million is attributable to 47 loans which were included in the bulk loan pool sale effective as of June 30, 2010.

The amount of additional interest income that the Bank would have recorded in 2010, 2009 and 2008, if non-accrual loans had been current in accordance with their original contracted terms, was $2.3 million, $3.2 million and $348 thousand, respectively. The following table illustrates the composition of non-performing assets as of the dates indicated:

			December 31,		
(Dollars in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Non-accrual loans	$ 43,803	$ 51,674	$ 37,580	$ 16,592	$ 3,271
Loans past due 90 days or more, still accruing					
Total nonperforming loans	43,803	51,674	37,580	16,592	3,271
Other real estate owned	1,581	2,044	2,969		
Restructured loans	35,103	64,341	3,256	765	298
Total non-performing assets	**$ 80,487**	**$ 118,059**	**$ 43,805**	**$ 17,357**	**$ 3,569**

We did not have any commitments to extend additional credit on restructured loans as of December 31, 2010 or 2009.

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The following table provides information on nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2010 and 2009:

	As of December 31, 2010		
	Non-accrual Loans*	Loans past due 90 days or more, still accruing*	Total nonperforming loans*
	(In Thousands)		
Real estate loans:			
Residential	$	$	$
Commercial			
Retail	1,615		1,615
Hotel & Motel	1,187		1,187
Gas Station & Car Wash	3,054		3,054
Mixed Use	3,968		3,968
Industrial & Warehouse	3,690		3,690
Other	4,834		4,834
Construction	8,547		8,547
Total	26,895		26,895
Commercial business	15,991		15,991
Trade finance	469		469
Consumer and other	448		448
	$ 43,803	$	$ 43,803

* Adjustment to recorded investment is not deemed material to this presentation.

	As of December 31, 2009		
	Non-accrual Loans*	Loans past due 90 days or more, still accruing*	Total nonperforming loans*
	(In Thousands)		
Real estate loans:			
Residential	$	$	$
Commercial			
Retail	6,660		6,660
Hotel & Motel	4,489		4,489
Gas Station & Car Wash	8,413		8,413
Mixed Use	6,595		6,595
Industrial & Warehouse	1,729		1,729
Other	12,468		12,468
Construction			
Total	40,354		40,354
Commercial business	10,275		10,275
Trade finance			
Consumer and other	1,045		1,045
	$ 51,674	$	$ 51,674

* Adjustment to recorded investment is not deemed material to this presentation.

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The following tables present information on nonaccrual loans by type of businesses the borrowers are engaged in as of December 31, 2010 and 2009:

	December 31, 2010					
Type of Business	**Real Estate and Rental and Leasing**	**Retail Trade/ Wholesale Trade**	**Construction**	**Finance and Insurance**	**Other**	**Total**
			(In Thousands)			
Real estate loans:						
Residential	$	$	$	$	$	$
Commercial	9,460	4,506	894		3,488	18,348
Construction			8,547			8,547
Total	9,460	4,506	9,441		3,488	26,895
Commercial business	939	4,654	34	5,027	5,337	15,991
Trade finance		469				469
Consumer and other					448	448
	$ 10,399	$ 9,629	$ 9,475	$ 5,027	$ 9,273	$ 43,803

	December 31, 2009					
Type of Business	**Real Estate and Rental and Leasing**	**Retail Trade/ Wholesale Trade**	**Construction**	**Finance and Insurance**	**Other**	**Total**
			(In Thousands)			
Real estate loans:						
Residential	$	$	$	$	$	$
Commercial	11,145	9,768	1,702	1,494	16,245	40,354
Construction						
Total	11,145	9,768	1,702	1,494	16,245	40,354
Commercial business	1,608	4,988	318		3,361	10,275
Trade finance						
Consumer and other		749			296	1,045
	$ 12,753	$ 15,505	$ 2,020	$ 1,494	$ 19,902	$ 51,674

Maturity and Repricing of Loans

The following table illustrates the maturity distribution and repricing intervals of loans outstanding as of December 31, 2010. The table also shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates.

(Dollars in thousands)	December 31, 2010 Loans Maturing and repricing			
	Within One Year	Between One and Five Years	After Five Years	Total Loans Outstanding
Real estate loans:				
Residential	$	$ 2,166	$ 97	$ 2,263
Commercial	158,612	1,067,039	298,999	1,524,650
Construction	32,285	14,615		46,900
Total real estate loans	190,897	1,083,820	299,096	1,573,813
Commercial business loans	125,344	299,236	67,231	491,811
Trade finance loans	57,430			57,430
Consumer loans	8,222	4,051	995	13,268
Total	$ 381,893	$ 1,387,107	$ 367,322	$ 2,136,322
Loans with fixed interest rates	$ 92,826	$ 804,103	$ 125,704	$ 1,022,633
Loans with variable interest rates without interest rate floors	102,558	357,507	117,716	577,781
Loans with variable interest rates with interest rate floors	186,510	225,496	123,902	535,908
Total	$ 381,894	$ 1,387,106	$ 367,322	$ 2,136,322

Concentrations

Loan concentrations are considered to exist when there are significant amounts of loans to multiple borrowers engaged in similar activities, which would cause them to be similarly affected by economic or other conditions. The following table summarizes the industry concentrations exceeding 10% of our loan portfolio as of the dates indicated:

(Dollars in thousands)	2010		2009		December 31, 2008		2007		2006	
	Amount	% of Portfolio Percent	Amount	% of Portfolio Percent	Amount	% of Portfolio Percent	Amount	% of Portfolio Percent	Amount	% of Portfolio Percent
Wholesale Trade	$ 149,686	7%	$ 126,017	6%	$ 129,541	6%	$ 196,853	10%	$ 193,194	11%
Retail Trade	521,349	24%	515,009	23%	524,763	25%	508,252	25%	441,434	26%
Services	485,738	23%	655,981	30%	639,807	30%	573,455	29%	483,708	28%
Finance, Insurance, Property Management	727,767	34%	748,264	34%	633,572	30%	628,683	31%	538,062	31%
Total	$ 1,884,540	88%	$ 2,045,271	93%	$ 1,927,683	92%	$ 1,907,243	95%	$ 1,656,398	96%
Total Loans Outstanding	$ 2,136,322		$ 2,211,286		$ 2,099,948		$ 2,010,188		$ 1,717,032	

Our lending activities are predominately in California, in the New York City metropolitan area, and New Jersey. At December 31, 2010, California represented 62% of the total loans outstanding and New York and New Jersey represented 29%. The remaining 9% of total loans outstanding represented other states. Although we have a diversified loan portfolio, a substantial portion of the loan portfolio and credit

performance depends on the

economic stability of Southern California. California has experienced significant declines in real estate values and adverse effects of the recession. California s unemployment rate in December 2010 was approximately 12.5%. Our loan portfolio has been affected by the economy, but the impact is lessened by having most of its loans in large metropolitan California cities rather than in the outlying suburban communities that have seen higher declines in real estate values.

Allowance for Loan Losses

The Bank has implemented a multi-faceted process to identify, manage, and mitigate the credit risks that are inherent in the loan portfolio. For new loans, we fully analyze each loan application package, with experienced reviewers and approvers. In accordance with current lending approval authority guidelines, a majority of loans are approved by the Management Loan Committee (MLC), which is comprised of the Chief Executive Officer, Chief Credit Officer, Chief Operating Officer, and Eastern Regional Manager**.** For existing loans, the Bank maintains a systematic loan review program, which includes internally conducted reviews and quarterly reviews by external loan review consultants. Based on these reviews, loans are graded as to their overall credit quality, which is measured based on: the sufficiency of credit and collateral documentation; proper lien perfection; proper approval by loan committee(s); adherence to any loan agreement covenants; compliance with internal policies and procedures, and with laws and regulations; adequacy and strength of repayment sources including borrower or collateral generated cash flow; payment performance; and liquidation value of the collateral. We closely monitor loans that management has determined require further supervision because of the loan size, loan structure, and/or specific circumstances of the borrower.

When principal or interest on a loan is 90 days or more past due, a loan is normally placed on non-accrual status unless it is considered to be both well-secured and in the process of collection. Further, a loan is considered a loss in whole or in part when (1) it appears that loss exposure on the loan exceeds the collateral value for the loan, (2) servicing of the unsecured portion has been discontinued, or (3) collection is not anticipated due to the borrower s financial condition and general economic conditions in the borrower s industry. Any loan or portion of a loan judged by management to be uncollectible is charged against the allowance for loan losses, while any recoveries are credited to such allowance.

The allowance for loan losses was $62.3 million at December 31, 2010, compared to $59.4 million at December 31, 2009. The allowance for loan losses increased $2.9 million, or 4.9%, during 2010, primarily due to the effect of increased charge-offs on historical loss rates for loans subject to general loan loss allowances, and increased specific reserves on impaired loans. The Bank recorded provisions for loan losses of $84.6 million in 2010, compared to $61.0 million in 2009 and $48.8 million in 2008. During 2010, the Bank charged off $84.7 million in loans outstanding, and recovered $2.9 million in loans previously charged off. The increase in charge-off during 2010 included $26.3 million of additional charge-offs related to loans transferred to held-for-sale at June 30, 2010. Total Watch List loans at December 31, 2010 were $165.6 million compared to $199.9 million at December 31, 2009. The allowance for loan losses was 2.92% of gross loans at December 31, 2010, compared to 2.69% at December 31, 2009.

For loans not classified as impaired loans, general loan loss allowances are provided to cover probable and inherent losses. The allowance is determined based first on a quantitative analysis using a loss migration methodology. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. See Financial Condition Allowance for Loan Losses Methodology for a detailed description of our loan loss methodology.

Impaired loans as defined by FASB ASC 310-10-35, Accounting by Creditors for Impairment of a Loan totaled $122.7 million and $120.5 million, respectively as of December 31, 2010 and December 31, 2009, with specific allowances of $21.1 million and $19.8 million, respectively. Management and the Loan and Credit Policy Committee of the Bank review the adequacy of the allowance for loan losses at least quarterly. Based upon these evaluations, and internal and external reviews of the overall quality of our loan portfolio, management and the LCPC believe that the allowance for loan losses was adequate to absorb estimated probable incurred losses inherent in the loan portfolio as of December 31, 2010. However, no assurances can be given that the Bank will not experience further losses in excess of the allowance, which may require additional future provisions for loan losses.

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The following table provides information on impaired loans for the periods indicated:

	As of and for the Year Ended December 31,	
	2010	2009
	(In Thousands)	
With Allocated Allowance		
Without charge-off	$ 63,944	$ 69,771
With charge-off	4,188	3,385
With No Allocated Allowance		
Without charge-off	42,015	32,253
With charge-off	12,540	15,131
Allowance on Impaired Loans	(21,102)	(19,803)
Impaired Loans, net of allowance	$ 101,585	$ 100,737
Average Impaired Loans	$ 123,242	$ 84,593

The year-end impaired loans are set forth in the following table:

	As of December 31, 2010		
	Impaired Loan Balance*	Related Allowance	Average Balance
		(In Thousands)	
With Related Allowance:			
Real Estate Residential	$	$	$
Real Estate Commercial			
Retail	7,347	(1,518)	7,498
Hotel & Motel	5,349	(987)	11,439
Gas Station & Car Wash	3,142	(1,411)	8,844
Mixed Use	308	(53)	2,334
Industrial & Warehouse	7,539	(1,729)	2,453
Other	2,697	(448)	5,711
Real Estate Construction	5,789	(1,686)	4,027
Commercial Business	35,961	(13,270)	29,753
Trade Finance			
Consumer and Other			89
	$ 68,132	$ (21,102)	$ 72,148
With No Related Allowance			
Real Estate Residential	$	$	$
Real Estate Commercial			
Retail	9,127		10,100
Hotel & Motel	8,619		7,299
Gas Station & Car Wash	5,197		8,361
Mixed Use	3,660		4,635
Industrial & Warehouse	367		2,510
Other	17,530		10,853
Real Estate Construction	4,469		2,481
Commercial Business	5,029		4,550
Trade Finance	469		287
Consumer and Other	88		18

	$ 54,555	$	$ 51,094
Total	$ 122,687	$ (21,102)	$ 123,242

* Adjustment to recorded investment is not deemed material to this presentation.

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	As of December 31, 2009	
	Impaired Loan Balance*	Related Allowance
	(In Thousands)	
With Related Allowance:		
Real Estate Residential	$	$
Real Estate Commercial		
Retail	7,954	(1,812)
Hotel & Motel	13,743	(3,143)
Gas Station & Car Wash	20,496	(3,965)
Mixed Use	5,459	(1,067)
Industrial & Warehouse	358	(54)
Other	2,674	(811)
Real Estate Construction	2,342	(275)
Commercial Business	20,130	(8,676)
Trade Finance		
Consumer and Other		
	$ 73,156	$ (19,803)
With No Related Allowance		
Real Estate Residential	$	$
Real Estate Commercial		
Retail	8,390	
Hotel & Motel	8,864	
Gas Station & Car Wash	8,896	
Mixed Use	4,693	
Industrial & Warehouse	1,443	
Other	11,630	
Real Estate Construction		
Commercial Business	3,468	
Trade Finance		
Consumer and Other		
	$ 47,384	$
Total	$ 120,540	$ (19,803)

* Adjustment to recorded investment is not deemed material to this presentation.

The following table illustrates total delinquent loans as of the dates indicated:

DELINQUENT LOANS BY TYPE*	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
			(In thousands)		
Real estate Residential	$ 46	$ 784	$	$	$
Real estate Commercial	21,016	51,876	22,230	24,810	3,458
Real estate Construction	8,547		6,179		
Commercial business	17,530	15,303	20,937	8,797	4,389
Trade finance	469		93	37	
Consumer and other	491	1,514	1,776	1,030	1,104
Total Delinquent Loans	$ 48,099	$ 69,477	$ 51,215	$ 34,674	$ 8,951

Non-accrual loans included above	$ 43,803	$ 51,674	$ 37,580	$ 16,592	$ 3,271

* Delinquent over 30 days, including non-accrual loans, but excluding the guaranteed portion of delinquent SBA loans

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The following table presents the aging of past due loans as of December 31, 2010 and 2009 by class of loans:

	As of December 31, 2010			
	30-59 Days Past Due*	60-89 Days Past Due*	Greater than 90 Days Past Due*	Total Past Due*
	(In Thousands)			
Real estate Residential	$ 46	$	$	$
Real estate Commercial				
Retail	950	188	1,615	2,753
Hotel & Motel	455		1,187	1,642
Gas Station & Car Wash			3,054	3,054
Mixed Use	401		3,968	4,369
Industrial & Warehouse	133	239	3,690	4,062
Other	302		4,834	5,136
Real estate Construction			8,547	8,547
Commercial business	684	855	15,991	17,530
Trade finance			469	469
Consumer and other	41	2	448	491
	$ 3,012	$ 1,284	$ 43,803	$ 48,099

	As of December 31, 2009			
	30-59 Days Past Due*	60-89 Days Past Due*	Greater than 90 Days Past Due*	Total Past Due*
	(In Thousands)			
Real estate Residential	$ 784	$	$	$ 784
Real estate Commercial				
Retail	257	224	6,660	7,141
Hotel & Motel	7,940		4,489	12,429
Gas Station & Car Wash	1,543		8,413	9,956
Mixed Use	335		6,595	6,930
Industrial & Warehouse		72	1,729	1,801
Other	714	437	12,468	13,619
Real estate Construction				
Commercial business	2,931	2,097	10,275	15,303
Trade finance				
Consumer and other	423	46	1,045	1,514
	$ 14,927	$ 2,876	$ 51,674	$ 69,477

* Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

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We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. This analysis is performed at least on a quarterly basis. We use the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table illustrates total watch list loans as of the dates indicated:

WATCH LIST LOANS	12/31/2010	12/31/2009	12/31/2008 (In thousands)	12/31/2007	12/31/2006
Special Mention	$ 29,573	$ 42,671	$ 71,169	$ 9,351	$ 4,708
Substandard	135,774	153,535	55,622	20,226	3,521
Doubtful	260	3,655	9,883	1,210	1,473
Loss				10	28
Total Watch List Loans	$ 165,607	$ 199,861	$ 136,674	$ 30,797	$ 9,730

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2010 and 2009, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	As of December 31, 2010			
	Special Mention	Substandard	Doubtful	Total
Real estate Residential	$	$ 46		$ 46
Real estate Commercial				
Retail	1,948	18,898		20,846
Hotel & Motel	10,896	15,490		26,386
Gas Station & Car Wash	8,798	8,923		17,721
Mixed Use	364	5,887		6,251
Industrial & Warehouse	385	8,871		9,256
Other	1,865	21,431		23,296
Real estate Construction		10,257		10,257
Commercial business	4,182	45,054	260	49,496
Trade finance	305	469		774
Consumer and other	830	448		1,278

Total Watch List Loans	$ 29,573	$ 135,774	$ 260	$ 165,607

	As of December 31, 2009			
	Special Mention	Substandard	Doubtful	Total
Real estate Residential	$ 784	$	$	$ 784
Real estate Commercial				
Retail	9,464	24,482		33,946
Hotel & Motel	9,783	27,262		37,045
Gas Station & Car Wash		37,532		37,532
Mixed Use	2,233	10,543		12,776
Industrial & Warehouse		3,017		3,017
Other	7,382	19,924		27,306
Real estate Construction	5,802	736		6,538
Commercial business	7,223	29,743	2,906	39,872
Trade finance				
Consumer and other		296	749	1,045
Total Watch List Loans	$ 42,671	$ 153,535	$ 3,655	$ 199,861

The following table shows the provision made for loan losses, the amount of loans charged off, the recoveries on loans previously charged off together with the balance in the allowance for loan losses at the beginning and end of each year, the amount of average and total loans outstanding, and other pertinent ratios as of the dates and for the years indicated:

(Dollars in thousands)			December 31,		
	2010	2009	2008	2007	2006
LOANS:					
Average gross loans receivable, including loans held for sale	$ 2,159,894	$ 2,124,615	$ 2,089,803	$ 1,879,457	$ 1,593,453
Total gross loans receivables, excluding loans held for sale at end of year (net of deferred fees)	2,134,061	2,208,943	2,098,443	2,008,729	1,714,865
ALLOWANCE:					
Balance beginning of year	$ 59,424	$ 43,419	$ 20,035	$ 19,112	$ 17,618
Loans charged off:					
Commercial real estate	58,291	18,218	4,763		
Construction	848	6,116	2,614		
Commercial business loans	24,157	19,775	17,801	6,568	2,553
Consumer and other loans	1,356	1,577	515	880	1,108
Total loans charged off	84,652	45,686	25,693	7,448	3,661
Less: recoveries:					
Commercial and industrial real estate	770	166	49		
Commercial business loans	1,951	445	100	646	970
Consumer and other loans	197	57	103	195	431
Total loan recoveries	2,918	668	252	841	1,401
Net loans charged off	81,734	45,018	25,441	6,607	2,260
Provision for loan losses	84,630	61,023	48,825	7,530	3,754
Balance end of year	**$ 62,320**	**$ 59,424**	**$ 43,419**	**$ 20,035**	**$ 19,112**

(Dollars in thousands)	December 31,				
	2010	2009	2008	2007	2006
RATIOS:					
Net loan charge-offs to average total loans	3.76%	2.12%	1.22%	0.35%	0.14%
Allowance for loan losses to total loans at end of year	2.92%	2.69%	2.07%	1.00%	1.11%
Net loan charge-offs to beginning allowance	137.54%	103.68%	126.98%	34.57%	12.83%
Net loan charge-offs to provision for loan losses	96.58%	73.77%	52.11%	87.74%	60.20%
Allowance for loan losses to nonperforming loans	142%	115%	116%	121%	584%

The activity in the allowance for loan losses by class of loans for the year ended December 31, 2010 is as follows:

		Real estate - Commercial											
	Real estate - Residential	Retail	Hotel & Motel	Gas Station & Car Wash	Mixed Use	Industrial & Warehouse	Other	Real estate - Construction	Commercial Business	Trade Finance	Consumer and other	Unallocated	Total
Balance, beginning of year	$ 18	$ 7,068	$ 10,506	$ 9,034	$ 3,032	$ 1,844	$ 9,357	$ 913	$ 15,656	$ 410	$ 1,143	$ 443	$ 59,424
Provision for loan losses	19	9,937	14,695	8,213	1,587	4,937	10,722	3,331	30,930	(218)	651	(174)	84,630
Loans charged off	(23)	(11,384)	(18,322)	(12,342)	(3,042)	(3,196)	(10,532)	(848)	(23,607)		(1,356)		(84,652)
Recoveries of charged offs		12	21	397			341		1,951		196		2,918
Balance, end of year	$ 14	$ 5,633	$ 6,900	$ 5,302	$ 1,577	$ 3,585	$ 9,888	$ 3,396	$ 24,930	$ 192	$ 634	$ 269	$ 62,320

Allowance for Loan Losses Methodology

We maintain an allowance for loan losses to provide for estimated probable losses that are inherent in our loan portfolio. The allowance is based on our regular quarterly assessments. Our methodologies for measuring the appropriate level of the allowance include the combination of: (1) a quantitative historical loss migration Analysis (Migration Analysis) for pools of loans, and a qualitative analysis of subjective factors and (2) a specific allowance method for impaired loans.

The following table reflects our allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated:

	Allocation of Allowance for Loan Losses									
	12/31/2010		12/31/2009		12/31/2008		12/31/2007		12/31/2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Loan Type										
Real estate Residential	$ 14	0%	$ 18	0%	$ 27	0%	$ 24	0%	$ 21	0%
Real estate Commercial	32,885	71%	40,841	73%	24,144	56%	12,498	63%	12,673	66%
Real estate Construction	3,396	2%	913	2%		0%		0%		0%
Commercial business	24,930	23%	15,655	22%	18,060	42%	6,752	34%	5,579	29%
Trade finance	192	3%	410	2%		0%		0%		0%
Consumer and other	634	1%	1,144	1%	869	2%	643	3%	805	4%
Unallocated	269	N/A	443	N/A	319	N/A	118	N/A	34	N/A
Total	$ 62,320	100%	$ 59,424	100%	$ 43,419	100%	$ 20,035	100%	$ 19,112	100%

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The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the credit quality of the loan portfolio, consideration of historical loan loss experience, relevant internal and external factors that affect the collection of a loan, and other pertinent factors.

The Migration Analysis is a formula methodology based on the Bank s actual historical net charge-off experience for each loan pool and loan risk grade (Pass, Special Mention, Substandard and Doubtful). The migration analysis is centered on the Bank s internal credit risk rating system. Our internal loan review and external contracted credit review examinations are used to determine and validate loan risk grades. This credit review system takes into consideration factors such as: borrower s background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, fair value and volatility of the fair value of collateral; lien position; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans not specifically identified as impaired (non-impaired loans). The allowance is determined first based on a quantitative analysis using the Migration Analysis. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for the most recent 12 quarters and then weighted to give more weight to the most recent losses. That loss experience is then applied to the stratified portfolio at each quarter end. During 2009, the non-impaired Commercial Real Estate loan portfolio was stratified into ten different loan pools based on property types and the non-impaired Commercial and Industrial loan portfolio was stratified into five different loan pools based on loan type, to allocate historic loss experience to more granular loan pools. Effective June 30, 2010 four additional pools, primarily in the commercial real estate portfolio, were further stratified. In addition, a new software program, commonly used by community banks, was implemented effective June 30, 2010 and is used to track and allocate charge-offs to the various loan grades by loan pools.

The stratification of the non-impaired loan portfolio resulted in a quantitative general loan loss allowance of $23.9 million at December 31, 2010, compared to $11.3 million at December 31, 2009. The enhancement to the reserve methodology mentioned previously, allows loan losses to be migrated into for Pass loan grade levels. This extended migration analysis process resulted in higher levels of quantitative reserves being required for the various Pass graded loan pools.

Additionally, in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio, the Bank utilizes qualitative adjustments to the Migration Analysis within established parameters. The parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive (Major, Moderate, and Minor), three negative (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type pool. Generally, the factors are considered to have no significant impact (neutral) to our historical migration ratios. However, if information exists to warrant adjustment to the Migration Analysis, changes are made in accordance with the established parameters supported by narrative and/or statistical analysis. The Credit Risk Matrix and the seven possible scenarios enable the Bank to qualitatively adjust the Loss Migration Ratio by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following nine factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national and local economic and business conditions and developments, including the condition of various market segments;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in the trends of the volume and severity of past due and classified loans; and changes in trends in the volume of non-accrual loans and troubled debt restructurings, and other loan modifications;

Changes in the quality of our loan review system and the degree of oversight by the Directors;

Changes in the value of underlying collateral for collateral-dependent loans;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

The effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in our loan portfolio.

The qualitative loan loss allowance on the non-impaired loan portfolio was $17.0 million at December 31, 2010 compared to $28.4 million at December 31, 2009.

We also establish specific loss allowances for loans where we have identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by FASB ASC 310-10-35-22, Measurement of Impairment. The loans first identified as impaired will be accounted for in accordance with one of the three acceptable valuations: 1) the present value of future cash flows discounted at the loan s effective interest rate; 2) the loan s observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, we obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are based on as is valuation. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisals. Furthermore, if the most current appraisal is dated more than six months prior to the effective date of the impairment test, we validate the most current value with third party market data appropriate to the location and property type of the collateral. If the third party market data indicates that the value of our collateral property values has declined since the most recent valuation date, we adjust downward the value of the property to reflect current market conditions. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, depending on the size of the impaired loan, is charged off against the allowance for loan losses.

The Bank considers a loan to be impaired when it is probable that not all amounts due (principal and interest) will be collectible in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls is determined on a case-by-case basis by taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed.

For commercial business loans, real estate loans and certain consumer loans, we base the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan s effective interest rate or on the fair value of the loan s collateral if the loan is collateral dependent. We evaluate most consumer loans for impairment on a collective basis, because these loans have generally smaller balances and are homogeneous in the underwriting terms and conditions, and to the type of collateral. If a loan is deemed to be impaired, the amount of the impairment is supported by a specific allowance amount which is included in the allowance for loan losses through a charge to the provision for loan losses.

In the third quarter, 2010, based on current market conditions, we expanded the criteria for evaluating loans for impairment which resulted in an increase in impaired loans from the prior quarter. Prior to the third quarter of 2010, loans graded Substandard were not individually evaluated for impairment and only considered impaired if they were 60+ days past due, unless other events existed that qualified the loan for impairment review. Therefore, a Substandard credit that was current in its contractual payments, but was classified due to other risk issues would not necessarily be subject to individual review for impairment analysis. Effective September 30, 2010, we expanded the scope of the loans reviewed for individual impairment by including all loans over $2 million that

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were risk-graded as Substandard, even though such loans were less than 60 days delinquent and were performing under their contractual terms. Effective December 31, 2010, we expanded this scope again by now including all loans over $1 million, which added 3 loans totaling $4.6 million to aggregate impaired loans. This enhancement to our impairment analysis provided more coverage in terms of current fair values on classified loans as updated market values are required as part of the impairment analysis process.

The following table presents the allocation of the specific and general components of the allowance and loan balances by portfolio segment:

	As of December 31, 2010						
	Real estate - Residential	Real estate - Commercial	Real estate - Construction	Commercial business	Trade finance	Consumer and other	Total
				(In thousands)			
Impaired loans	$	$ 70,882	$ 10,258	$ 40,990	$ 469	$ 88	$ 122,687
Specific allowance	$	$ 6,145	$ 1,686	$ 13,271	$	$	$ 21,102
Loss coverage ratio	0%	8.67%	16.44%	32.38%	0.00%	0.00%	17.20%
Non-impaired loans	$ 2,263	$ 1,453,768	$ 36,642	$ 450,821	$ 56,961	$ 13,180	$ 2,013,635
General allowance	$ 14	$ 26,740	$ 1,710	$ 11,659	$ 192	$ 903	$ 41,218
Loss coverage ratio	0.62%	1.84%	4.67%	2.59%	0.34%	6.85%	2.05%
Total loans*	$ 2,263	$ 1,524,650	$ 46,900	$ 491,811	$ 57,430	$ 13,268	$ 2,136,322
Total allowance for loan losses	$ 14	$ 32,885	$ 3,396	$ 24,930	$ 192	$ 903	$ 62,320
Loss coverage ratio	0.62%	2.16%	7.24%	5.07%	0.33%	6.81%	2.92%

(1) Excludes the guaranteed portion of delinquent SBA loans.
(2) Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

	As of December 31, 2009						
	Real estate - Residential	Real estate - Commercial	Real estate - Construction	Commercial business	Trade finance	Consumer and other	Total
				(In thousands)			
Impaired loans	$	$ 94,600	$ 2,342	$ 23,598	$	$	$ 120,540
Specific allowance	$	$ 10,852	$ 275	$ 8,676	$	$	$ 19,803
Loss coverage ratio	0.00%	11.47%	11.74%	36.77%	0.00%	0.00%	16.43%
Non-impaired loans	$ 4,801	$ 1,500,619	$ 51,742	$ 464,138	$ 51,411	$ 18,035	$ 2,090,746
General allowance	$ 18	$ 29,989	$ 638	$ 6,979	$ 410	$ 1,587	$ 39,621
Loss coverage ratio	0.37%	2.00%	1.23%	1.50%	0.80%	8.80%	1.90%
Total loans*	$ 4,801	$ 1,595,219	$ 54,084	$ 487,736	$ 51,411	$ 18,035	$ 2,211,286
Total allowance for loan losses	$ 18	$ 40,841	$ 913	$ 15,655	$ 410	$ 1,587	$ 59,424
Loss coverage ratio	0.37%	2.56%	1.69%	3.21%	0.80%	8.80%	2.69%

(1) Excludes the guaranteed portion of delinquent SBA loans.
(2) Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

Under certain circumstances, we will provide borrowers relief through loan modifications. These modifications are either temporary in nature (temporary modifications), or are more substantive troubled debt restructurings. At December 31, 2010, total modified loans were $55.6 million, compared to $108.4 million at December 31, 2009. The temporary modifications generally consist of interest only payments for a three- to

six-month period, whereby principal payments are deferred. At the end of the modification period, the remaining principal balance is re-amortized based on the original maturity date. Loans subject to temporary modifications are generally downgraded to substandard or special mention. At the end of the modification period, the loan 1) returns to the original contractual terms; 2) is further modified and accounted for as a troubled debt restructuring in accordance with ASC 310-10-35; or 3) is disposed of through foreclosure or liquidation.

Troubled Debt Restructured (TDR) loans are defined by ASC 310-40, Troubled Debt Restructurings by Creditors and ASC 470-60, Troubled Debt Restructurings by Debtors, and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date.

A summary of TDRs on accrual by type of concession as of December 31, 2010 and 2009 is presented below:

	As of December 31, 2010			As of December 31, 2009		
	Real estate - Commercial	Commercial Business	Total	Real estate - Commercial	Commercial Business	Total
(In thousands)						
Payment concession	$ 975	$ 8,744	$ 9,719	$ 2,993	$ 4,287	$ 7,280
Maturity / Amortization concession	4,968	7,144	12,112	34,403	5,332	39,735
Rate concession	12,250	1,022	13,272	16,496	829	17,325
	$ 18,193	$ 16,910	$ 35,103	$ 53,892	$ 10,448	$ 64,340

TDRs on accrual status are comprised of loans that were accruing at the time of restructuring and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. Sustained performance includes the periods prior to the modification if the prior performance met or exceeded the modified terms. TDRs on accrual status at December 31, 2010 were comprised of 17 commercial real estate loans totaling $18.2 million and 43 commercial business loans totaling $16.9 million. TDRs on accrual status at December 31, 2009 were comprised of 34 commercial real estate loans totaling $53.9 million and 54 commercial business loans totaling $10.4 million. We expect that the TDRs on accrual status as of December 31, 2010, which are all performing in accordance with their restructured terms to continue to comply with the restructured terms because of the reduced principal or interest payments on these loans.

A summary of TDRs on accrual status by the type of securing properties as of December 31, 2010 and 2009 is presented below:

	As of December 31	
	2010	2009
Retail buildings	$ 4,832	$ 9,620
Hotels/motels	6,193	16,647
Gas stations/ car washes	1,475	20,006
Mixed-use facilities		2,907
Multifamily		1,371
Other	22,603	13,790
Total	$ 35,103	$ 64,341

TDRs are generally downgraded to substandard. We have allocated $15.8 million and $14.1 million of specific reserves to TDRs as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, we did not have any outstanding commitments to extend additional funds to these borrowers.

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Investment Security Portfolio

The main objectives of our investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. Our investment policy permits investments in various types of securities, certificates of deposits and federal funds sold in compliance with various restrictions in the policy. Securities are classified as held to maturity or available for sale. We do not maintain a trading portfolio. The securities for which 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.

Our available-for-sale securities totaled $528.3 million at December 31, 2010, compared to $782.7 million at December 31, 2009. We had no securities in the held to maturity category at December 31, 2010 or 2009. During 2010, $199.7 million in mortgage related securities were paid down, $201.8 million in securities were sold, $35.2 million in securities were either called or matured, and $190.6 million were purchased. All of the securities involved in these transactions were classified as available for sale. Securities with an amortized cost of $2.0 million were pledged to the FRB as required or permitted by law at December 31, 2010. We also pledged securities with an amortized cost of $265.8 million to the California State Treasurer s Office as deposit collateral for time certificates deposit. Our investment portfolio consists of government sponsored enterprise (GSE) bonds, mortgage backed securities (MBS), CMOs, mutual funds, a corporate note and municipal bonds.

The following table summarizes the amortized cost, estimated fair value and maturity distribution of our investment securities portfolio as of dates indicated:

Investment Portfolio Balance and Fair Value

	December 31,					
	2010			2009		
	Amortized Cost	Estimated Fair Value	Unrealized/ Unrecognized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized/ Unrecognized Gain (Loss)
	(Dollars in thousands)					
Available-for-sale:						
Debt securities*:						
GSE Bonds	$ 125,429	$ 125,718	$ 289	$ 85,343	$ 85,229	$ (114)
GSE CMOs	101,312	103,201	1,889	191,711	191,035	(676)
GSE MBS	282,205	284,834	2,629	485,705	492,214	6,509
Corporate Note	4,473	3,708	(765)	4,458	3,424	(1,034)
Municipal Bonds	5,258	5,282	24	5,259	5,325	66
Total debt securities	518,677	522,743	4,066	772,476	777,227	4,751
Mutual funds	5,462	5,519	57	5,462	5,463	1
Total available-for-sale	**$ 524,139**	**$ 528,262**	**$ 4,123**	**$ 777,938**	**$ 782,690**	**$ 4,752**

* Government Sponsored Enterprises (GSE) included GNMA, FHLB, FNMA, FHLMC, and FFCB.

The proceeds from sales of securities and the associated gains for the year ended are listed below:

(Dollars in thousands)	2010	2009	2008
Proceeds	$ 208,142	$ 239,734	$ 76,135
Gross gains	6,296	4,431	895
Gross losses		(3)	(10)

The following table summarizes the maturity of securities based on carrying value and their related weighted average yield at December 31, 2009

Investment Portfolio Maturities and Weighted Average Yields

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale										
GSE Bonds	$	%	$	%	$	%	$ 125,429	2.62%	$ 125,429	4.00%
GSE CMOs							101,312	2.87%	101,312	2.70%
GSE MBS					13,392	2.99%	268,813	3.54%	282,205	4.20%
Corporate Note							4,473	1.67%	4,473	1.66%
Municipal Bonds			340	4.78	1,652	6.56%	3,266	6.57%	5,258	6.45
Mutual funds							5,462	3.21%	5,462	4.04%
Total available -for-sale	**$**	**%**	**$ 340**	**4.78%**	**$ 15,044**	**3.38%**	**$ 508,755**	**3.18%**	**$ 524,139**	**3.81%**

The following table shows our investments with gross unrealized losses and their estimated fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010.

	Less than 12 months			12 months or longer			Total		
Description of Securities	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**
	(Dollars in thousands)								
GSE Bonds	4	$ 65,465	$ (770)		$	$	4	$ 65,465	$ (770)
GSE CMOs	3	9,091	(187)	2	17,337	(70)	5	26,428	(257)
GSE MBS	7	99,555	(1,999)				7	99,555	(1,999)
Corporate Note				1	3,708	(765)	1	3,708	(765)
Municipal Bonds	5	1,929	(31)				5	1,929	(31)
	19	$ 176,040	$ (2,987)	3	$ 21,045	$ (835)	22	$ 197,085	$ (3,822)

ASC Topic 320 requires an entity to assess whether the entity has the intent to sell a debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an entity must recognize an other-than-temporary impairment (OTTI). If an entity does not intend to sell the debt security and will not be required to sell the debt security, the entity must consider whether it will recover the amortized cost basis of the security. If the present value of expected cash flows is less than the amortized cost basis of the security, OTTI shall be considered to have occurred. OTTI is then separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. An entity determines the impairment related to credit losses by comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. OTTI related to the credit loss is then recognized in earnings. OTTI related to all other factors is recognized in other comprehensive income.

We evaluate securities for OTTI on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value of the securities has been less than our cost for the securities, and our intention to sell, or whether it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer s financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

The corporate note at December 31, 2010 and 2009 consists of one bond with an amortized cost of $4.5 million and an unrealized loss of $765 thousand at December 31, 2010. The bond is scheduled to mature in May 2047, with a first call date option in May 2012. Management determined this unrealized loss did not represent OTTI at December 31, 2010 and 2009 as the investment is rated investment grade and there are no credit quality concerns with the obligor. The market value decline is deemed to be due to the current market volatility and is not reflective of management s expectations of our ability to fully recover this investment, which may be at maturity. Interest on the corporate note has been paid as agreed and management believes this will continue in the future and the bond will be repaid in full as scheduled. For these reasons, no OTTI was recognized on the corporate note at December 31, 2010.

We consider the losses on our investments in an unrealized loss position at December 31, 2010 to be temporary based on: 1) the likelihood of recovery; 2) the information available to us relative to the extent and duration of the decline in market value; and 3) our intention not to sell, and our determination that it is more likely than not that we will not be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis.

Deposits

Deposits are our primary source of funds for making loans and investment activities. We offer a wide variety of deposit account products to commercial and consumer customers. Total deposits decreased $258.1 million, or 11%, to $2.18 billion at December 31, 2010 compared to $2.43 billion at December 31, 2009.

The decrease in deposits during 2010 was primarily due to runoff of matured retail jumbo time deposits as we offered lower renewal rates. Most of the runoff was from the deposits raised during a deposit campaign held during the first and second quarter of 2009. Approximately 50% of these matured retail jumbo CDs were retained and either repriced to lower rate CDs or moved to other interest-bearing accounts. The decrease in retail jumbo CDs was offset by increases primarily in non-jumbo CDs and money market accounts. At December 31, 2010, we had $63.1 million in brokered deposits and $200.0 million in California State Treasurer deposits, compared to $18.1 million and $200.0 million, respectively, at December 31, 2009. The brokered deposits represented approximately 3% of our total deposits as of December 31, 2010 compared to 1% as of December 31, 2009. The California State Treasurer deposits have three-month maturities with a weighted average interest rate of 0.22% at December 31, 2010.

Although our deposits may vary with local and national economic conditions, we do not believe that our deposits are seasonal in nature. The following table sets forth information for the periods indicated and the balances of our deposits by category.

	December 31,					
	2010		2009		2008	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in thousands)					
Demand, non-interest bearing	$ 388,731	18%	$ 330,489	14%	$ 303,656	16%
Demand, interest bearing	688,593	31%	524,188	21%	306,478	16%
Savings	126,255	6%	136,804	6%	113,186	6%
Time deposit of $100,000 or more	321,542	15%	932,699	38%	626,850	32%
Other time deposits	650,993	30%	510,010	21%	588,433	30%
Total Deposits	**$ 2,176,114**	**100%**	**$ 2,434,190**	**100%**	**$ 1,938,603**	**100%**

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The following table indicates the maturity schedules of our time deposits, for the years indicated.

	December 31,					
	2010		2009		2008	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(Dollars in thousands)			
Three months or less	$ 339,857	35%	$ 739,857	51%	$ 617,790	51%
Over three months through six months	152,838	16%	537,378	37%	260,652	21%
Over six months through twelve months	311,210	32%	135,265	10%	293,798	24%
Over twelve months	168,630	17%	30,209	2%	43,043	4%
Total time deposits	**$ 972,535**	**100%**	**$ 1,442,709**	**100%**	**$ 1,215,283**	**100%**

The following table indicates the maturity schedules of our time deposits in amounts of $100,000 or more as of December 31, 2010.

	December 31, 2010 (Dollars in thousands)	
	Amount	Percentage
Three months or less	$ 216,337	67%
Over three months through six months	72,028	22%
Over six months through twelve months	24,583	8%
Over Twelve months	8,594	3%
Total time deposits	**$ 321,542**	**100%**

There can be no assurance that we would be able to continue to replace maturing CDs at competitive rates. However, if we are unable to replace these maturing CDs with new deposits, we believe that we have adequate liquidity resources to fund these obligations through secured credit lines with the FHLB and FRB as well as with liquid assets.

Borrowings

We utilize a combination of short-term and long-term borrowings to help manage our liquidity position.

Federal Funds Purchased

Federal funds purchased generally mature within one to three business days from the transaction date. At December 31, 2010 and 2009, we did not have any federal funds purchased.

FHLB Advances

We may borrow from the FHLB on a longer term basis to provide funding for certain loan or investment securities strategies, as well as for asset liability management strategies. As of December 31, 2010 and 2009, FHLB advances totaled $350 million with average remaining maturities of 2.2 years. The weighted average rate for FHLB advances was 3.18% at year-end 2010, compared to 3.46% at year-end 2009. As of December 31, 2010, our FHLB borrowing capacity based on pledged collateral and the remaining available borrowing capacity were $543.9 million and $193.4 million, respectively. See Note 7 of Notes to Consolidated Financial Statements for more detailed information on FHLB advances.

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Secured Borrowings

Secured borrowings of $11.8 million at December 31, 2010 represents the sold portion of SBA loans sold with 90 days recourse clause. Recognition of these sales is required to be deferred until the end of the 90 day recourse period.

Subordinated Debentures

At December 31, 2010, five wholly owned subsidiary grantor trusts established by us had issued $38 million of pooled Trust Preferred Securities (Trust Preferred Securities). The Trust Preferred Securities accrue and pay distributions periodically at specified annual rates as provided in the related indentures for the securities. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the Debentures) issued by us. The Debentures are the sole assets of the trusts. Our obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by us of the obligations of the trusts. The Trust Preferred Securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. We have the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. We have agreed not to pay interest on the Debentures or to issue any additional trust preferred securities without the prior written approval of the FRB.

With the adoption of FASB ASC 810, we deconsolidated the five grantor trusts. As a result, the Debentures issued by us to the grantor trusts, totaling $39.3 million, are reflected in our consolidated statements of financial condition in the liabilities section at December 31, 2010 and 2009, under the caption subordinated debentures. We record interest expense on the corresponding subordinated debentures in the consolidated statements of income. We also recorded $1.47 million and $1.49 million in other assets in the consolidated statements of financial condition at December 31, 2010 and 2009, respectively, for the common capital securities issued by the issuer trusts held by us.

The following table summarizes our outstanding Debentures related to the trust preferred securities at December 31, 2010.

(Dollars in thousands)

TRUST NAME	ISSUANCE DATE	AMOUNT	PRINCIPAL BALANCE OF DEBENTURES	STATED MATURITY	ANNUALIZED COUPON RATE	RATE AT 12/31/2010	INTEREST DISTRIBUTION DATES
Nara Bancorp Capital Trust I	3/28/2001	$ 10,000	$ 10,400	6/8/2031	10.18%	10.18%	June 8 and December 8
Nara Capital Trust III	6/5/2003	$ 5,000	$ 5,155	6/15/2033	3 month LIBOR + 3.15%	3.45%	Every 15th of March, June, September, and December
Nara Statutory Trust IV	12/22/2003	$ 5,000	$ 5,155	1/7/2034	3 month LIBOR + 2.85%	3.14%	Every 7th of January, April, July and October
Nara Statutory Trust V	12/17/2003	$ 10,000	$ 10,310	12/17/2033	3 month LIBOR + 2.95%	3.25%	Every 17th of March, June, September and December
Nara Statutory Trust VI	3/22/2007	$ 8,000	$ 8,248	6/15/2037	3 month LIBOR +1.65%	1.95%	Every 15th of March, June, September and December
Total Trust		$ 38,000	$ 39,268				

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Capital Resources

Historically, our primary source of capital has primarily been the retention of earnings, net of dividend payments to shareholders. We seek to maintain capital at a level sufficient to assure our stockholders, our customers, and our regulators that our company and our bank subsidiary are financially sound. For this purpose, we perform ongoing assessments of our components of capital as well as projected sources and uses of capital in conjunction with projected increases in assets and levels of risks. We have considered, and we will continue to consider, additional sources of capital as needs arise, through the issuance of additional stock or debt. Based on our analysis of our capital needs (including any needs arising out of our financial condition and results of operations) and the input of our regulators, we may decide, or our regulators may require us, to raise additional capital. For example, we anticipate that we will raise additional capital through an offering of our common stock in connection with the pending Center Merger, although the amount of such an offering has not yet been finally decided upon. We may also use some of the proceeds of the offering in connection with redemption from the Treasury Department of our Series A Preferred Stock at some point in the future, subject to regulatory approval.

On November 21, 2008, Nara Bancorp issued 67,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Senior Preferred Stock), having a liquidation preference of $1,000 per share, together with a ten-year warrant to purchase 1,042,531 of Nara Bancorp common stock at an exercise price of $9.64 per share, to the United States Department of the Treasury for gross proceeds of $67 million. The sale of the Senior Preferred Stock was made pursuant to the Treasury Department s TARP Capital Purchase Program established by the Treasury Department. The warrant was reduced to 521,266 shares upon completion of qualified stock offering in November, 2009.

On October 27, 2009, we raised additional capital of approximately $82.0 million, net of costs, through a public offering of 11.5 million shares of our common stock at a price of $7.50 per share.

Our total stockholders equity decreased $9.4 million, or 3%, to $358.6 million at December 31, 2010 from $368.0 million at December 31, 2009. At December 31, 2010, our Tier I Capital, defined as stockholders equity less intangible assets, plus proceeds from the trust preferred securities, was $374.4 million, compared to $399.4 million at December 31, 2009. The decrease was primarily due to the net loss to common stockholders of $11.5 million for the year ended December 31, 2010. At December 31, 2010, Nara Bancorp s ratio of total capital to total risk-weighted assets ratio was 17.69%, Tier I Capital to total risk weighted assets ratio was 16.42% and Tier I leverage ratio was 12.61%.

At December 31, 2010, the Bank s total capital to total risk-weighted assets ratio was 17.27%, the Tier I Capital to total risk weighted assets ratio was 16.00% and its Tier I leverage ratio was 12.27%.

The following tables compare Nara Bancorp s and the Bank s actual capital at December 31, 2010 to those required by our regulatory agencies for capital adequacy classification purposes:

	As of December 31, 2010 (Dollars in thousands)					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Nara Bancorp, Inc						
Tier 1 capital to total assets	$ 374,353	12.6%	$ 118,718	4.0%	$ 255,635	8.6%
Tier 1 risk-based capital ratio	$ 374,353	16.4%	$ 91,194	4.0%	$ 283,159	12.4%
Total risk-based capital ratio	$ 403,298	17.7%	$ 182,389	8.0%	$ 220,909	9.7%

	As of December 31, 2010 (Dollars in thousands)					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Nara Bank						
Tier I capital to total assets	$ 364,397	12.3%	$ 118,742	4.0%	$ 245,359	8.3%
Tier 1 risk-based capital ratio	$ 364,397	16.0%	$ 91,032	4.0%	$ 273,069	12.0%
Total risk-based capital ratio	$ 393,292	17.3%	$ 182,065	8.0%	$ 210,931	9.2%

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Liquidity Management

Liquidity risk is the risk of reduction in our earnings or capital that would result if we were not able to meet our obligations when they come due without incurring unacceptable losses. Liquidity risk includes the risk of unplanned decreases or changes in funding sources and changes in market conditions that affect our ability to liquidate assets quickly and with minimum loss of value. Factors considered in liquidity risk management are the stability of the deposit base; the marketability, maturity, and pledging of our investments; the availability of alternative sources of funds; and our demand for credit.

The objective of our liquidity management is to have funds available to meet cash flow requirements arising from fluctuations in deposit levels and the demands of daily operations, which include funding of securities purchases, providing for customers credit needs, and ongoing repayment of borrowings.

We manage our liquidity actively on a daily basis and it is reviewed periodically by our management-level Asset/Liability Management Committee (ALCO) and the Asset Liability Management (ALM) Committee of the Board of Directors. This process is intended to ensure the maintenance of sufficient funds to meet our liquidity needs, including adequate cash flow for off-balance-sheet commitments. In general, our liquidity is managed daily by controlling the level of federal funds and the funds provided by cash flow from operations. To meet unexpected demands, lines of credit are maintained with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco. The sale of investment securities also serves as a source of funds.

Consistent with the terms of the revised Resolution adopted by the Boards of Nara Bancorp and the Bank at the request of the FRB and DFI, we have submitted a written plan to improve the oversight of liquidity and funds management by giving specific consideration to:

- Guidance communicated in Supervision and Regulation Letter (SR) 01-14: *Joint Agency Advisory on Rate-Sensitive Deposits*, and the development of procedures to identify, monitor, and control risks posed by potentially volatile liabilities, including significant non-relationship deposits, higher-cost funding programs, and funding concentrations.

- The expansion of our Contingent Liquidity Plan to address the identified risks of the potentially volatile liabilities as well as guidance communicated in SR 10-06: *Interagency Policy Statement on Funding and Liquidity Risk Management*, including the addition of more extreme stress scenarios and the resultant impact on cash flow projections over various immediate and longer-term time horizons.

We have enhanced our liquidity and funds risk management system to identify and monitor the potentially volatile retail deposits and plan to perform additional analyses of the impact to cash projections of additional liquidity stress events.

Our primary sources of liquidity are derived from financing activities, which include customer and broker deposits, federal funds facilities, and borrowings from the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank Discount Window. These funding sources are augmented by payments of principal and interest on loans, proceeds from sales of loans and the liquidation or sale of securities from our available for sale portfolio. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of investment securities, and payment of operating expenses.

Net cash inflows from operating activities totaled $135.7 million, $57.5 million and $32.2 million during 2010, 2009 and 2008, respectively. Net cash inflows from operating activities for 2010 were primarily attributable to proceeds from sales of loans.

Net cash inflows (outflows) from investing activities totaled $159.5 million, $(554.1) million and $(252.1) million during 2010, 2009 and 2008, respectively. Net cash inflows for investing activities during 2010 were primarily due to sales and maturities or called investment securities available-for-sale.

Net cash inflows (outflows) from financing activities totaled $(248.5) million, $573.1 million and $219.8 million during 2010, 2009 and 2008, respectively. Net cash outflows from financing activities for 2010 were primarily attributable to decrease in deposits.

Our total assets decreased as we used investments to fund withdrawals of high rate retail jumbo time deposits at their maturities.

When we have more funds than required for our reserve requirements or short-term liquidity needs, we sell federal funds to other financial institutions. Conversely, when we have less funds than required, we may borrow funds from the FHLB or the FRB s Discount Window. The maximum amount that we are currently available to borrow on an overnight basis from the FHLB and the FRB is $433.8 million. The Federal Home Loan Bank System functions as a line of credit facility for qualifying financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of San Francisco and may apply for advances from the FHLB utilizing as collateral, qualifying mortgage loans and certain securities as collateral for these advances. The Federal Home Loan Bank of San Francisco has suspended the regular stock dividend beginning with the fourth quarter of 2008 to preserve capital and recently reinstated partial redemptions of excess capital stock in May of 2010.

At times we maintain a portion of our liquid assets in interest-bearing cash deposits with other banks, in overnight federal funds sold to other banks, and in investment securities available-for-sale that are not pledged. Our liquid assets, consisting of cash and cash equivalent, interest-bearing cash deposits with other banks, overnight federal funds sold to other banks, liquid investment securities available for sale, and loan repayments within 30 days, were $510.5 million at December 31, 2010 compared to $713.7 million at December 31, 2009. Cash and cash equivalents, including federal funds sold were $172.3 million at December 31, 2010 compared to $125.6 million at December 31, 2009. See Financial Condition Deposits for a discussion of liquidity plan for maturing CDs.

Because our primary sources and uses of funds are deposits and loans, the relationship between gross loans and total deposits provides one measure of our liquidity. Typically, the closer the ratio of loans to deposits is to or exceeds 100%, the more we rely on borrowings and other sources to provide liquidity. Alternative sources of funds such as FHLB advances, brokered deposits and other collateralized borrowings that provide liquidity as needed from diverse liability sources are an important part of our asset/liability management strategy. For 2010, our gross loan to deposit ratio averaged 98%, compared to an average ratio of 93% and 113% for 2009 and 2008, respectively.

We believe our liquidity sources to be stable and adequate to meet our day-to-day cash flow requirements. At December 31, 2010, we are not aware of any trends, events or uncertainties that had or were reasonably likely to have a material effect on our liquidity position. As of December 31, 2010, we are not aware of any material commitments for capital expenditures in the foreseeable future.

Off-Balance- Sheet Activities and Contractual Obligations

The Bank routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected, in whole or in part, in the Consolidated Financial Statements. These activities are part of our normal course of business and include traditional off-balance-sheet credit-related financial instruments, interest rate swap contracts, operating leases and long-term debt.

Traditional off-balance-sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities may require us to make cash payments to third parties in the event certain specified future events occur. The contractual amounts represent the extent of our exposure in these off-balance-sheet activities. However, since certain off-balance-sheet commitments, particularly standby letters of credit, are expected to expire or be only partially used, the total amount of commitments does not necessarily represent future cash requirements. These activities are necessary to meet the financing needs of our customers.

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The Bank also has entered into interest rate swap and cap contracts where we are required to either receive cash from or pay cash to counterparties depending on changes in interest rates. We utilize interest rate swap and cap contracts to help manage the risk of changing interest rates. Our accounting for interest rate swap and cap contracts is discussed below under Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We do not anticipate that our current off-balance-sheet activities will have a material impact on our future results of operations or financial condition. Further information regarding risks from our off-balance-sheet financial instruments can be found in Note 12 of the Notes to Consolidated Financial Statements and in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We lease our banking facilities and equipment under non-cancelable operating leases, which have remaining terms of up to 10 years. Our facility lease obligations are discussed in Note 12 of the Notes to Consolidated Financial Statements.

The following table summarizes Nara Bancorp s contractual obligations and commitments to make future payments as of December 31, 2010. Payments for time deposits and borrowings do not include interest.

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
	(Dollars in thousands)				
Contractual Obligations and Commitments					
Time Deposits	$ 972,535	$ 803,905	$ 156,236	$ 12,394	$
Subordinated Debentures	39,268				39,268
Federal Home Loan Bank Borrowings	350,000	65,000	200,000	80,000	5,000
Operating Lease Obligations	39,622	7,003	12,862	11,582	8,175
Unused committments to extend credit	205,752	159,141	35,684	3,888	7,039
Standby letters of credit	9,777	9,484	293		
Other commercial letters of credit	30,180	30,156	24		
Total	**$ 1,647,134**	**$ 1,074,689**	**$ 405,099**	**$ 107,864**	**$ 59,482**

Recently Issued Accounting Standards

FASB ASU 2011-01, Receivables (Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 Under the existing effective date in FASB ASU 2010-20, public-entity creditors would have provided disclosures about troubled debt restructuring for periods beginning on or after December 15, 2010. ASU 2011-01 temporarily defers that effective date, enabling public-entity creditors to provide those disclosures (paragraphs 310-10-50-31 through 50-34) after the Financial Accounting Standards Board clarifies the guidance for determining what constitutes a troubled debt restructuring. In the proposed Accounting Standards Update, Receivables (Topic 310), *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*, the Board proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in FASB ASU 2011-01, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. We have not yet evaluated the impact of adoption of ASU 2010-29 on our Consolidated Financial Statements for periods after adoption.

FASB ASU 2010-29, Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations ASU 2010-29 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29

affects any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after December 15, 2010. We have not yet evaluated the impact of adoption of ASU 2010-29 on our Consolidated Financial Statements for periods after adoption.

FASB ASU 2010-28, Intangibles Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ASU 2010-28 affects all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. ASU 2010-28 modifies Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The guidance is effective for an public entity s first annual period that ends on or after December 15, 2010. Adoption of ASU 2010-28 is not expected to have a significant impact on our Consolidated Financial Statements.

FASB ASU 2010-20, Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 3 of Notes to the Consolidated Financial Statements for the required disclosures at December 31, 2010.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The objective of our asset and liability management activities is to improve our earnings by adjusting the type and mix of assets and liabilities to effectively address changing conditions and risks. Through overall management of our balance sheet and by controlling various risks, we seek to optimize our financial returns within safe and sound parameters. Our operating strategies for attaining this objective include managing our net interest margin through appropriate risk/return pricing of assets and liabilities and emphasizing growth in retail deposits, as a percentage of interest-bearing liabilities, to reduce our cost of funds. We also seek to improve earnings by controlling non-interest expense, and enhancing non-interest income. We use risk management instruments to modify interest rate characteristics of certain assets and liabilities to hedge against our exposure to interest rate fluctuations, reducing the effects these fluctuations might have on associated cash flows or values. We also perform periodic internal analyses to measure, evaluate and monitor market risk.

Interest Rate Risk

Market risk is the risk of loss to future earnings, to the fair value of our assets and liabilities, or to future cash flows that may result from changes in the price of a financial instrument. Interest rate risk is the most significant market risk impacting us. Interest rate risk occurs when interest rate sensitive assets and liabilities do not reprice simultaneously or at the same rate of interest or in equal volume. A key objective of our asset and

liability management is to manage interest rate risk associated with changing asset and liability cash flows, values of our assets and liabilities, and market interest rate movements. The management of our interest rate risk is governed by policies reviewed and approved annually by the Board of Directors of the Bank. The Board delegates responsibility for interest rate risk management to the Asset/Liability Management (ALM) Committee of the board and the Asset and Liability Management Committee (ALCO), which is composed of the Bank s senior executives and other designated officers.

The fundamental objective of our ALCO is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. ALCO meets regularly to monitor the interest rate risk, the sensitivity of our assets and liabilities to interest rate changes, the book and fair values of assets and liabilities, and our investment activities and directs changes in the composition of our interest earning assets and interest bearing liabilities. ALCO reports at least quarterly to the ALM. Our strategy has been to reduce the sensitivity of our earnings to interest rate fluctuations by more closely matching the effective maturities or repricing characteristics of our assets and liabilities. Certain assets and liabilities, however, may react in different degrees to changes in market interest rates. Further, interest rates on certain types of assets and liabilities may fluctuate prior to changes in market interest rates, while interest rates on other types may lag behind. We consider the anticipated effects of these factors when implementing our interest rate risk management objectives.

Swaps and Caps

As part of our asset and liability management strategy, we may enter into derivative financial instruments, such as interest rate swaps, caps and floors, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest rate swaps and caps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts.

In January of 2008, we entered into five interest rate swap agreements with an aggregate notional amount of $50 million. Under these swap agreements, we received a floating rate, resetting semi-annually based on the 6 Month London-Interbank Offered Rate (6 Mo. LIBOR), and paid a fixed rate of 3.57%, until January 2010. These interest rate swap agreements are considered free-standing due to non-designation of a hedge relationship to any of its financial assets or liabilities. These interest swap agreements matured on January 14, 2010 and the Company did not have any outstanding interest rate swap agreements at December 31, 2010.

During the third quarter of 2009, we entered into two two-year interest rate cap agreements with an aggregate notional amount of $50 million. Under these cap agreements, we receive quarterly payments from the counterparty when the quarterly resetting 3 Month London-Interbank Offered Rate (3 Mo. LIBOR) exceeds the strike level of 2.00%. The upfront fee paid to the counterparty in entering into these two interest rate cap agreements was $359 thousand. During the first quarter of 2010, we entered into another three-year interest rate cap agreement with an aggregate notional amount of $50 million. Under this cap agreement, we also receive quarterly payments from the counterparty when the quarterly resetting 3 Mo. LIBOR exceeds the strike level of 2.00%. The upfront fee paid to the counterparty in entering into this interest rate cap agreement was $890 thousand. These interest rate cap agreements are considered free-standing due to non-designation of a hedge relationship to any of its financial assets or liabilities. Under FASB ASC 815, valuation gains or losses on interest rate caps not designated as hedging instruments are recognized in earnings. At December 31, 2010, the aggregate fair value of the outstanding interest rate caps was $167 thousand and we recognized mark-to-market losses on valuation of $901 thousand in 2010. See Note 17 of Notes to Consolidated Financial Statements for more detailed information on swaps and caps.

Interest Rate Sensitivity

Our monitoring activities related to managing interest rate risk include both interest rate sensitivity gap analysis and the use of a simulation model. While traditional gap analysis provides a simple picture of the interest rate risk embedded in the statement of financial condition, it provides only a static view of interest rate

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sensitivity at a specific point in time and does not measure the potential volatility in forecasted results relating to changes in market interest rates over time. Accordingly, we combine the use of gap analysis with the use of a simulation model, which provides a dynamic assessment of interest rate sensitivity.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated to reprice within a specific time period and the amount of interest-bearing liabilities anticipated to reprice within that same time period. A gap is considered positive when the amount of interest rate sensitive assets repricing within a specific time period exceeds the amount of interest-bearing liabilities repricing within that same time period. A positive cumulative gap suggests that earnings will increase when interest rates rise and decrease when interest rates fall. A negative cumulative gap suggests that earnings will increase when interest rates fall and decrease when interest rates rise.

The following table illustrates our combined asset and liability repricing as of December 31, 2010:

	0 - 90 days or Less	Over 90 Days to 365 days	1 - 5 years Amount	Over 5 years Amount	Total
			(Dollars in thousands)		
Total Investments[1]	$ 199,692	$ 77,567	$ 273,355	$ 150,493	$ 701,107
Loan Total Total Loans[2]	659,644	239,470	916,158	361,661	2,176,933
Rate Sensitive Assets	**859,336**	**317,037**	**1,189,513**	**512,154**	**2,878,040**
TCD $100,000 or more	216,337	96,611	8,594		321,542
TCD under $100,000	123,520	367,437	160,036		650,993
Money Market accounts and other	688,593				688,593
Savings accounts	69,919	32,491	19,663	4,182	126,255
Borrowings from FHLB	50,000	15,000	280,000	5,000	350,000
Subordinated Debentures	28,000			10,000	38,000
Rate Sensitive Liabilities	**1,176,369**	**511,539**	**468,293**	**19,182**	**2,175,383**
Interest Rate Cap	**100,000**	**(50,000)**	**(50,000)**		
Net Gap Position	$ (217,033)	$ (244,502)	$ 671,220	$ 492,972	
Cumulative Gap Position	$ (217,033)	$ (461,535)	$ 209,685	$ 702,657	

(1) Inludes investment securities, federal funds sold, FRB stock, FHLB stocks, and interest bearing deposits with other financial institutions.

(2) Includes loans held for sale of $26.9 million.

The simulation model discussed above provides our ALCO with the ability to simulate our net interest income. In order to measure, at December 31, 2010, the sensitivity of our forecasted net interest income to changing interest rates, both in rising and falling interest rate scenarios, were projected and compared to base market interest rate forecasts. One application of our simulation model measures the impact of market interest rate changes on the net present value of estimated cash flows from our assets and liabilities, defined as our market value of equity. This analysis assesses the changes in market values of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase in market interest rates.

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Our net interest income and market value of equity exposure related to these hypothetical changes in market interest rates are illustrated in the following table.

	December 31, 2010		December 31, 2009	
Simulated Rate Changes	Estimated Net Interest Income Sensitivity	Market Value Of Equity Volatility	Estimated Net Interest Income Sensitivity	Market Value Of Equity Volatility
+ 200 basis points	(3.12)%	(4.62)%	(6.47)%	(10.29)%
+ 100 basis points	(2.92)%	(2.27)%	(4.06)%	(4.31)%
- 100 basis points	0.56%	0.24%	2.35%	1.89%
- 200 basis points	(4.33%)	(0.57)%	(1.61%)	1.77%

The estimated sensitivity does not necessarily represent our forecast of future results and the estimated results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayment on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences may change. The ALM, which oversees our interest rate risk management, has established the exposure limits for acceptable changes in net interest income and market value of equity related to these hypothetical changes in market interest rates. Given the limitations of the analyses, management believes that these hypothetical changes are considered tolerable and manageable as of December 31, 2010.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements of Nara Bancorp, together with the reports thereon of Crowe Horwath LLP, begin on page F-1 of this Report and are incorporated herein by reference:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition as of December 31, 2010 and 2009

Consolidated Statements of Income for the Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Changes in Stockholders Equity for the Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements for the Years Ended December 31, 2010, 2009 and 2008

See Item 15. Exhibits and Financial Statement Schedules for financial statements filed as a part of this Report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

a. ***Evaluation of disclosure controls and procedures***

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e)

under the Exchange Act) as of December 31, 2010. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer determined that our disclosure controls and procedures were effective to ensure that material information required to be disclosed by

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us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported as and when required. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management s best estimates and judgments.

b. *Management s Annual Report on Internal Control Over Financial Reporting*

The management of Nara Bancorp, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework,* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and which is effected by the Company s board of directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company s Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company s system of internal control over financial reporting. Based on this evaluation, management determined that the Company s system of internal control over financial reporting was effective as of December 31, 2010.

/s/ Alvin D. Kang	/s/ Philip E. Guldeman
Alvin D. Kang	**Phillip E. Guldeman**
President and Chief	**Executive Vice President and**
Executive Officer	**Chief Financial Officer**
Los Angeles, California	Los Angeles, California
February 18, 2011	February 18, 2011

c. Evaluation of Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting or in other factors in the fourth quarter of 2010 that have materially affected or are reasonably likely to materially affect, the Company s internal control over financial reporting.

d. Report of Independent Registered Public Accounting Firm

Our independent registered public accounting firm has issued a audit report on our internal control over financial reporting which is included on page F-2 of this report.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the section of Nara Bancorp s definitive Proxy Statement for its 2011 Annual Meeting of Stockholders (the 2011 Proxy Statement) entitled Election of Directors and the discussion of the Code of Ethics and Business Conduct in the Nomination and Governance Committee Report. The 2011 Proxy Statement will be filed with the SEC within 120 days after December 31, 2010.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the sections of the 2011 Proxy Statement entitled Election of Directors, Director Compensation, Compensation Discussion and Analysis and Compensation Committee Interlocks and Insider Participation.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated herein by reference to the sections of the 2011 Proxy Statement entitled Security Ownership of Certain Beneficial Owners.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the sections of the 2011 Proxy Statement entitled Certain Relationships and Related Transactions.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the section of the 2011 Proxy Statement entitled Ratification of the Selection of the Independent Registered Public Accounting Firm.

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PART IV

Item 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*
(a) and (c) Financial Statements and Schedules.

The financial statements listed under Item 8. Financial Statements and Supplementary Data are filed as part of this Annual Report on Form 10-K. All schedules have been omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Financial Statements and related notes.

(b) List of Exhibits

Number	Description
2.1	Agreement and Plan of Merger, dated as of December 9, 2010, between Nara Bancorp, Inc. and Center Financial Corporation (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 2.1, filed with the SEC on December 9, 2010)
3.1	Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on June 5, 2000 (incorporated herein by reference to Appendix III to the prospectus included in the Registration Statement on Form S-4 filed with the SEC on November 16, 2000, SEC file number 333-50126)
3.2	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on May 31, 2002 (incorporated herein by reference to the Registration Statement on Form S-8, Exhibit 3.3, filed with the SEC on February 5, 2003, SEC file number 333-102974)
3.3	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on June 1, 2004 (incorporated herein by reference to the Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed with the SEC on November 8, 2004)
3.4	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on November 2, 2005 (incorporated herein by reference to the Proxy Statement on Schedule 14A, Appendix B, filed with the SEC on September 6, 2005)
3.5	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on July 20, 2007 (incorporated herein by reference to the Proxy Statement on Schedule 14A, Appendix C, filed with the SEC on April 19, 2007)
3.6	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on August 6, 2010 (incorporated herein by reference to the Proxy Statement on Schedule 14A, Proposal No. 4, filed with the SEC on May 24, 2010)
3.7	Amended and Restated Bylaws of Nara Bancorp, Inc. (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 3.1, filed with the SEC on December 28, 2007)
4.1	Form of Stock Certificate of Nara Bancorp, Inc. (incorporated herein by reference to Pre- Effective Amendment No.1 to the Registration Statement on Form S-4, Exhibit 4.1, filed with the SEC on December 5, 2000, SEC file number 333-50126)
4.2	Amended and Restated Declaration of Trust, dated March 28, 2001, by and among Delaware Trustee, Wilmington Trust Company as Property Trustee, Nara Bancorp and the Administrative Trustees named therein (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 4.5, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
4.3	Indenture, dated March 28, 2001, between Nara Bancorp and Wilmington Trust Company as Debenture Trustee (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 4.6, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
4.4	Common Securities Guarantee Agreement, dated March 28, 2001, of Nara Bancorp (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 4.7, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)

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4.5	Capital Securities Guarantee Agreement, dated March 28, 2001, between Nara Bancorp and Wilmington Trust Company as Guarantee Trustee (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 4.8, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
4.6	Amended and Restated Declaration of Trust, dated June 5, 2003, by and among The Bank of New York as Property Trustee, The Bank of New York (Delaware) as Delaware Trustee, Nara Bancorp as Depositor and the Administrative Trustees as named therein (incorporated herein by reference to the Current Report on Form 8-K/A, Exhibit 99.1, filed with the SEC on May 2, 2008)
4.7	Junior Subordinated Indenture, dated June 5, 2003, between the Nara Bancorp as Issuer and The Bank of New York as Trustee (incorporated herein by reference to the Current Report on Form 8-K/A, Exhibit 99.2, filed with the SEC on May 2, 2008)
4.8	Guarantee Agreement, dated June 5, 2003, by and between Nara Bancorp and The Bank of New York as Guarantee Trustee (incorporated herein by reference to the Current Report on Form 8-K/A, Exhibit 99.3, filed with the SEC on May 2, 2008)
4.9	Amended and Restated Declaration of Trust, dated December 17, 2003, by and among U.S. Bank National Association as Institutional Trustee, Nara Bancorp as Sponsors and the Administrators as named therein (incorporated herein by reference to the Current Report on Form 8-K/A, Exhibit 99.4, filed with the SEC on May 2, 2008)
4.10	Indenture, dated December 17, 2003 between Nara Bancorp as Issuer and U.S. Bank National Association as Trustee (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.5, filed with the SEC on May 2, 2008)
4.11	Guarantee Agreement, dated December 17, 2003, by and between Nara Bancorp and U.S. Bank National Association as Guarantee Trustee (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.6, filed with the SEC on May 2, 2008)
4.12	Amended and Restated Declaration of Trust, dated December 22, 2003, by and among Wells Fargo Delaware Trust Company as Delaware Trustee and Nara Bancorp as Sponsor (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.7, filed with the SEC on May 2, 2008)
4.13	Indenture, dated December 22, 2003, between Nara Bancorp, Inc. as Issuer and Wells Fargo Bank, National Association as Trustee (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.8, filed with the SEC on May 2, 2008)
4.14	Guarantee Agreement, dated December 22, 2003, by and between Nara Bancorp and Wells Fargo Bank, National Association as Guarantee Trustee (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.9, filed with the SEC on May 2, 2008)
4.15	Amended and Restated Declaration of Trust, dated March 22, 2007, by and among Wilmington Trust Company, Nara Bancorp, Inc., and the Administrators named therein (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.1, filed with the SEC on March 22, 2007)
4.16	Indenture, dated March 22, 2007, by and between Nara Bancorp, Inc. and Wilmington Trust Company (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.2, filed with the SEC on March 22, 2007)
4.17	Guarantee Agreement, dated March 22, 2007, by and between Nara Bancorp, Inc. and Wilmington Trust Company (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.3, filed with the SEC on March 22, 2007)
4.18	Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series A of Nara Bancorp, Inc. (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.1, filed with the SEC on November 28, 2008)

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4.19	Form of Nara Bancorp, Inc. Series A Preferred Stock Certificate (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.2, filed with the SEC on November 28, 2008)
4.20	Warrant to Purchase Common Stock of Nara Bancorp, Inc. (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 4.3, filed with the SEC on November 28, 2008)
10.1	Amended and Restated Nara Bancorp, Inc. 2007 Equity Incentive Plan (incorporated herein by reference to the Current Report on Form 8-K, filed with the SEC on July 26, 2007)
10.2	Nara Bancorp, Inc. 2001 Nara Bank 2000 Continuation Long Term Incentive Plan (incorporated herein by reference to the Registration Statement on Form S-8, Exhibit 99.2, filed with the SEC on April 9, 2001, SEC file number 333-58508)
10.3	Nara Bank Deferred Compensation Plan (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.3, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
10.4	Tax Sharing Agreement among Nara Bancorp, Nara Bank, N.A., Nara Bancorp Capital Trust I and Nara Loan Center Corporation (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.11, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
10.5	Affiliate Agreement between Nara Bancorp and Nara Bank, N.A. (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.12, for the year ended December 31, 2001, filed with the SEC on April 1, 2002)
10.6	Form of Nara Bancorp, Inc. Option Agreement (entered into by directors Jesun Paik and named executive officers Alvin D. Kang, Bonita I. Lee, and Kyu Kim) (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.6, for the year ended December 31, 2006, filed with the SEC on March 15, 2007)
10.7	Form of Change in Control Agreement (entered into by named executive officer Alvin D. Kang, Bonita I. Lee, and Mark H. Lee) (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.1, filed with the SEC on August 6, 2008)
10.8	Form of Nara Bank Long Term Incentive Agreement (entered into by named executive officers Alvin D. Kang, Kyu Kim, and Bonita I. Lee) (incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.10, for the year ended December 31, 2008, filed with the SEC on March 3, 2009)
10.9	Form of Nara Bancorp, Inc. 2007 Equity Incentive Plan Notice of Performance Unit/ Share Award Grant and Agreement (entered into by directors Jesun Paik, Hyon M. (John) Park, Ki Suh Park, and Scott Whang and named executive officers Alvin D. Kang, Bonita I. Lee, Kyu Kim, and Mark H. Lee) (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 10.2, filed with the SEC on December 6, 2007)
10.10	Letter Agreement, between Nara Bancorp, Inc. and the United States Treasury, dated November 21, 2008, including the Securities Purchase Agreement attached thereto, with respect to the issuance and sale of the Senior Preferred Stock and the Warrant referred to therein (incorporated herein by reference to the Current Report on Form 8-K/A, Exhibit 10.1, filed with the SEC on December 17, 2008)
10.11	Employment offer letter among Nara Bancorp, Inc., Nara Bank and Philip E. Guldeman, dated November 10, 2010 and effective December 17, 2010 (incorporated herein by reference to the Current Report on Form 8-K, Exhibit 99.1, filed with the SEC on December 20, 2010)
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends and Discount Accretion*
14.1	Director Code of Ethics and Business Conduct*
14.2	Code of Ethics and Business Conduct*

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21.1	List of Subsidiaries (incorporated by reference to the Annual Report on Form 10-K, Exhibit 21.1, for the year ended December 31, 2009, filed with the SEC on March 15, 2010)
23.1	Consent of Crowe Horwath LLP *
31.1	Certification of Chief Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002*
31.2	Certification of Chief Financial Officer pursuant to section 302 of Sarbanes-Oxley of 2002*
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002*
99.1	Certification of Chief Executive Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30*
99.2	Certification of Chief Financial Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30*

* Filed herewith

Except as noted above, Form 8-K, Form 10-K and proxy statements filed by the Company and identified in the Exhibit Index have SEC file number 000-50245.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NARA BANCORP, INC.

By: /s/ ALVIN D. KANG
Alvin D. Kang
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

By: /s/ KI SUH PARK	February 18, 2011	Ki Suh Park Director and Chairman of Company the Bank
By: /s/ STEVEN D. BROIDY	February 18, 2011	Steven D. Broidy Director and Vice-Chairman of the Bank
By: /s/ LOUIS COSSO	February 18, 2011	Louis Cosso Director
By: /s/ JESUN PAIK	February 18, 2011	Jesun Paik Director
By: /s/ JOHN PARK	February 18, 2011	John Park Director
By: /s/ SCOTT YOON-SUK WHANG	February 18, 2011	Scott Yoon-Suk Whang Director
By /s/ ALVIN D. KANG	February 18, 2011	Alvin D. Kang Director, President and Chief Executive Officer (Principal Executive Officer)
By /s/ PHILIP E. GULDEMAN	February 18, 2011	Philip E. Guldeman Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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Nara Bancorp, Inc. and Subsidiaries

Consolidated Financial Statements at December 31, 2010 and 2009 and

for Each of the Three Years in the Period Ended December 31, 2010 and

Report of Independent Registered Public Accounting Firm thereon.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Nara Bancorp, Inc.

Los Angeles, California

We have audited the accompanying consolidated statements of financial condition of Nara Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting located in Item 9a of Form 10-K . Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nara Bancorp, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Horwath LLP

Sherman Oaks, California

February 18, 2011

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2010 AND 2009

	2010	2009
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 23,916	$ 23,739
Interest-bearing deposit at Federal Reserve Bank	148,415	81,853
Federal funds sold		20,000
Total cash and cash equivalents	172,331	125,592
Securities available for sale, at fair value	528,262	782,690
Loans held for sale, at the lower of cost or fair value	26,927	4,756
Loans receivable, net of allowance for loan losses (December 31, 2010 $62,320 ; December 31, 2009 $59,424)	2,085,425	2,162,009
Other real estate owned	1,581	2,044
Federal Reserve Bank stock, at cost	6,367	4,399
Federal Home Loan Bank (FHLB) stock, at cost	17,717	19,935
Premises and equipment, net	10,915	10,865
Accrued interest receivable	8,648	11,261
Deferred tax assets, net	37,072	28,875
Customers liabilities on acceptances	11,528	10,488
Bank owned life insurance	24,117	23,571
Goodwill	2,509	2,509
Other intangible assets, net	534	1,042
Prepaid FDIC insurance	9,639	14,148
Other assets	19,724	23,773
Total assets	$ 2,963,296	$ 3,227,957

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (continued)

DECEMBER 31, 2010 AND 2009

	2010	2009
	(In thousands, except share data)	
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 388,731	$ 330,489
Interest bearing:		
Money market and other	688,593	524,188
Savings deposits	126,255	136,804
Time deposits of $100,000 or more	321,542	932,699
Other time deposits	650,993	510,010
Total deposits	2,176,114	2,434,190
FHLB borrowings	350,000	350,000
Subordinated debentures	39,268	39,268
Secured borrowings	11,758	
Accrued interest payable	4,830	12,674
Acceptances outstanding	11,528	10,488
Other liabilities	11,235	13,362
Total liabilities	2,604,733	2,859,982
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.001 par value authorized 10,000,000 undesignated shares; issued and outstanding 67,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of $67,428,000 at December 31, 2010 and 2009	67,000	67,000
Preferred stock discount	(2,797)	(3,737)
Common stock, $0.001 par value authorized, 100,000,000 shares; issued and outstanding, 37,983,027 and 37,824,007 shares at December 31, 2010 and 2009, respectively	38	38
Capital surplus	171,364	169,806
Retained earnings	120,361	131,891
Accumulated other comprehensive income, net	2,597	2,977
Total stockholders equity	358,563	367,975
Total liabilities and stockholders equity	$ 2,963,296	$ 3,227,957

See accompanying notes to consolidated financial statements.

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
	(In thousands, except share data)		
INTEREST INCOME:			
Interest and fees on loans	$ 134,390	$ 131,416	$ 151,172
Interest on securities	15,141	25,742	14,416
Interest on federal funds sold and other investments	905	887	1,340
Total interest income	150,436	158,045	166,928
INTEREST EXPENSE:			
Interest on deposits	27,882	50,636	54,080
Interest on FHLB advances	12,099	13,041	13,932
Interest on other borrowings	2,071	2,022	2,695
Total interest expense	42,052	65,699	70,707
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	108,384	92,346	96,221
PROVISION FOR LOAN LOSSES	84,630	61,023	48,825
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,754	31,323	47,396
NON-INTEREST INCOME:			
Service charges on deposit accounts	6,464	6,784	7,379
International service fees	2,369	2,006	2,050
Loan servicing fees, net	1,836	1,866	2,057
Wire transfer fees	1,192	1,332	1,556
Net gains on sales of SBA loans	1,400	694	1,600
Net gains on sales of other loans	4,368	728	181
Net gains on sales and calls of securities available for sale	6,396	4,427	860
Net losses on sales of OREO	(605)	(320)	(1,003)
Net valuation losses on interest rate swaps	(857)	(446)	(549)
Other than temporary impairment on securities available for sale			
Total impairment loss			(1,713)
Loss recognized in other comprehensive income			
Net impairment loss recognized in earnings			(1,713)
Other income and fees	1,918	1,397	1,575
Total non-interest income	24,481	18,468	13,993
NON-INTEREST EXPENSE:			
Salaries and employee benefits	25,261	25,437	28,887
Occupancy	9,767	9,918	9,132
Furniture and equipment	3,540	2,926	2,829
Advertising and marketing	2,020	1,671	2,029
Data processing and communications	3,954	3,742	3,275
Professional fees	2,538	2,324	1,961
FDIC assessment	4,968	5,237	1,415

Credit related expenses	4,781	4,407	1,161
Other	6,545	6,051	6,320
Total non-interest expense	63,374	61,713	57,009
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	(15,139)	(11,922)	4,380
INCOME TAX PROVISION (BENEFIT)	(7,900)	(6,199)	1,625
NET INCOME (LOSS)	$ (7,239)	$ (5,723)	$ 2,755
DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK	$ (4,291)	$ (4,276)	$ (474)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (11,530)	$ (9,999)	$ 2,281
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ (0.30)	$ (0.35)	$ 0.09
Diluted	$ (0.30)	$ (0.35)	$ 0.09

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Comprehensive Income (Loss)
			(In thousands, except share data)					
BALANCE, JANUARY 1, 2008	**$**	**$**	**26,193,560**	**$ 26**	**$ 79,974**	**$ 142,491**	**$ (311)**	
Issuance of 67,000 shares of TARP preferred stock	67,000	(4,766)						
Stock options exercised			53,000		443			
Stock-based compensation					1,660			
Issuance of common stock warrant					4,766			
Cash dividends accrued (5%)						(372)		
Accretion of preferred stock discount		102				(102)		
Cash dividends declared ($ 0.11 per common share)						(2,882)		
Comprehensive income (loss):								
Net income						2,755		$ 2,755
Other comprehensive income (loss):								
Change in unrealized gain (loss) on securities available for sale, net of tax							(921)	(921)
Change in unrealized gain (loss) on interest-only strips, net of tax								
Change in unrealized gain (loss) on interest rate swaps, net of tax							90	90
Total comprehensive income (loss)								$ 1,924
BALANCE, DECEMBER 31, 2008	**$ 67,000**	**$ (4,664)**	**26,246,560**	**$ 26**	**$ 86,843**	**$ 141,890**	**$ (1,142)**	

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (continued)

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Comprehensive Income (Loss)
	(In thousands, except share data)							
BALANCE, JANUARY 1, 2009	**$ 67,000**	**$ (4,664)**	**26,246,560**	**$ 26**	**$ 86,843**	**$ 141,890**	**$ (1,142)**	
Issuance of additional stock under public offering, net of offering costs			11,500,000	$ 12	81,960			
Issuance of additional shares pursuant to various stock plans			77,447		(81)			
Tax effects of stock plan					(408)			
Stock-based compensation					1,492			
Cash dividends accrued (5%)						(3,349)		
Accretion of preferred stock discount		927				(927)		
Comprehensive income (loss):								
Net loss						(5,723)		$ (5,723)
Other comprehensive income (loss):								
Change in unrealized gain (loss) on securities available for sale, net of tax							4,193	4,193
Change in unrealized gain (loss) on interest-only strips, net of tax							10	10
Change in unrealized gain (loss) on interest rate swaps, net of tax							(84)	(84)
Total comprehensive income (loss)								$ (1,604)
BALANCE, DECEMBER 31, 2009	**$ 67,000**	**$ (3,737)**	**37,824,007**	**$ 38**	**$ 169,806**	**$ 131,891**	**$ 2,977**	

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (continued)

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Comprehensive Income (Loss)
	(In thousands, except share data)							
BALANCE, JANUARY 1, 2010	**$ 67,000**	**$ (3,737)**	**37,824,007**	**$ 38**	**$ 169,806**	**$ 131,891**	**$ 2,977**	
Issuance of additional shares pursuant to various stock plans			159,020		1,150			
Tax effects of stock plan					32			
Stock-based compensation					376			
Cash dividends accrued (5%)						(3,351)		
Accretion of preferred stock discount		940				(940)		
Comprehensive income (loss):								
Net loss						(7,239)		$ (7,239)
Other comprehensive income (loss):								
Change in unrealized gain (loss) on securities available for sale, net of tax							(355)	(355)
Change in unrealized gain (loss) on interest-only strips, net of tax							1	1
Change in unrealized gain (loss) on interest rate swaps, net of tax							(26)	(26)
Total comprehensive income (loss)								$ (7,619)
BALANCE, DECEMBER 31, 2010	**$ 67,000**	**$ (2,797)**	**37,983,027**	**$ 38**	**$ 171,364**	**$ 120,361**	**$ 2,597**	

See accompanying notes to consolidated financial statements.

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	($ 7,239)	($ 5,723)	$ 2,755
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, amortization, net of discount accretion	10,977	5,006	2,817
Stock-based compensation expense	376	1,492	1,660
Provision for loan losses	84,630	61,023	48,825
Other than temporary impairment on securities available for sale			1,713
Valuation adjustment of a loan held for sale			334
Valuation adjustment of OREO	2,155	2,276	229
Proceeds from sales of loans	110,885	25,429	43,873
Originations of loans held for sale	(46,045)	(5,221)	(39,790)
Deferred gain on transfer of assets	(1,166)		
Net gains on sales of SBA and other loans	(5,768)	(1,422)	(1,781)
Net gains on sales and calls of securities available for sale	(6,396)	(4,427)	(860)
Net losses on sales of OREO	605	320	1,003
Net valuation losses on interest rate swaps and caps	857	446	549
Increase in cash surrender value on bank owned life insurance	(546)	(222)	(441)
FHLB stock dividends			(1,018)
Change in accrued interest receivable	2,613	(3,093)	1,180
Change in deferred income taxes	(7,910)	(6,372)	(9,884)
Change in other assets and FDIC prepayment	8,627	(15,744)	(16,601)
Change in accrued interest payable	(7,844)	4,125	(1,932)
Change in other liabilities	(3,072)	(363)	(439)
Net cash provided by operating activities	135,739	57,530	32,192
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans receivable	(100,783)	(167,651)	(133,210)
Proceeds from sales of commercial real estate loans			11,863
Purchase of premises and equipment	(2,973)	(1,650)	(3,454)
Purchase of securities available for sale	(190,577)	(787,755)	(269,977)
Proceeds from disposition of equipment	2		
Proceeds from sales of OREO	10,363	5,162	1,838
Proceeds from sales of securities available for sale	208,142	239,734	76,135
Proceeds from matured or called, or paiddown securities available for sale	235,063	160,189	65,692
Purchase of Federal Reserve Bank stock	(1,968)	(2,079)	(67)
Purchase of FHLB stock			(8,725)
Redemption of Federal Home Loan Bank stock	2,218		5,249
Net cash received from branch acquisition			2,555
Net cash provided by / (used in) investing activities	159,487	(554,050)	(252,101)

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	$ (258,076)	$ 495,587	$ 102,258
Net change in secured borrowings	11,758		
Repayments of FHLB borrowings	(35,000)	(50,000)	(193,000)
Proceeds from FHLB borrowings	35,000	50,000	246,000
Issuance of preferred stock, net of discount			62,234
Issuance of common stock warrant			4,766
Issuance of additional common stock		81,972	
Issuance of additional stock pursuant to various stock plan	1,150		443
Tax effects on issuance of shares from stock plan	32	(489)	
Payments of cash dividends	(3,351)	(4,015)	(2,882)
Net cash provided by / (used in) financing activities	(248,487)	573,055	219,819
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,739	76,535	(90)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	125,592	49,057	49,147
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 172,331	$ 125,592	$ 49,057
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 49,896	$ 61,574	$ 72,639
Income taxes paid (refund)	$ (1,458)	$ (4,671)	$ 16,174
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTMENT ACTIVITIES			
Transfer from loans receivable to other real estate owned	$ 12,660	$ 6,833	$ 6,039
Transfer from loans receivable to loans held for sale	$ 80,077	$ 13,721	$ 12,016
Investment securities purchases pending future settlement	$	$	$ 21,449
Reduction of common stock warrants	$	$ (2,383)	$
Acquisition:			
Fair value of non-cash assets acquired	$	$	$ 44
Fair value of deposits assumed	$	$	$ 2,999
Goodwill acquired	$	$	$ 350
Other intangible assets acquired	$	$	$ 50

See accompanying notes to consolidated financial statements.

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The accounting and reporting policies of Nara Bancorp, Inc. and Subsidiaries (the Company) are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. The consolidated financial statements include the accounts of Nara Bancorp, Inc. (Nara Bancorp) and its wholly owned subsidiaries, principally Nara Bank (the Bank). The consolidated financial statements also include the accounts of the Bank s wholly owned subsidiary, Nara Real Estate Trust, which was a Maryland real estate investment trust that held only loans secured by real estate. The subsidiary was dissolved in July, 2009. Nara Loan Center, a New Jersey corporation organized in 2000, was another subsidiary of the Bank until it was dissolved in April, 2008 after the acquisition of a branch office in New Jersey.

Nara Bancorp was formed as a holding company of the Bank and registered with the Securities and Exchange Commission under the Securities Act of 1933 on December 5, 2000. Effective February 2, 2001, upon consummation of the reorganization of the Bank into a holding company structure, each of the Bank s common shares at par value of $3 was exchanged for one share of Nara Bancorp s common stock at par value of $0.001. The reorganization was accounted for at historical cost in a manner similar to a pooling of interests.

The Bank, previously a national association, converted to a California state-chartered bank on January 3, 2005, and maintains 23 branch operations and one loan production office offering a full range of commercial banking and, to a lesser extent, consumer financial services to our customers, who typically are small- to medium-sized businesses and individuals in our market areas.

Cash Flows Cash and cash equivalents include cash and due from banks, interest-earning deposits, federal funds sold and term federal funds sold, which have original maturities less than 90 days. The Company is required to maintain reserve and clearing balances with the Federal Reserve Bank under the Federal Reserve Act. The reserve and clearing requirement balance was approximately $18.4 million at December 31, 2010 and $22.5 million at December 31, 2009. Net cash flows are reported for customer loan and deposit transactions, deferred income taxes and other assets and liabilities.

Securities Securities are classified and accounted for as follows:

(i) Securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. At December 31, 2010 and 2009, we did not own securities in this category;

(ii) Securities are classified as available for sale when they might be sold before maturity and are reported at fair value. Unrealized holding gains and losses are reported as a separate component of stockholders equity in accumulated other comprehensive income (loss), net of taxes.

Accreted discounts and amortized premiums on securities are included in interest income using the interest method, and realized gains or losses related to sales of securities are calculated using the specific identification method, without anticipating prepayments, except for mortgage-backed securities where prepayments are expected.

Management evaluates securities for other than temporary impairment (OTTI) at least on a quarterly basis and more frequently when economic conditions warrant such evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Derivative Financial Instruments and Hedging Transactions As part of our asset and liability management strategy, we may enter into derivative financial instruments, such as interest rate swaps, caps and floors, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. The Company s interest rate swaps and caps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts and are therefore accounted for as stand-alone derivatives. Changes in the fair value of the stand-alone derivatives are reported in earnings as non-interest income. As part of the Company s overall risk management, the Company s Asset Liability Committee, which meets monthly, monitors and measures interest rate risk and the sensitivity of assets and liabilities to interest rate changes, including the impact of derivative transactions.

Loans Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of any unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Interest on loans is credited to income as earned and is accrued only if deemed collectible. Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. Generally, payments received on non-accrual loans are recorded as principal reductions. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonrefundable fees, net of certain direct costs, associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments or for miscellaneous loan services, are recorded as income when collected.

SBA Loans Certain Small Business Administration (SBA) loans that the Company has the intent to sell prior to maturity have been designated as held for sale at origination and are recorded at the lower of cost or fair value, on an aggregate basis. A valuation allowance is established if the aggregate fair value of such loans is lower than their cost, and charged to earnings. Gains or losses recognized upon the sale of loans are determined on a specific identification basis. SBA loan transfers are accounted for as sales when control over the loan has been surrendered. Control over such loans is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan Servicing Assets The Company typically sells the guaranteed portion of SBA loans and retains the unguaranteed portion (retained interest). A portion of the premium on sale of SBA loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest, based on their relative fair values. During 2010, in accordance with newly issued accounting literature, this gain was deferred until the 90 day recourse period expired. This resulted in $1.2 million of gains being deferred at December 31, 2010 and secured borrowings of $11.8 million. In February 2011 the SBA amended their agreements and effective for all loans submitted for secondary market sales on or after February 15, 2011, the gain will again be recognized at the time of sale. The remaining portion of the premium is recorded as a discount on the retained interest and is amortized over the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, are included in loans receivable net of allowance for loan losses in the accompanying consolidated statements of financial condition.

Servicing assets are recognized when SBA loans are sold with servicing retained with the income statement effect recorded in gains on sales of SBA loans. Servicing assets are initially recorded at fair value based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate, plus 1 to 2%. The Company s servicing costs approximates industry average servicing costs of 40 basis points. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The Company has capitalized $283 thousand, $200 thousand and $765 thousand of servicing assets during 2010, 2009 and 2008, respectively, and amortized $868 thousand, $1.1 million and $1.6 million during the years ended December 31, 2010, 2009 and 2008, respectively. The carrying amount of servicing assets was $2.2 million and $2.8 million at December 31, 2010 and 2009, respectively.

Management periodically evaluates servicing assets for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. At December 31, 2010, the fair value of servicing assets was determined using a weighted-average discount rate of 5.7% and prepayment speed of 14.8%. At December 31, 2009, the fair value of servicing assets was determined using a weighted-average discount rate of 5.7% and prepayment speed of 14.7%. The fair values of servicing assets were approximately $4.0 million and $4.5 million at December 31, 2010 and 2009, respectively, on serviced loans totaling $222.7 million and $239.8 million at December 31, 2010 and 2009 and is included in other assets in the accompanying consolidated statements of condition. No impairment charges were required in 2010, 2009, or 2008.

The estimated annual amortization of servicing assets as of December 31, 2010, for each of the succeeding five fiscal years is indicated in the table below:

Year Ending December 31 **(In thousands)**	
2011	$ 471
2012	373
2013	292
2014	225
2015	269
Thereafter	579
	$ 2,209

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Servicing fee income which is reported on the income statement as Loan Servicing Fees, net is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $2.4 million, $2.6 million and $3.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. Late fees and ancillary fees related to loan servicing are not material.

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable incurred credit losses that are inherent in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off.

In addition, the Company is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, may be considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral values, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not deemed to be impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. Effective June 30, 2010, the Bank utilizes an automated software program which allows for detailed and comprehensive migration of loan losses through all grade levels within an individual loan s credit cycle, with more emphasis, or weight, on the more current quarters in the loss horizon period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effects of changes in credit concentrations. The following major portfolio segments have been identified: Real estate loans (residential, commercial, and construction), commercial business loans, trade finance loans, and consumer/other loans. Due to the overall high level of real estate loans within the loan portfolio as a whole, as compared to other portfolio segments, for risk assessment and allowance purposes this segment was segregated into more granular pools by collateral property type. Construction and land loans have the highest qualitative adjustments for economic and other credit risk factors, such as the incomplete status of the collateral and deleterious effect of the recent economic downturn on these types of properties during, but total balances in these portfolio segments are not a concentration in the overall portfolio. The commercial real estate loan portfolio segment as a whole had the next highest level of qualitative adjustments due to the effects of local markets and economies on the underlying collateral property values, as well as for industry concentrations and risks related to the commercial business tenants. Commercial real estate loans secured by hotels, golf courses, and gas station/car washes pose an industry concentration risk within this portfolio segment, have historically shown higher credit risk than in other collateral property types, and were negatively impacted by the effect of the recent poor economy on the hospitality and recreation industries as well as increasing fuel and travel costs. These factors resulted in higher qualitative adjustments made to these sub-portfolio segments. Within the commercial business and trade finance portfolio segments, risk analysis is performed based on concentrations within industries, as well as by individual loan type. Commercial business loans granted under various SBA-guaranteed programs show higher historical risks as these loans are made to small businesses which were more negatively impacted by the economic issues of past few years. This impact resulted in increased qualitative adjustments for this sub-portfolio segment during the year. Trade finance loans show minimal historical losses and have the lowest level of inherent risk as they are generally structured for transaction based funding and businesses within this portfolio segment were less impacted by local market downturns. Qualitative adjustments made to this portfolio segment are generally minor as a result.

Effective December 31, 2010 the Bank expanded its scope of the loans reviewed for individual impairment by including all loans over $1 million that were risk-graded as Substandard, even though such loans were less than 60 days delinquent and were performing under their contractual terms. Previously, Substandard loans over $2 million were subject to impairment analysis. This enhancement added three loans totaling $4.6 million to impaired loans in four quarter 2010. The Bank also implemented a qualitative adjustment factor for Pass-4 (Watch) graded loans. Prior to December 31, 2010, all levels of Pass-rated loans were combined and analyzed as a single pool of loans for historical loss trends. This process allows the Bank to reserve for the slightly increased level of risk, or potential weakness, associated with Pass-4/Watch loans.

The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in terms of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management s current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management s current estimate of what constitutes a reasonable allowance for loan losses.

Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Upon disposition of an impaired loan, any unpaid balance is charged off to the allowance for loan losses.

Concentration of Credit Risk Our loan portfolio is divided into three general markets: California, New York / New Jersey, and all other states. The California market represents the biggest credit market concentration (62.1%) followed by New York / New Jersey (28.6%) and All Other States (9.3%). Within the California market, most of our business activity is with customers located within Los Angeles County (35.4%). Therefore, the Company s exposure to credit risk is significantly affected by changes in the economy in the Los Angeles County area.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Within our CRE loan portfolio, the largest industry concentrations are hotel/motel (17.5%), gas stations (16.2%), multi-tenant retail building (15.4%), and mixed-use facilities (10.2%). Within our commercial and industrial loan portfolio, the largest industry concentrations are supermarkets (26.6%), wholesalers (21.0%), and manufacturing (10.8%).

Federal Home Loan Bank (FHLB) Stock The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Reserve Bank (FRB) Stock The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 5 years for furniture, fixtures and equipment.

Leasehold improvements are capitalized and amortized on the straight-line method over the term of the lease or the estimated useful lives of the improvements up to 40 years, whichever is shorter. An accelerated method of depreciation is followed, as appropriate, for federal income tax purposes.

Other Real Estate Owned Other real estate owned, which represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans, is stated at fair value less estimated selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of acquisition are charged to the allowance for loan losses. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to current operations.

Goodwill and Intangible Assets Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet. The Company tested goodwill for impairment as of December 31, 2010 and 2009 noting no impairment of recorded goodwill.

Stock-Based Compensation Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities represent the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in the financial statements. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income and tax planning strategies in making this assessment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and / or penalties related to income tax matters in income tax expense.

Employee Stock Ownership Plan (ESOP) Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings.

Earnings per Common Share Basic Earnings per Common Share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Allocated ESOP shares are considered outstanding for this calculation. Diluted Earnings per Common Share reflects the potential dilution of securities that could share in the earnings of the Company. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Equity The Company accrues for preferred stock dividends as earned and for common stock dividends as declared. Preferred stock dividends of $3.4 million and $3.3 million were paid in 2010 and 2009 and there were $428,000 of preferred stock dividends accrued but unpaid at December 31, 2010 and 2009. There were no common stock dividends declared during 2010 and 2009. Accrued preferred and common stock dividends are included in other liabilities.

Bank Owned Life Insurance The Company has purchased life insurance policies on certain key executives and directors. Bank owned life insurance (BOLI) is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Comprehensive Income Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, cash flow hedges, and interest-only strips which are also recognized as separate components of stockholders equity, net of tax.

Loss Contingencies Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management believes there are no such matters that would have a material effect on the consolidated financial statements as of December 31, 2010 or 2009.

Loan Commitments and Related Financial Instruments Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. See Note 12, Commitments and Contingencies, to these Consolidated Financial Statements for further discussion.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Values of Financial Instruments Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments Internal financial information is primarily reported and aggregated in three lines of business, banking, trade finance service, and SBA lending services.

Impairment of Long-Lived Assets The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted) over the remaining useful life of the asset are less than the carrying value, an impairment loss would be recorded to reduce the related asset to its estimated fair value.

Transfer of Financial Assets Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Use of Estimates in the Preparation of Consolidated Financial Statements The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are susceptible to change in the near term relate to the determination of the allowance and provision for loan losses, the evaluation of other than temporary impairment of investment securities, accounting for derivatives and hedging activities, determining the carrying value for cash surrender value of life insurance, disclosures about segment information, carrying value of goodwill and other intangible assets, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other financial instruments, accounting for lease arrangements, accounting for incentive compensation, profit sharing and bonus payments and the valuation of servicing assets.

Reclassifications Some items in the prior year financial statements were reclassified to conform to the current presentation.

Recent Accounting Pronouncements

FASB ASU 2010-20, Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 3 to these Consolidated Financial Statements for the required disclosures at December 31, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Newly Issued But Not Yet Effective Accounting Pronouncements

FASB ASU 2010-28, Intangibles Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ASU 2010-28 affects all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. ASU 2010-28 modifies Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Adoption of ASU 2010-28 is not expected to have a significant impact on our consolidated financial statements.

2. SECURITIES AVAILABLE FOR SALE

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

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities*:				
GSE bonds	$ 125,429	$ 1,059	$ (770)	$ 125,718
GSE collateralized mortgage obligations	101,312	2,146	(257)	103,201
GSE mortgage-backed securities	282,205	4,628	(1,999)	284,834
Corporate note	4,473		(765)	3,708
Municipal bonds	5,258	55	(31)	5,282
Total debt securities	518,677	7,888	(3,822)	522,743
Mutual funds	5,462	57		5,519
Total	$ 524,139	$ 7,945	$ (3,822)	$ 528,262

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities*:				
GSE bonds	$ 85,343	$ 354	$ (468)	$ 85,229
GSE collateralized mortgage obligations	191,711	1,273	(1,949)	191,035
GSE mortgage-backed securities	485,705	7,333	(824)	492,214
Corporate note	4,458		(1,034)	3,424
Municipal bonds	5,259	78	(12)	5,325

Total debt securities	772,476	9,038	(4,287)	777,227
Mutual funds	5,462	1		5,463
Total	$ 777,938	$ 9,039	$ (4,287)	$ 782,690

* As of December 31, 2010 and 2009, Government Sponsored Enterprises (GSE) included GNMA, FHLB, FNMA, FHLMC, and FFCB, and are all residential based investments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At year-end 2010 and 2009, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

The proceeds from sales of securities and the associated gains are listed below:

	2010	2009	2008
		(In thousands)	
Proceeds	$ 208,142	$ 239,734	$ 76,135
Gross gains	6,296	4,413	865
Gross losses		(3)	(10)

The tax expense related to these net realized gains and losses was $3.3 million, $2.3 million and $319 thousand, respectively.

The proceeds from calls of securities were $35.3 million, $24.6 million and $20.1 million for 2010, 2009 and 2008 with gross gains of $100 thousand, $17 thousand and $5 thousand, respectively. There were no losses on calls.

The amortized cost and estimated fair value of debt securities at December 31, 2010, by contractual maturity, are shown below. 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. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Available for sale:		
Due within one year	$	$
Due after one year through five years	340	346
Due after five years through ten years	1,652	1,675
Due after ten years	133,168	132,687
GSE collaterized mortgage obligations	101,312	103,201
GSE mortgage-backed securities	282,205	284,834
Mutual funds	5,462	5,519
	$ 524,139	$ 528,262

Securities with carrying values of approximately $270.3 million and $243.2 million at December 31, 2010 and 2009, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

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The following table shows the gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010 and 2009.

At December 31, 2010:	**Less than 12 months**			**12 months or longer**			**Total**		
Description of Securities	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**
					(In thousands)				
GSE bonds	4	$ 65,465	$ (770)		$	$	4	$ 65,465	$ (770)
GSE collaterized mortgage obligations	3	9,091	(187)	2	17,337	(70)	5	26,428	(257)
GSE mortgage-backed securities	7	99,555	(1,999)				7	99,555	(1,999)
Corporate note				1	3,708	(765)	1	3,708	(765)
Municipal bonds	5	1,929	(31)				5	1,929	(31)
	19	$ 176,040	$ (2,987)	3	$ 21,045	$ (835)	22	$ 197,085	$ (3,822)

At December 31, 2009:	**Less than 12 months**			**12 months or longer**			**Total**		
Description of Securities	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**
					(In thousands)				
GSE bonds	12	$ 45,067	$ (468)		$	$	12	$ 45,067	$ (468)
GSE collaterized mortgage obligations	8	79,518	(1,251)	5	28,494	(698)	13	108,012	(1,949)
GSE mortgage-backed securities	22	104,900	(823)	1	59	(1)	23	104,959	(824)
Corporate note				1	3,424	(1,034)	1	3,424	(1,034)
Municipal bonds	4	1,506	(12)				4	1,506	(12)
	46	$ 230,991	$ (2,554)	7	$ 31,977	$ (1,733)	53	$ 262,968	$ (4,287)

We evaluate securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer; the length of time and the extent to which the fair value has been less than cost, and our intention to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer s financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

During the second quarter 2008, we received a downgrade notification from one of the rating agencies on a non-agency asset-backed security. The downgrade reduced the credit rating from investment grade to substantially below investment grade, requiring an OTTI charge of $1.7 million to write down the security value to zero. We have no other non-agency asset-backed securities in portfolio. The corporate note at December 31, 2010 and 2009 consists of one bond with an amortized cost of $4.5 million and an unrealized loss of $765 thousand at December 31, 2010. The bond is scheduled to mature in May 2047, with a first call date option in

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May 2012. Management determined this unrealized loss did not represent other-than-temporary impairment at December 31, 2010 as the investment is rated investment grade and there are no credit quality concerns with the obligor. The market value decline is deemed to be due to the current market volatility and is not reflective of management s expectations of their ability to fully recover this investment. Interest on the corporate note has been paid as agreed and management believes this will continue in the future and the bond will be repaid in full as scheduled. For these reasons, no other-than-temporary impairment was recognized on the corporate note at December 31, 2010.

We consider the losses on our investments in an unrealized loss position at December 31, 2010 to be temporary based on: 1) the likelihood of recovery; 2) the information relative to the extent and duration of the decline in market value; and 3) the Company s intention not to sell, or it is more likely than not that it will not be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis.

3. LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans by major category at December 31:

	2010	2009
	(In thousands)	
Loan portfolio composition		
Real estate loans:		
Residential	$ 2,263	$ 4,801
Commercial & industrial	1,524,650	1,595,219
Construction	46,900	54,084
Total real estate loans	1,573,813	1,654,104
Commercial business	491,811	487,736
Trade finance	57,430	51,411
Consumer and other	13,268	18,035
Total loans outstanding	2,136,322	2,211,286
Less: deferred loan fees	(2,261)	(2,343)
Gross loans receivable	2,134,061	2,208,943
Less: allowance for loan losses	(62,320)	(59,424)
Loans receivable, excluding guaranteed portion of delinquent SBA loans	2,071,741	2,149,519
Guaranteed portion of delinquent SBA loans	13,684	12,490
Loans receivable, net	$ 2,085,425	$ 2,162,009

Activity in the allowance for loan losses is as follows for the years ended December 31:

	2010	2009	2008
		(In thousands)	
Balance, beginning of year	$ 59,424	$ 43,419	$ 20,035
Provision for loan losses	84,630	61,023	48,825
Loans charged off	(84,652)	(45,686)	(25,693)

Recoveries of charge-offs	2,918	668	252
Balance, end of year	$ 62,320	$ 59,424	$ 43,419

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The activity in the allowance for loan losses by class of loans for the year ended December 31, 2010 is as follows:

		Real estate - Commercial											
	Real estate - Residential	Retail	Hotel & Motel	Gas Station & Car Wash	Mixed Use	Industrial & Warehouse	Other	Real estate - Construction	Commercial Business	Trade Finance	Consumer and other	Unallocated	Total
Balance, beginning of year	$ 18	$ 7,068	$ 10,506	$ 9,034	$ 3,032	$ 1,844	$ 9,357	$ 913	$ 15,656	$ 410	$ 1,143	$ 443	$ 59,424
Provision for loan losses	19	9,937	14,695	8,213	1,587	4,937	10,722	3,331	30,930	(218)	651	(174)	84,630
Loans charged off	(23)	(11,384)	(18,322)	(12,342)	(3,042)	(3,196)	(10,532)	(848)	(23,607)		(1,356)		(84,652)
Recoveries of charged offs		12	21	397			341		1,951		196		2,918
Balance, end of year	$ 14	$ 5,633	$ 6,900	$ 5,302	$ 1,577	$ 3,585	$ 9,888	$ 3,396	$ 24,930	$ 192	$ 634	$ 269	$ 62,320

The allowance for loan losses is comprised of specific loss allowances for impaired loans and general loan loss allowances based on quantitative and qualitative analyses.

Individually impaired loans were as follows:

	As of and for the Year Ended December 31, 2010	2009
	(In Thousands)	
With Allocated Allowance		
Without charge-off	$ 63,944	$ 69,771
With charge-off	4,188	3,385
With No Allocated Allowance		
Without charge-off	42,015	32,253
With charge-off	12,540	15,131
Allowance on Impaired Loans	(21,102)	(19,803)
Impaired Loans, net of allowance	$ 101,585	$ 100,737
Average Impaired Loans	$ 123,242	$ 84,593
Interest income recognized during impairment	6,188	4,466
Cash-basis interest income recognized	6,135	4,249

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The year-end impaired loans are set forth in the following table by class of loans.

	As of December 31, 2010		
	Unpaid Principal Balance	Related Allowance (In Thousands)	Average Balance
With Related Allowance:			
Real Estate Residential	$	$	$
Real Estate Commercial			
Retail	$ 7,347	$ (1,518)	$ 7,498
Hotel & Motel	5,349	(987)	11,439
Gas Station & Car Wash	3,142	(1,411)	8,844
Mixed Use	308	(53)	2,334
Industrial & Warehouse	7,539	(1,729)	2,453
Other	2,697	(448)	5,711
Real Estate Construction	5,789	(1,686)	4,027
Commercial Business	35,961	(13,270)	29,753
Trade Finance			
Consumer and Other			89
	$ 68,132	$ (21,102)	$ 72,148
With No Related Allowance			
Real Estate Residential	$	$	$
Real Estate Commercial			
Retail	9,127		10,100
Hotel & Motel	8,619		7,299
Gas Station & Car Wash	5,197		8,361
Mixed Use	3,660		4,635
Industrial & Warehouse	367		2,510
Other	17,530		10,853
Real Estate Construction	4,469		2,481
Commercial Business	5,029		4,550
Trade Finance	469		287
Consumer and Other	88		18
	$ 54,555	$	$ 51,094
Total	$ 122,687	$ (21,102)	$ 123,242

* Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

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The following table provides nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2010:

	As of December 31, 2010		
	Non-accrual Loans*	Loans past due 90 days or more, still accruing* (In Thousands)	Total nonperforming loans*
Real estate loans:			
Residential	$	$	$
Commercial			
Retail	1,615		1,615
Hotel & Motel	1,187		1,187
Gas Station & Car Wash	3,054		3,054
Mixed Use	3,968		3,968
Industrial & Warehouse	3,690		3,690
Other	4,834		4,834
Construction	8,547		8,547
Total	26,895		26,895
Commercial business	15,991		15,991
Trade finance	469		469
Consumer and other	448		448
	$ 43,803	$	$ 43,803

* Adjustment to recorded investment is not deemed material to this presentation.

Non accrual loans and loans past due 90 days still on accrual were $51.7 million and $0, respectively, as of December 31, 2009.

The following table presents the aging of past due loans as of December 31, 2010 by class of loans:

	As of December 31, 2010			
	30-59 Days Past Due*	60-89 Days Past Due*	Greater than 90 Days Past Due*	Total Past Due*
		(In Thousands)		
Real estate Residential	$ 46	$	$	$ 46
Real estate Commercial				
Retail	950	188	1,615	2,753
Hotel & Motel	455		1,187	1,642
Gas Station & Car Wash			3,054	3,054
Mixed Use	401		3,968	4,369
Industrial & Warehouse	133	239	3,690	4,062

Other	302		4,834	5,136
Real estate Construction			8,547	8,547
Commercial business	684	855	15,991	17,530
Trade finance			469	469
Consumer and other	41	2	448	491
	$ 3,012	$ 1,284	$ 43,803	$ 48,099

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* Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. This analysis is performed at least on a quarterly basis. We use the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass-rated loans. As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	As of December 31, 2010			
	Special Mention	Substandard	Doubtful	Total
Real estate Residential	$	$ 46		$ 46
Real estate Commercial				
Retail	1,948	18,898		20,846
Hotel & Motel	10,896	15,490		26,386
Gas Station & Car Wash	8,798	8,923		17,721
Mixed Use	364	5,887		6,251
Industrial & Warehouse	385	8,871		9,256
Other	1,865	21,431		23,296
Real estate Construction		10,257		10,257
Commercial business	4,182	45,054	260	49,496
Trade finance	305	469		774
Consumer and other	830	448		1,278
Total Watch List Loans	$ 29,573	$ 135,774	$ 260	$ 165,607

The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the credit quality of the loan portfolio, consideration of historical loan loss experience, relevant internal and external factors that affect the collection of a loan, and other pertinent factors.

The Migration Analysis is a formula methodology based on the Bank s actual historical net charge-off experience for each loan pool and loan risk grade (Pass, Special Mention, Substandard and Doubtful). The migration analysis is centered on the Bank s internal credit risk rating system. Our internal loan review and

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external contracted credit review examinations are used to determine and validate loan risk grades. This credit review system takes into consideration factors such as: borrower s background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, fair value and volatility of the fair value of collateral; lien position; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans not specifically identified as impaired (non-impaired loans). The allowance is determined first based on a quantitative analysis using a loss migration methodology. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for the most recent 12 quarters and then weighted to give more weight to the most recent losses. That loss experience is then applied to the stratified portfolio at each quarter end. During 2009, the non-impaired Commercial Real Estate loan portfolio was stratified into ten different loan pools based on property types and the non-impaired Commercial and Industrial loan portfolio was stratified into five different loan pools based on loan type, to allocate historic loss experience to more granular loan pools. Effective June 30, 2010 four additional pools, primarily in the commercial real estate portfolio, were further stratified. In addition, a new software program was implemented effective June 30, 2010 and is used to track and allocate charge-offs to the various loan grades by loan pools.

The stratification of the non-impaired loan portfolio resulted in a quantitative general loan loss allowance of $23.9 million at December 31, 2010, compared to $11.3 million at December 31, 2009. The enhancement to the reserve methodology mentioned previously enables loan losses to be allocated into the Pass loan grade levels. This extended migration analysis process resulted in higher levels of quantitative reserves being required for the various Pass graded loan pools.

Additionally, in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio, the Bank utilizes qualitative adjustments to the Migration Analysis within established parameters. The parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive (Major, Moderate, and Minor), three negative (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type pool. Generally, the factors are considered to have no significant impact (neutral) to our historical migration ratios. However, if information exists to warrant adjustment to the Migration Analysis, changes are made in accordance with the established parameters supported by narrative and/or statistical analysis. The Credit Risk Matrix and the seven possible scenarios enable the Bank to qualitatively adjust the Loss Migration Ratio by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following nine factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

- Changes in national and local economic and business conditions and developments, including the condition of various market segments.

- Changes in the nature and volume of the loan portfolio.

- Changes in the experience, ability, and depth of lending management and staff.

- Changes in the trends of the volume and severity of past due and classified loans; and changes in trends in the volume of non-accrual loans and troubled debt restructurings, and other loan modifications.

Changes in the quality of our loan review system and the degree of oversight by the Directors.

Changes in the value of underlying collateral for collateral-dependent loans.

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The existence and effect of any concentrations of credit, and changes in the level of such concentrations.

The effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in our loan portfolio.

The qualitative loan loss allowance on the non-impaired loan portfolio was $17.0 million at December 31, 2010 compared to $28.4 million at December 31, 2009.

We also establish specific loss allowances for loans where we have identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by FASB ASC 310-10-35-22, *Measurement of Impairment*. The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuations: 1) the present value of future cash flows discounted at the loan s effective interest rate; 2) the loan s observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, we obtain an appraisal to determine the amount of impairment at the date that the loan become impaired. The appraisals are based on as is valuation. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisals. Furthermore, if the most current appraisal is dated more than six months prior to the effective date of the impairment test, we validate the most current value with third party market data appropriate to the location and property type of the collateral. If the third party market data indicates that the value of our collateral property values has declined since the most recent valuation date, we adjust downward the value of the property to reflect current market conditions. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, depending on the size of the impaired loan, is charged off against the allowance for loan losses.

The Bank considers a loan to be impaired when it is probable that not all amounts due (principal and interest) will be collectible in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls is determined on a case-by-case basis by taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed.

For commercial business loans, real estate loans and certain consumer loans, we base the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan s effective interest rate or on the fair value of the loan s collateral if the loan is collateral dependent. We evaluate most consumer loans for impairment on a collective basis, because these loans have generally smaller balances and are homogeneous in the underwriting terms and conditions, and in the type of collateral. If a loan is deemed to be impaired, the amount of the impairment is supported by a specific allowance amount which is included in the allowance for loan losses through a charge to the provision for loan losses.

In the third quarter, 2010, based on current market conditions, we expanded the criteria for evaluating loans for impairment which resulted in an increase in impaired loans from the prior quarter. Prior to the third quarter of 2010, loans graded Substandard were not individually evaluated for impairment and only considered impaired if they were 60+ days past due, unless other events existed that qualified the loan for impairment review. Therefore, a Substandard credit that was current in its contractual payments, but was classified due to other risk issues would not necessarily be subject to individual review for impairment analysis. Effective September 30, 2010, we expanded the scope of the loans reviewed for individual impairment by including all loans over $2 million that

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were risk-graded as Substandard, even though such loans were less than 60 days delinquent and were performing under their contractual terms. Effective December 31, 2010, we expanded this scope again by now including all loans over $1 million, which added 3 loans totaling $4.6 million to aggregate impaired loans. This enhancement to our impairment analysis provided more coverage in terms of current fair values on classified loans as updated market values are required as part of the impairment analysis process.

The following table presents loans by portfolio segment and impairment method at December 31, 2010 and 2009:

	As of December 31, 2010						
	Real estate - Residential	Real estate - Commercial	Real estate - Construction	Commercial business	Trade finance	Consumer and other	Total
				(In Thousands)			
Impaired loans	$	$ 70,882	$ 10,258	$ 40,990	$ 469	$ 88	$ 122,687
Specific allowance	$	$ 6,145	$ 1,686	$ 13,271	$	$	$ 21,102
Loss coverage ratio	0%	8.67%	16.44%	32.38%	0.00%	0.00%	17.20%
Non-impaired loans	$ 2,263	$ 1,453,768	$ 36,642	$ 450,821	$ 56,961	$ 13,180	$ 2,013,635
General allowance	$ 14	$ 26,740	$ 1,710	$ 11,659	$ 192	$ 903	$ 41,218
Loss coverage ratio	0.62%	1.84%	4.67%	2.59%	0.34%	6.85%	2.05%
Total loans[(1)]	$ 2,263	$ 1,524,650	$ 46,900	$ 491,811	$ 57,430	$ 13,268	$ 2,136,322
Total allowance for loan losses	$ 14	$ 32,885	$ 3,396	$ 24,930	$ 192	$ 903	$ 62,320
Loss coverage ratio	0.62%	2.16%	7.24%	5.07%	0.33%	6.81%	2.92%

(1) Excludes the guaranteed portion of delinquent SBA loans.

(2) Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

	As of December 31, 2009						
	Real estate - Residential	Real estate - Commercial	Real estate - Construction	Commercial business	Trade finance	Consumer and other	Total
				(In Thousands)			
Impaired loans	$	$ 94,600	$ 2,342	$ 23,598	$	$	$ 120,540
Specific allowance	$	$ 10,852	$ 275	$ 8,676	$	$	$ 19,803
Loss coverage ratio	0.00%	11.47%	11.74%	36.77%	0.00%	0.00%	16.43%
Non-impaired loans	$ 4,801	$ 1,500,619	$ 51,742	$ 464,138	$ 51,411	$ 18,035	$ 2,090,746
General allowance	$ 18	$ 29,989	$ 638	$ 6,979	$ 410	$ 1,587	$ 39,621
Loss coverage ratio	0.37%	2.00%	1.23%	1.50%	0.80%	8.80%	1.90%
Total loans[(1)]	$ 4,801	$ 1,595,219	$ 54,084	$ 487,736	$ 51,411	$ 18,035	$ 2,211,286
Total allowance for loan losses	$ 18	$ 40,841	$ 913	$ 15,655	$ 410	$ 1,587	$ 59,424
Loss coverage ratio	0.37%	2.56%	1.69%	3.21%	0.80%	8.80%	2.69%

(1) Excludes the guaranteed portion of delinquent SBA loans.

(2)

Adjustment to recorded investment is not deemed material to this presentation. Accrued interest receivable on total loans is $6.1 million and $6.9 million and deferred loan fees on total loans are $(2.3) million and $(2.3 million) at December 31, 2010 and 2009.

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Under certain circumstances, we will provide borrowers relief through loan modifications. These modifications are either temporary in nature (temporary modifications), or are more substantive troubled debt restructurings. At December 31, 2010, total modified loans were $55.6 million, compared to $108.4 million at December 31, 2009. The temporary modifications generally consist of interest only payments for a three- to six-month period, whereby principal payments are deferred. At the end of the modification period, the remaining principal balance is re-amortized based on the original maturity date. Loans subject to temporary modifications are generally downgraded to Substandard or Special Mention. At the end of the modification period, the loan 1) returns to the original contractual terms; 2) is further modified and accounted for as a troubled debt restructuring in accordance with ASC 310-10-35; or 3) is disposed of through foreclosure or liquidation.

Troubled Debt Restructured (TDR) loans are defined by ASC 310-40, Troubled Debt Restructurings by Creditors and ASC 470-60, Troubled Debt Restructurings by Debtors, and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date.

A summary of TDR on accrual by type of concession as of December 31, 2010 and 2009 is presented below:

	As of December 31, 2010			As of December 31, 2009		
(In Thousands)	Real estate - Commercial	Commercial Business	Total	Real estate - Commercial	Commercial Business	Total
Payment concession	$ 975	$ 8,744	$ 9,719	$ 2,993	$ 4,287	$ 7,280
Maturity / Amortization concession	4,968	7,144	12,112	34,403	5,332	39,735
Rate concession	12,250	1,022	13,272	16,496	829	17,325
	$ 18,193	$ 16,910	$ 35,103	$ 53,892	$ 10,448	$ 64,340

TDRs on accrual status are comprised of loans that were accruing at the time of restructuring and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. Sustained performance includes the periods prior to the modification if the prior performance met or exceeded the modified terms. TDRs on accrual status at December 31, 2010 were comprised of 17 commercial real estate loans totaling $18.2 million and 43 commercial business loans totaling $16.9 million. TDRs on accrual status at December 31, 2009 were comprised of 34 commercial real estate loans totaling $53.9 million and 54 commercial business loans totaling $10.4 million. We expect that the TDRs on accrual status as of December 31, 2010, which are all performing in accordance with their restructured terms to continue to comply with the restructured terms because of the reduced principal or interest payments on these loans.

We have allocated $15.8 million and $14.1 million of specific reserves to TDRs as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, we did not have any outstanding commitments to extend additional funds to these borrowers.

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4. PREMISES AND EQUIPMENT, NET

Premises and equipment, net consisted of the following at December 31:

	2010	2009
	(In thousands)	
Furniture, fixtures and equipment	$ 12,949	$ 10,915
Leasehold improvements	14,605	13,886
	27,554	24,801
Accumulated depreciation and amortization	(16,639)	(13,936)
	$ 10,915	$ 10,865

Depreciation and amortization expense on furniture, fixtures and equipment and leasehold improvements was approximately $2.9 million, $2.8 million and $2.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill amounted to $2.5 million at December 31, 2010 and 2009. Goodwill is tested for impairment on an annual basis as of December 31, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment writedowns as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited. The Company also has premiums on acquired deposits which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. Other intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. The gross carrying amount of deposit premiums totaled $5.9 million at December 31, 2010 and 2009, and the related accumulated amortization totaled $5.3 million and $4.8 million at December 31, 2010 and 2009, respectively. The Company did not record any impairment writedowns on deposit premiums during 2010, 2009 and 2008. The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Total amortization expense on deposit premiums was $508 thousand, $585 thousand and $665 thousand for the years ended December 31, 2010, 2009 and 2008, respectively.

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following is a summary of the Company s intangible assets at December 31:

		2010		2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
			(In thousands)		
Goodwill:					
Goodwill KEBNY acquisition		$ 1,117	$ (242)	$ 1,117	$ (242)
Goodwill Asiana Bank acquisition		1,284		1,284	
Goodwill Provident Bank acquisition		350		350	
Total		$ 2,751	$ (242)	$ 2,751	$ (242)
Intangible assets:	**Amortization period**				
Core deposit KEBNY acquisition	10 years	$ 881	$ (881)	$ 881	$ (881)
Core deposit IBKNY acquisition	10 years	1,187	(1,118)	1,187	(1,004)
Core deposit Asiana Bank acquistion	10 years	1,018	(898)	1,018	(799)
Core deposit KEB, Broadway acquisition	10 years	2,726	(2,382)	2,726	(2,086)
Core deposit Provident Bank acquisition	1 year	50	(50)	50	(50)
Total		$ 5,862	$ (5,329)	$ 5,862	$ (4,820)

6. DEPOSITS

Interest expense for time deposits for the years ended December 31 was as follows:

	2010	2009	2008
		(In thousands)	
Time deposits of $100,000 or more	$ 7,361	$ 17,830	$ 27,033
Other time deposits	10,873	19,910	13,863
Total	$ 18,234	$ 37,740	$ 40,896

Included in time deposits of $100,000 or more were $200.0 million in California State Treasurer s deposits at December 31, 2010 and 2009. The California State Treasurer s deposits are subject to withdrawal based on the State s periodic evaluations. The Company is required to pledge eligible collateral of at least 110% of outstanding deposits. At December 31, 2010 and 2009, securities with carrying values of approximately $268.3 million and $237.6 million, respectively, were pledged as collateral for the California State Treasurer s deposits.

Brokered time deposits of $24.8 million and $243 thousand are included in other time deposits at December 31, 2010 and 2009, respectively.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2010, the scheduled maturities for time deposits were as follows:

	Year Ended December 31 (In thousands)
2011	$ 803,905
2012	156,078
2013	158
2014	
2015	12,394
	$ 972,535

7. BORROWINGS

The Company maintains a secured credit facility with the Federal Home Loan Bank of San Francisco (FHLB SF) against which the Company may take advances. The borrowing capacity is limited to the lower of 30% of the Bank s total assets or the Bank s collateral capacity, which was $543.9 million at December 31, 2010. The terms of this credit facility require the Company to pledge with the FHLB, eligible collateral equal to at least 100% of outstanding advances.

At December 31, 2010 and December 31, 2009, real estate secured loans with a carrying amount of approximately $1.1 billion were pledged as collateral for borrowings from the FHLB. At December 31, 2010 and December 31, 2009, other than FHLB stock, no securities were pledged as collateral for borrowings from the FHLB.

At December 31, 2010 and December 31, 2009, FHLB borrowings were $350 million, had a weighted average interest rate of 3.18% and 3.46%, respectively, and had various maturities through September 2016. At December 31, 2010, $150 million of the advances were putable advances with various putable dates and strike prices. During 2010, the Bank obtained $35 million of additional FHLB advances, and repaid $35 million during the same period. The new advances have a weighted average cost of 1.01% with average remaining maturities of 2.7 years. The cost of FHLB borrowings as of December 31, 2010 ranged between 0.68% and 4.57%. At December 31, 2010, the Company had a remaining borrowing capacity of $193.4 million.

At December 31, 2010, the contractual maturities for FHLB borrowings were as follows:

	Contractual Maturities	Maturity/ Put Date
	(In thousand)	
Due within one year	$ 65,000	$ 215,000
Due after one year through five years	280,000	130,000
Due after five years through ten years	5,000	5,000
	$ 350,000	$ 350,000

In addition, as a member of the Federal Reserve Bank (FRB) system, we may also borrow from the Federal Reserve Bank of San Francisco. The maximum amount that we may borrow from the Federal Reserve Bank s discount window is 96% of the fair value of the securities that are pledged and 63% of the outstanding principal balance of the qualifying loans that are pledged. At December 31, 2010, the outstanding principal

balance of the qualifying loans was $394.5 million. As of December 31, 2010 and 2009, there was no borrowing outstanding against the line.

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Secured borrowings of $11.8 million at December 31, 2010 represents the sold portion of SBA loans sold with 90 days recourse clause. Recognition of these sales is required to be deferred until the end of the 90 day recourse period. Refer to Footnote 1, Loan Servicing Assets, for further information.

8. SUBORDINATED DEBENTURES

At December 31, 2010, five wholly-owned subsidiary grantor trusts established by Nara Bancorp had issued $38 million of pooled Trust Preferred Securities (trust preferred securities). Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the Debentures) of Nara Bancorp. The Debentures are the sole assets of the trusts. Nara Bancorp s obligations under the subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by Nara Bancorp of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. Nara Bancorp has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. Nara Bancorp also has a right to defer consecutive payments of interest on the debentures for up to five years.

The following table is a summary of trust preferred securities and debentures at December 31, 2010:

		(Dollars in Thousands)					
Issuance Trust	Issuance Date	Trust Preferred Security Amount	Subordinated Debentures Amount	Rate Type	Initial Rate	Rate at 12/31/10	Maturity Date
Nara Bancorp Capital Trust I	03/28/2001	$ 10,000	$ 10,400	Fixed	10.18%	10.18%	06/08/2031
Nara Capital Trust III	06/05/2003	5,000	5,155	Variable	4.44%	3.45%	06/15/2033
Nara Statutory Trust IV	12/22/2003	5,000	5,155	Variable	4.02%	3.14%	01/07/2034
Nara Statutory Trust V	12/17/2003	10,000	10,310	Variable	4.12%	3.25%	12/17/2033
Nara Statutory Trust VI	03/22/2007	8,000	8,248	Variable	7.00%	1.95%	06/15/2037
TOTAL ISSUANCE		$ 38,000	$ 39,268				

The Company s investment in the common trust securities of the issuer trusts of $1.5 million at December 31, 2010 and December 31, 2009 is included in other assets. Although the securities issued by of the trusts are not included as a component of stockholders equity in the consolidated balance sheets, the securities are treated as capital for regulatory purposes. Specifically, under applicable regulatory guidelines, the $38 million of securities issued by the trusts qualify as Tier 1 capital, along with the $64.2 million of our outstanding Fixed Rate Cumulative Perpetual Preferred Stock, net of discount. The trust preferred security debt issuances are includable in Tier I capital up to a maximum of 25% of capital on an aggregate basis. Any amount that exceeds 25% qualifies as Tier 2 capital. At December 31, 2010, all of the $38 million of the trusts securities qualified as Tier 1 capital along with the $64.2 million of preferred stock. In July 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law which, among other things, limits to bank holding companies having total assets of more than $15 billion the ability to treat trust preferred security debt issuances as Tier 1 capital. Since the Company had less than $15 billion in assets at December 31, 2010, under the Dodd-Frank Act, it will be able to continue to include its existing trust preferred securities in Tier 1 capital.

The Board of Governors of the Federal Reserve System, which is Nara Bancorp s federal banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, beginning March 31, 2011, the Company is required to use a more restrictive formula to determine

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the amount of trust preferred securities that can be included in regulatory Tier I capital. The Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as stockholders equity less certain intangibles, including core deposit intangibles, net of any related deferred income tax liability. The existing regulations in effect limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. The adoption of this modification is not expected to have a material impact on the inclusion of our trust preferred securities for purposes of Tier 1 capital.

9. INCOME TAXES

A summary of income tax provision (benefit) follows for the years ended December 31:

	Current	Deferred (In thousands)	Total
2010			
Federal	$ (463)	$ (4,906)	$ (5,369)
State	473	(3,004)	(2,531)
	$ 10	$ (7,910)	$ (7,900)
2009			
Federal	$ 469	$ (4,497)	$ (4,028)
State	(296)	(1,875)	(2,171)
	$ 173	$ (6,372)	$ (6,199)
2008			
Federal	$ 8,656	$ (6,932)	$ 1,724
State	2,854	(2,953)	(99)
	$ 11,510	$ (9,885)	$ 1,625

A reconciliation of the difference between the federal statutory income tax rate and the effective tax rate is shown in the following table for the years ended December 31:

	2010	2009	2008
Statutory tax rate (benefit)	**(35)%**	**(35)%**	**35%**
State taxes (benefit)-net of federal tax effect	(11)	(12)	(1)
CRA investment tax credit	(4)	(4)	(9)
Valuation allowance			14
Other	(2)	(1)	(2)
	(52)%	**(52)%**	**37%**

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets and liabilities at December 31, 2010 and 2009 are comprised of the following:

	2010	2009
	(In thousands)	
Deferred tax assets:		
Statutory bad debt deduction less than financial statement provision	$ 29,160	$ 27,081
Net operating loss carryforward	6,600	2,490
Capital loss carryforward		612
Investment security provision	802	802
Lease expense	1,510	1,510
State tax deductions	1	
Accrued compensation	469	333
Deferred compensation	452	606
Mark to market on loans held for sale	801	33
Depreciation	540	937
Nonaccrual loan interest	645	595
Other real estate owned	205	226
Tax credits	1,191	
Other	733	238
Non-qualified stock option and restricted unit expense	1,549	1,551
Amortization of intangibles	324	276
	44,982	37,290
Deferred tax liabilities:		
FHLB stock dividends	(490)	(569)
Deferred loan costs	(1,018)	(1,722)
State taxes deferred and other	(3,692)	(2,677)
Prepaid expenses	(1,013)	(828)
State tax credit		(23)
Unrealized gain on securities available for sale	(1,628)	(1,900)
Unrealized gain on interest rate swaps	(35)	(53)
Unrealized gain on interest only strips	(34)	(31)
	(7,910)	(7,803)
Valuation allowance on capital loss carryforward		(612)
Net deferred tax assets:	**$ 37,072**	**$ 28,875**

At December 31, 2010, the Company had capital loss carryforwards of approximately $1.3 million expired. The Company previously recorded a valuation allowance against the entire capital loss carryforward. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on the analysis, the Company has determined that a valuation allowance for deferred tax assets was not required as of December 31, 2010.

A summary of the Company s net operating loss carry-forwards is as follows:

	FEDERAL			STATE		
	Remaining Amount	Expires	Annual Limitation	Remaining Amount	Expires	Annual Limitation
			(In thousands)			
2010						
Nara Ownership Change	$	N/A	$	$ 124	2014	$ 83
Korea First Bank of New York	4,967	2019	497		N/A	
Asiana	1,841	2015	348	723	2012	348
Nara Bank Net Operating Loss	8,323	2025	N/A	11,735	2030	N/A
Total	$ 15,131		$ 845	$ 12,582		$ 431
2009						
Nara Ownership Change	$	N/A	$	$ 124	2014	$ 83
Korea First Bank of New York	4,967	2019	497		N/A	
Asiana	1,841	2015	348	723	2012	348
Total	$ 6,808		$ 845	$ 847		$ 431

For the 2009 and 2010 tax years, the state of California suspended the utilization of Net Operating Losses (NOLs). Suspended NOLs for 2009 and 2010 will be allowed additional carryover periods of two years and one year, respectively. The Federal net operating loss created in 2010 of $8.3 million can be carried back two years and carried forward 15 years.

The Company has Low Income Housing tax credits of $848 thousand, which will begin to expire in 2024. The Company also has California Enterprise Zone hiring credits of $343 thousand, which do not expire.

The Company and our subsidiaries are subject to U.S. federal income tax as well as income tax of the state of California and various other state income taxes. The statute of limitations related to the consolidated Federal income tax return is closed for all tax years up to and including 2006. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file, varies by state. The Company is currently under examination by the California Franchise Tax Board for the 2007 and 2008 tax years. While the outcome of the examination is unknown, the Company expects no material adjustments.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31 is as follows:

	2010	2009
	(In thousands)	
Balance at January 1,	$ 151	$ 352
Additions based on tax positions related to the current year	33	47
Additions based on tax positions related to the prior year	18	83
Settlements		(277)
Reductions due to the expiration of the statute of limitations		(54)
Balance at December 31,	$ 202	$ 151

The total amount of unrecognized tax benefits was $151 thousand at January 1, 2010 and $202 thousand at December 31, 2010 and is primarily for uncertainties related to California enterprise zone loan interest deductions taken in prior years. The total amount of tax benefits that, if recognized, would favorably impact the effective tax rate was $151 thousand and $202 thousand at December 31, 2009 and December 31, 2010, respectively. The amount of unrecognized tax benefits increased due to the current year accrual of $33 thousand and additional interest accrual of $18 thousand for prior years. We do not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

We recognize interest and penalties related to income tax matters in income tax expense. We had approximately $23 thousand and $11 thousand for interest and penalties accrued at December 31, 2010 and 2009, respectively.

10. STOCK BASED INCENTIVE PLANS

The Company has a stock based incentive plan, the 2007 Nara Bancorp, Inc. Equity Incentive Plan (2007 Plan). The 2007 Plan, which was approved by our stockholders on May 31, 2007, provides for grants of stock options, stock appreciation rights (SARs), restricted stock, performance shares and performance units (sometimes referred to individually or collectively as awards) to non-employee directors, officers, employees and consultants of the Company. Stock options may be either incentive stock options (ISOs), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or nonqualified stock options (NQSOs).

The 2007 Plan gives the Company flexibility to (i) attract and retain qualified non-employee directors, executives and other key employees and consultants with appropriate equity-based awards, (ii) motivate high levels of performance, (iii) recognize employee contributions to the Company s success, and (iv) align the interests of Plan participants with those of the Company s stockholders. The exercise price for shares under an ISO may not be less than 100% of fair market value (FMV) on the date the award is granted under Code Section 422. Similarly, under the terms of the 2007 Plan the exercise price for SARs and NQSOs may not be less than 100% of FMV on the date of grant. Performance units are awarded to a participant at the market price of the Company s common stock on the date of award (after the lapse of the restriction period and the attainment of the performance criteria). No minimum exercise price is prescribed for performance shares and restricted stock awarded under the 2007 Plan.

ISOs, SARs and NQSOs have vesting periods of three to five years and have 10-year contractual terms. Restricted stock, performance shares, and performance units will be granted with a restriction period of not less than one year from the grant date for performance-based awards and not less than three years from the grant date for time-based vesting of grants. Compensation expense for awards is recorded over the vesting period.

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 2007 Plan reserves 1,300,000 shares for issuance. 1,196,000 shares were available for future grants as of December 31, 2010.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 Plan. With the exception of the shares underlying stock options and restricted stock awards, the board of directors may choose to settle the awards by paying the equivalent cash value or by delivering the appropriate number of shares.

The stock plan adopted in 2000, under which options and restricted units were previously granted to employees, officers, and directors of the Company, is no longer active and no additional equity awards may be granted under the plan. Options were granted under the 2000 Plan with an exercise price equal to the fair market value on the date of grant with vesting periods from three to five years and have 10-year contractual terms. Some restricted units were awarded under the 2000 plan to participants at the fair market value of the Company s common stock on the date of award and all units granted under this plan were fully vested on the third anniversary of the grant. Compensation expense for the awards was recorded over the vesting period.

For the year ended December 31, 2010, 20,000 shares of restricted stock awards were granted under the 2007 Plan. The fair value of restricted stock awards granted is the fair market value of the Company s common stock on the date of grant. In 2010 and 2008 no stock options were granted, but in 2009 40,000 options were granted. The fair value of each option granted for the year ended December 31, 2009 was estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected stock price volatility was based on the historical volatility of our stock. We use historical data to estimate the option exercise and employee terminations within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2009
Risk-free interest rate	2.3%
Expected option life (years)	6.2
Expected stock price volatility	51.2%
Dividend yield	3.4%
Weighted average fair value of options granted during the period	$ 0.44

A summary of stock option activity under the Plan for the year ended December 31, 2010 is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2010	1,033,250	$ 11.80		
Granted				
Exercised	(140,000)	8.08		
Forfeited/canceled	(360,000)	16.33		
Outstanding December 31, 2010	533,250	$ 9.73	3.12	$ 887,000
Options exercisable December 31, 2010	501,250	$ 9.80	2.80	$ 848,000
Unvested options expected to vest after December 31, 2010	23,539	$ 8.64	8.21	$ 29,000

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate intrinsic value of options exercised for the years ended December 31, 2010, 2009 and 2008 was $113 thousand, $0 and $71 thousand, respectively. The tax benefit realized for options exercised for the years ending December 31, 2010, 2009 and 2008 was $44 thousand, $0 and $0, respectively.

A summary of restricted unit activity under the Plan for the year ended December 31, 2010 was as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)
Outstanding January 1, 2010	128,120	$ 16.34	
Granted	28,500	7.78	
Vested	(87,640)	17.60	
Forfeited/canceled	(10,680)	16.49	
Outstanding December 31, 2010	58,300	$ 10.23	8.86

The total fair value of performance units vested for the years ended December 31, 2010, 2009 and 2008 was $100 thousand, $586 thousand and $0, respectively.

The amount charged against income, before income tax benefit of $124 thousand, $562 thousand and $552 thousand, in relation to the stock-based payment arrangements was $376 thousand, $1.5 million and $1.7 million for 2010, 2009 and 2008, respectively. At December 31, 2010, unrecognized compensation expense related to non-vested stock option grants and restricted units aggregated $199 thousand, and is expected to be recognized over a weighted average period of 2.44 years.

The estimated annual stock-based compensation as of December 31, 2010 for each of the succeeding years is indicated in the table below:

		Stock Based Compensation Expense (in thousands)
For the year ended December 31:		
	2011	$ 60
	2012	44
	2013	43
	2014	37
	2015	15
Total		$ 199

11. EMPLOYEE BENEFIT PLANS

Deferred Compensation Plan In 1996, the Company established a deferred compensation plan that permits eligible officers and directors to defer a portion of their compensation. In 2001, the Board of Directors approved and the Company established a deferred compensation plan that allows key executives of the Company additional deferment of their compensation. The deferred compensation plan is still in effect and was

amended in 2007 to be in compliance with the new IRC §409 (A) regulations. The deferred compensation, together with accrued accumulated interest, is distributable in cash after retirement or termination of service. The deferred compensation liabilities at December 31, 2010 and 2009 amounted to $1.1 million and $1.4 million, respectively, which are included in other liabilities in the accompanying consolidated statement of financial condition. Interest expense recognized under the deferred compensation plan totaled $42 thousand, $58 thousand and $121 thousand for 2010, 2009 and 2008, respectively.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2008, the Company established and the Board approved a Long Term Incentive Plan (LTIP) that rewards the named executive officers (NEO) with deferred compensation if the Company meets certain performance goals, the NEOs meet individual performance goals, and the NEOs remain employed for a pre-determined period (between five and ten years, depending on the officer). The Company did not meet the required performance goals, and thus the Company did not incur any liabilities or expense under the LTIP for 2010 and 2009.

The Company has insured the lives of certain officers and directors who participate in the deferred compensation plan. The Company has also purchased life insurance policies and entered into split dollar life insurance agreements with certain directors and officers. Under the terms of the split dollar life insurance agreements, a portion of the death benefits received by the Bank will be paid to beneficiaries named by the directors and officers. However, upon separation of service, all death benefits accrue to the Company.

401(k) Savings Plan In 1996, the Company established a 401(k) savings plan, which is open to all eligible employees who are 21 years old or over and have completed three months of service. The plan requires the Bank to match 100% up to 3% of employee deferrals and 50% of the next 2% of employee deferrals for an additional contribution of up to 1% during the plan year. Employer matching is immediately vested in full regardless of the service term. Total employer contributions to the plan and expense amounted to approximately $0, $360 thousand and $623 thousand for 2010, 2009 and 2008, respectively. Effective September 7, 2009, the Company has amended the Plan to discontinue with the safe harbor employer matching contributions.

Employees Stock Ownership Plan (ESOP) In 1996, the Company established an ESOP, which is open to all eligible employees who have completed one year of service working at least 1,000 hours. The Company s contributions to the ESOP represent an annual profit-sharing bonus paid to employees. Such contributions and available forfeitures are allocated to active employees based on the percentage that their compensation represents of the total compensation of eligible employees. The Company purchased 10,259, 0 and 0 shares of its common stock for the ESOP in 2010, 2009 and 2008, respectively. The Company s contribution and expense to the ESOP was approximately $100 thousand, $0 and $0 for 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, the ESOP held 162,773 and 158,357 shares, and there were no unallocated shares. On an annual basis, the Board determines the amount to contribute to the ESOP as a profit sharing bonus.

Upon termination, plan participants are paid in cash or retain their vested balance in the ESOP. During 2010, 2009 and 2008, shares withdrawn from the ESOP by participants who terminated their employment with the Company amounted to 5,843, 18,289 and 15,966 shares, respectively. During 2010, 2009 and 2008, no shares were added to the ESOP plan from dividend reinvestments.

12. COMMITMENTS AND CONTINGENCIES

The Company leases its premises under non-cancelable operating leases, and at December 31, 2010, the future minimum rental commitments under these leases are as follows:

	(In thousands)
2011	$ 7,003
2012	6,572
2013	6,290
2014	5,975
2015	5,607
Thereafter	8,175
	$ 39,622

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating lease expense recorded under such leases in 2010, 2009 and 2008 amounted to approximately $6.6 million, $6.3 million and $ 5.8 million, respectively.

In the normal course of business, the Company is involved in various legal claims. Management has reviewed all legal claims against the Company with counsel for the fiscal year ended December 31, 2010, and has taken into consideration the views of such counsel as to the outcome of the claims. In management s opinion, the final disposition of all such claims will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company. As of December 31, 2010 and 2009, the Company recorded an accrued liability of $0 and $105 thousand, respectively, for litigation settlements.

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and other commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Company s exposure to credit loss in the event of nonperformance by the other party to commitments to extend credit and standby letters of credit and other commercial letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; and income-producing properties.

Commitments at December 31, 2010 and 2009 are summarized as follows:

	2010	**2009**
	(In thousands)	
Commitments to extend credit	$ 205,752	$ 198,807
Standby letters of credit	9,777	9,907
Other commercial letters of credit	30,180	23,575
	$ 245,709	$ 232,289

Commitments and letters of credit generally have variable rates that are tied to the prime rate. The amount of fixed rate commitments is not considered material to this presentation. From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims and other obligations customarily indemnified in the ordinary course of the Company s business. The terms of such obligations vary, and, generally, a maximum obligation is not explicitly stated. Therefore, the overall maximum amount of the obligations cannot be reasonably estimated. The most significant of these contracts relate to certain agreements with the Company s officers and directors under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its consolidated statements of financial condition as of December 31, 2010 and 2009.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. FAIR VALUE

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Securities Available for Sale

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

Impaired Loans

The fair values of impaired loans are generally measured for impairment using the practical expedients permitted by FASB ASC 310-10-35 including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These are considered Level 3 inputs.

Derivatives

The fair value of our derivative financial instruments, including interest rate swaps and caps, is based on derivative valuation models using market data inputs as of the valuation date that can generally be verified and do not typically involve significant management judgments. (Level 2 inputs).

Other Real Estate Owned

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third party appraisals, less costs to sell and result in a Level 3 classification of the inputs for determining fair value. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments from investors, or based on recent comparable sales, if available, and if not available, are based on discounted cash flows using current market rates applied to the estimated life and credit risk (Level 2 inputs) or may be assessed based upon the fair value of the collateral which is obtained from recent real estate appraisals. These

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using		
	At December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available for sale:				
GSE bonds	$ 125,718	$	$ 125,718	$
GSE collateralized mortgage obligations	103,201		103,201	
GSE mortgage-backed securities	284,834		284,834	
Corporate note	3,708		3,708	
Municipal bonds	5,258		5,258	
Mutual funds	5,519	5,519		
Derivatives Interest rate caps	167		167	

There were no significant transfers between Level 1 and 2 during 2010.

		Fair Value Measurements Using		
	At December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available for sale:				
GSE bonds	$ 85,229	$	$ 85,229	$
GSE collateralized mortgage obligations	191,035		191,035	
GSE mortgage-backed securities	492,214		492,214	
Corporate note	3,424		3,424	
Municipal bonds	5,325		5,325	
Mutual funds	5,463	5,463		
Derivatives Interest rate caps	177		177	

Liabilities:			
Derivatives	Interest rate swaps	(645)	(645)

Fair value adjustments for interest rate caps resulted in a net expense of $901 and $181 thousand for 2010 and 2009, respectively. Fair value adjustments for interest rate swaps resulted in a net expense of $0 and $405 thousand for 2010 and 2009, respectively.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at Using		
	At December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)	
Assets:				
Impaired loans at fair value:				
Real estate loans	$ 35,009			$ 35,009
Commercial business	6,611			6,611
Loans held for sale, net	3,225		3,225	
Other real estate owned	675			675

		Fair Value Measurements at Using		
	At December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)	
Assets:				
Impaired loans at fair value	$ 81,309	$	$ 67,541	$ 13,768
Other real estate owned	1,981		1,981	

Impaired loans, which are measured for impairment using the fair value of the loan collateral, had a loan principal balance $94.6 million at December 31, 2010, after partial charge-offs of $20.0 million. In addition, these loans had a specific valuation allowance of $11.2 million at December 31, 2010. Of this $94.6 million, $52.8 million were carried at their fair value of $41.6 million as a result of the aforementioned charge-offs and specific valuation allowances. The remaining $41.8 million were carried at cost at December 31, 2010, as the fair value of the collateral on these loans exceeded the book value for each individual credit. The Company also has impaired loans totaling $28.1 million at December 31, 2010 which are measured based on the present value of expected cash flows and are not included in the above table as this is not a measurement of fair value. Of these, $27.8 million were carried below cost as a result of charge-offs of $4.1 million or assigned specific reserves of $9.9 million at December 31, 2010. The remaining $231 thousand of impaired loans measured based on the present value of expected cash flows are carried at cost. Charge-offs and changes in specific valuation allowances during 2010 on impaired loans carried at the fair value of loan collateral at December 31, 2010 resulted in additional provision for loan losses of $ 43.2 million.

Impaired loans, which are measured for impairment using the fair value of collateral, had a carrying amount of $120.5 million at December 31, 2009, after partial charge-offs of $17.0 million. In addition, these loans had a specific valuation allowance of $19.8 million at December 31, 2009. Of the $120.5 million impaired loan portfolio at December 31, 2009, $101.1 million were carried at their fair value of $81.3 million as a

result of the aforementioned charge-offs and specific valuation allowances. The remaining $19.4 million were carried at cost at December 31, 2009, as the fair value of the collateral on these loans exceeded the book value for each

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

individual credit. Charge-offs and changes in specific valuation allowances during 2009 on impaired loans carried at fair value at December 31, 2009 resulted in additional provision for loan losses of $51.2 million.

Other real estate owned carried at its fair value had a carrying amount of $675 thousand at December 31, 2010, which is made up of an outstanding balance of $1.1 million, with a valuation allowance of $439 thousand. Changes in the valuation allowance on other real estate owned outstanding at December 31, 2010 resulted in a write-down of $2.2 million during 2010.

Other real estate owned carried at its fair value had a carrying amount of $2.0 million at December 31, 2009, which is made up of an outstanding balance of $2.5 million, with a valuation allowance of $484 thousand. Changes in the valuation allowance on other real estate owned outstanding at December 31, 2009 resulted in a write-down of $1.7 million during 2009.

Loans held for sale, which were carried at their fair value, approximated $3.2 million, after partial charge-offs of $1.3 million and a valuation allowance of $100 thousand. Total charge-offs on loans held for sale were $33.8 million during 2010.

There were no non-accrual loans held for sale at December 31, 2009. The balance of $4.8 million in loans held for sale were carried at cost at December 31, 2009, as fair value of these loans exceeded the book value for each individual credit. The charge-offs on loans held for sale were $1.2 million during 2009.

Fair Value of Financial Instruments

Carrying amounts and estimated fair values of financial instruments, not previously presented, at years ended December 31 were as follows:,

	December 31, 2010	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
Financial Assets:		
Cash and cash equivalents	$ 172,331	$ 172,331
Loans held for sale	23,702	25,364
Loans receivable net	2,043,806	2,076,384
Federal Reserve Bank stock	6,367	N/A
Federal Home Loan Bank stock	17,717	N/A
Accrued interest receivable	8,648	8,648
Customers liabilities on acceptances	11,528	11,528
Financial Liabilities:		
Noninterest-bearing deposits	$ (388,731)	$ (388,731)
Saving and other interest bearing demand deposits	(814,848)	(814,848)
Time deposits	(972,535)	(977,762)
Borrowings from Federal Home Loan Bank	(350,000)	(365,167)
Subordinated debentures	(39,268)	(39,649)
Secured borrowing	(11,758)	(11,758)
Accrued interest payable	(4,830)	(4,830)
Bank s liabilities on acceptances outstanding	(11,528)	(11,528)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
Financial Assets:		
Cash and cash equivalents	$ 125,592	$ 125,592
Loans held for sale	4,756	4,828
Loans receivable net	2,080,700	2,106,065
Federal Reserve Bank stock	4,399	N/A
Federal Home Loan Bank stock	19,935	N/A
Accrued interest receivable	11,261	11,261
Customers liabilities on acceptances	10,488	10,488
Financial Liabilities:		
Noninterest-bearing deposits	$ (330,489)	$ (330,489)
Saving and other interest bearing demand deposits	(660,992)	(660,992)
Time deposits	(1,442,709)	(1,450,103)
Borrowings from Federal Home Loan Bank	(350,000)	(363,563)
Subordinated debentures	(39,268)	(40,657)
Accrued interest payable	(12,674)	(12,674)
Bank s liabilities on acceptances outstanding	(10,488)	(10,488)

The methods and assumptions used to estimate fair value are described as follows.

The carrying amount is the estimated fair value for cash and cash equivalents, savings and other interest bearing demand deposits, accrued interest receivable and payable, customer s and Bank s liabilities on acceptances, non-interest-bearing deposits, short-term debt, secured borrowings, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The allowance for loan losses is considered to be a reasonable estimate of discount for credit quality concerns. Fair value of loans held for sale is based on market quotes. Fair value of time deposits and debt is based on current rates for similar financing. It was not practicable to determine the fair value of Federal Reserve Bank stock or Federal Home Loan Bank stock due to restrictions placed on their transferability. The fair value of commitments to fund loans represents fees currently charged to enter into similar agreements with similar remaining maturities and is not presented herein. The fair value of these financial instruments is not material to the consolidated financial statements.

14. STOCKHOLDERS EQUITY AND REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s and the Bank s financial statements, such as restrictions on the growth, expansion or the payment of dividends or other capital distributions or management fees. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2010 and 2009, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010 and 2009, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank s category.

On November 21, 2008, the Company received $67 million from the U.S. Treasury through its TARP capital purchase plan and issued 67,000 shares of cumulative preferred stock. The preferred stock will pay cumulative dividends at the rate of 5% per year for the first five years and 9% per year thereafter. The shares are callable by the Company at par after three years if the repurchase is made with proceeds of a new offering or placement of common equity or of certain preferred stock treated as Tier 1 capital under applicable Federal banking regulations.

Prior to the earlier of the third anniversary of the closing date and the date on which the preferred shares have been redeemed in whole or the investor has transferred all of the preferred shares to third parties which are not affiliates of the investor, neither the Company nor any Company subsidiary shall, without the consent of the investor, declare or pay any dividend or make any distribution on its common stock (other than (A) regular quarterly cash dividends of not more than $0.0275, which was the amount of the last quarterly cash dividend per share declared or, if lower, publicly announced an intention to declare, on the common stock prior to October 14, 2008, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (B) dividends payable solely in shares of common stock and (C) dividends or distributions of rights or junior stock in connection with a stockholders rights plan).

The preferred stock issued qualifies as Tier 1 capital.

In conjunction with the purchase of the Company s preferred stock, the U.S. Treasury received a warrant to purchase 1,042,531 shares of the Company s common stock at $9.64 per share. The term of the warrant is ten years. On December 3, 2009, US Treasury approved the Company s request for an adjustment to the Company s warrant share position due to a qualified equity offering in November 2009, which is discussed below. The adjusted number of warrant is 521,266, or 50% of original issuance of 1,042,531.

On October 27, 2009, the Company closed an offering of $86.3 million of its common stock through an underwritten public offering of 11.5 million shares of the Company s common stock at a price of $7.50 per share, including a 15% over-allotment option. Net proceeds were approximately $82 million. The shares were issued pursuant to a prospectus supplement filed as part of a shelf registration statement previously filed with the Securities and Exchange Commission on Form S-3 (No. 333-161992).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s and the Bank s actual capital amounts and ratios are presented in the table below:

	Actual		Required For Capital Adequacy Purposes		Required To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2010:						
Total capital						
(to risk-weighted assets):						
Company	$ 403,298	17.7%	$ 182,389	8.0%	N/A	N/A
Bank	$ 393,292	17.3%	$ 182,065	8.0%	$ 227,581	10.0%
Tier I capital						
(to risk-weighted assets):						
Company	$ 374,353	16.4%	$ 91,194	4.0%	N/A	N/A
Bank	$ 364,397	16.0%	$ 91,032	4.0%	$ 136,549	6.0%
Tier I capital (to average assets):						
Company	$ 374,353	12.6%	$ 118,718	4.0%	N/A	N/A
Bank	$ 364,397	12.3%	$ 118,742	4.0%	$ 148,427	5.0%

	Actual		Required For Capital Adequacy Purposes		Required To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2009:						
Total capital						
(to risk-weighted assets):						
Company	$ 429,666	18.0%	$ 191,048	8.0%	N/A	N/A
Bank	$ 412,261	17.3%	$ 190,799	8.0%	$ 238,499	10.0%
Tier I capital						
(to risk-weighted assets):						
Company	$ 399,447	16.7%	$ 95,524	4.0%	N/A	N/A
Bank	$ 382,081	16.0%	$ 95,399	4.0%	$ 143,099	6.0%
Tier I capital (to average assets):						
Company	$ 399,447	12.4%	$ 129,248	4.0%	N/A	N/A
Bank	$ 382,081	11.8%	$ 129,841	4.0%	$ 162,301	5.0%

Under federal banking law, dividends declared by the Bank in any calendar year may not, without the approval of the regulatory agency, exceed its net income for that year combined with its retained income from the preceding two years. However, the regulatory agency has previously issued a bulletin to all banks outlining guidelines limiting the circumstances under which banks may pay dividends even if the banks are otherwise statutorily authorized to pay dividends. The limitations impose a requirement or in some cases suggest that prior approval of the regulatory agency should be obtained before a dividend is paid if a bank is the subject of administrative action or if the payment could be viewed by the regulatory agency as unsafe or unusual. In 2009, the Bank agreed with its primary regulatory agencies to obtain the prior written approval to pay any dividends.

NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EARNINGS PER SHARE

EPS information is as follows for the years ended December 31:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, expcet share and per share data)		
2010			
Net loss as reported	$ (7,239)		
Less: preferred stock dividends and accretion of preferred stock discount	(4,291)		
Basic EPS common stock	$ (11,530)	37,919,340	$ (0.30)
Effect of dilutive securities:			
Stock options			
Diluted EPS common stock	$ (11,530)	37,919,340	$ (0.30)
2009			
Net loss as reported	$ (5,723)		
Less: preferred stock dividends and accretion of preferred stock discount	(4,276)		
Basic EPS common stock	$ (9,999)	28,359,496	$ (0.35)
Effect of dilutive securities:			
Stock options			
Diluted EPS common stock	$ (9,999)	28,359,496	$ (0.35)
2008			
Net income as reported	$ 2,755		
Less: preferred stock dividends and accretion of preferred stock discount	(474)		
Basic EPS common stock	$ 2,281	26,200,344	$ 0.09
Effect of dilutive securities:			
Stock options		219,189	
Diluted EPS common stock	$ 2,281	26,419,533	$ 0.09

Basic EPS excludes dilution and is computed by dividing net 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 stock options or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the years ended December 31, 2010, 2009 and 2008, stock options and restricted shares awards for approximately 533,000, 1,092,000 and 440,000 shares of common stock were

excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants to purchase 521,266, 521,266 and 1,042,531 shares of common stock were also antidilutive for years ended December 31, 2010, 2009 and 2008, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) components and related tax effects were as follows:

	2010	2009	2008
		(In thousands)	
Net income (loss)	(7,239)	(5,723)	$ 2,755
Unrealized holding gains (losses) on securities available-for sale and interest only strips	5,773	11,401	(2,385)
Other than temporary impairment on securities available for sale			1,713
Reclassification adjustments for gains realized in income	(6,396)	(4,427)	(860)
Net unrealized gain (loss)	(623)	6,974	(1,532)
Tax expense (benefit)	(269)	2,771	(611)
Net of tax amount	$ (354)	$ 4,203	$ (921)
Change in fair value of the effective portion of derivatives used for cash flow hedges	$	$	$ 289
Reclassification adjustment for gains realized for the ineffective portion of swaps and caps and discontinued hedge positions	(44)	(140)	(140)
Reclassification adjustments for losses realized in income for swaps and caps			1
Net unrealized gain (loss)	(44)	(140)	150
Tax expense (benefit)	(18)	(56)	60
Net of tax amount	$ (26)	$ (84)	$ 90
Total other comprehensive income (loss)	$ (380)	$ 4,119	$ (831)
Comprehensive income (loss)	$ (7,619)	$ (1,604)	$ 1,924

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at 12/31/2009	Current Period Change	Balance at 12/31/2010
Unrealized gains (losses) on securities available for sale	$ 2,851	$ (355)	$ 2,496
Unrealized gains (losses) on interest only strips	47	1	48
Unrealized gains (losses) on interest rate swaps	79	(26)	53
Total	$ 2,977	$ (380)	$ 2,597

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As part of our asset and liability management strategy, we may enter into derivative financial instruments, such as interest rate swaps, caps and floors, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest rate swaps and caps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts.

Under the interest rate swap agreements that the Company had entered into as of December 31, 2007, the Company received a fixed rate and paid a floating rate. The interest rate swaps qualified as cash flow hedges for accounting purposes, and effectively fixed the interest rate received on the variable rate loans indexed to Prime as

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of December 31, 2007. As of December 31, 2007, the amounts in accumulated other comprehensive income (loss) associated with these cash flow hedges totaled a gain of $122 thousand (net of tax of $73 thousand). During January 2008, the Company terminated the $50 million of interest rate swaps that were outstanding at December 31, 2007. The gain of $247 thousand, net of tax, on termination of the swaps is being amortized into income over the remaining life of the swaps. $26 thousand, net of tax of $18 thousand, was recognized into income during 2010.

In January of 2008, the Company entered into five interest swap agreements with an aggregate notional amount of $50 million. Under these swap agreements, the Company receives a floating rate, resetting semi-annually based on the 6 Month London-Interbank Offered Rate (6 Mo. LIBOR), and pays a fixed rate of 3.57%, until January 2010. These interest rate swap agreements are considered free-standing due to non-designation of a hedge relationship to any of its financial assets or liabilities. Under FASB ASC 815, valuation gains or losses on interest rate swaps not designated as hedging instruments are recognized currently in earnings. These five interest swap agreements matured on January 14, 2010; therefore, the fair value of the outstanding interest rate swaps was $0 as of December 31, 2010, compared to $(645 thousand) at December 31, 2009.

Interest rate swap information at 2009 is summarized as follows:

(In thousands)	December 31, 2009			
Notional Amount	Floating Rate	Fixed Rate	Maturity Date	Fair Value
		(Dollars in thousands)		
$10,000	6 Mo. LIBOR	3.57%	01/14/2010	$ (129.1)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(129.1)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(129.1)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(129.1)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(129.1)
$50,000				**$ (645)**

During the third quarter of 2009, we entered into two two-year interest rate cap agreements with an aggregate notional amount of $50 million. Under these cap agreements, we receive quarterly payments from the counterparty when the quarterly resetting 3 Month London-Interbank Offered Rate (3 Mo. LIBOR) exceeds the strike level of 2.00%. The upfront fee paid to the counterparty in entering into these two interest rate cap agreements was $359 thousand. During the first quarter of 2010, we entered into another three-year interest rate cap agreement with an aggregate notional amount of $50 million. Under this cap agreement, we also receive quarterly payments from the counterparty when the quarterly resetting 3 Mo. LIBOR exceeds the strike level of 2.00%. The upfront fee paid to the counterpary in entering into this interest rate cap agreement was $890 thousand. These interest rate cap agreements are considered free-standing due to non-designation of a hedge relationship to any of its financial assets or liabilities. Under FASB ASC 815, valuation gains or losses on interest rate caps not designated as hedging instruments are recognized in earnings. At December 31, 2010, the aggregate fair value of the outstanding interest rate caps was $167 thousand and we recognized mark-to-market losses on valuation of $901 thousand in 2010.

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At December 31, 2010, summary information about these interest-rate caps is as follows:

Notional amounts	$100.0 million
Weighted average pay rates	N/A
Weighted average receive rates	N/A
Weighted average maturity	1.37 years
Fair value of combined interest rate caps	$167 thousand

The following tables summarize the fair value of derivative financial instruments utilized by the Company:

	Derivatives at (In thousands)			
	December 31, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate caps	Other Assets	$ 167	Other Assets	$ 177
Interest rate swaps	Other Liabilities		Other Liabilities	(645)
Total derivatives not designated as hedging instruments		$ 167		$ (468)

The effect of derivative instruments on the Consolidated Statement of Income for 2010 and 2009 are as follows:

	Location of Gain or (Loss) Recognized in Income on Derivatives	12/31/2010	12/31/2009
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Derivatives not designated as hedging instruments under FASB ASC 815:			
Interest rate contracts (1)	Other income	$ (901)	$ (586)
Total		$ (901)	$ (586)

(1) Includes amounts representing the net interest payments as stated in the contractual agreements and the valuation gains or (losses) on interest rate contracts not designated as hedging instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data follows for the three months ended:

	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
2010				
Interest income	$ 38,661	$ 36,593	$ 37,130	$ 38,052
Interest expense	13,418	9,785	9,520	9,329
Net interest income before provision for loan losses	25,243	26,808	27,610	28,723
Provision for loan losses	25,407	42,323	11,100	5,800
Net interest income after provision for loan losses	(164)	(15,515)	16,510	22,923
Non-interest income	9,384	3,460	7,339	4,298
Non-interest expense	14,184	15,967	15,693	17,530
Income (loss) before income tax provision	(4,964)	(28,022)	8,156	9,691
Income tax provision (benefit)	(2,432)	(12,145)	3,056	3,621
Net income (loss)	$ (2,532)	$ (15,877)	$ 5,100	$ 6,070
Dividends and discount accretion on preferred stock	$ (1,071)	$ (1,073)	$ (1,073)	$ (1,074)
Net income (loss) available to common stockholders	$ (3,603)	$ (16,950)	$ 4,027	$ 4,996
Basic earnings (loss) per common share	$ (0.10)	$ (0.45)	$ 0.11	$ 0.13
Diluted earnings (loss) per common share	$ (0.10)	$ (0.45)	$ 0.11	$ 0.13

The net loss in the second quarter was primarily due to the higher provision for loan losses related $63.3 million of problem assets being marketed for sale to improve the asset quality.

	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
2009				
Interest income	$ 36,059	$ 38,410	$ 41,706	$ 41,870
Interest expense	15,620	17,150	17,473	15,456
Net interest income before provision for loan losses	20,439	21,260	24,233	26,414
Provision for loan losses	15,670	19,000	8,500	17,853
Net interest income after provision for loan losses	4,769	2,260	15,733	8,561
Non-interest income	4,365	3,785	4,894	5,424
Non-interest expense	15,248	16,822	14,668	14,975

Income (loss) before income tax provision	(6,114)	(10,777)	5,959	(990)
Income tax provision (benefit)	(2,934)	(4,769)	2,018	(514)
Net income (loss)	$ (3,180)	$ (6,008)	$ 3,941	$ (476)
Dividends and discount accretion on preferred stock	$ (1,068)	$ (1,069)	$ (1,069)	$ (1,070)
Net income (loss) available to common stockholders	$ (4,248)	$ (7,077)	$ 2,872	$ (1,546)
Basic earnings (loss) per common share	$ (0.16)	$ (0.27)	$ 0.11	$ (0.04)
Diluted earnings (loss) per common share	$ (0.16)	$ (0.27)	$ 0.11	$ (0.04)

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The lower provision for loan losses in the third quarter, compared to other quarters, was primarily due to the impact of lower net charge offs and lower special mention and classified loans, partially offset by an increase in non-performing loans.

19. BUSINESS SEGMENT INFORMATION

Our management utilizes an internal reporting system to measure the performance of our various operating segments. We have identified three principal operating segments for the purposes of management reporting: banking operations, trade finance services (TFS) and small business administration (SBA) lending services.

Information related to our remaining centralized functions and eliminations of inter-segment amounts has been aggregated and included in banking operations. Although all three operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. The banking operations segment focuses primarily on commercial and consumer lending and deposit operations throughout our branch network. The TFS segment focuses primarily on allowing our import/export customers to handle their international transactions. Trade finance products include the issuance and collection of letters of credit, international collection and import/export financing. The SBA segment primarily provides our customers with access to the U.S. SBA guaranteed lending program. The SBA segment also makes commercial real estate and commercial business loans, which are not under the SBA guarantee program.

Operating segment results are based on our internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Non-interest income and non-interest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. We allocate indirect costs, including overhead expense, to the various segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. We evaluate the overall performance based on profit or loss from operations before income taxes, excluding gains and losses that are not expected to reoccur. Future changes in our management structure or reporting methodologies may result in changes to the measurement of our operating segment results.

The following tables present the operating results and other key financial measures for the individual operating segments for the years ended December 31, 2010, 2009 and 2008.

	Business Segment			
	Banking Operations	TFS[1]	SBA	Company
	(Dollars in Thousands)			
2010				
Net interest income	$ 87,581	$ 10,675	$ 10,128	$ 108,384
Less provision for loan losses [2]	55,912	5,432	23,286	84,630
Non-interest income	17,294	2,623	4,564 [3]	24,481
Net revenue (expense)	48,963	7,866	(8,594)	48,235
Non-interest expense	56,350	2,234	4,790	63,374
Income (loss) before income taxes	$ (7,387)	$ 5,632	$ (13,384)	$ (15,139)
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,481,402	$ 219,007	$ 262,887	$ 2,963,296

[1] Beginning in 2010, we reevaluated our method of charging fund transfer costs to each business unit and made certain changes to the method. This change resulted in a significant difference in the fund transfer cost for the Trade Finance Operation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

[2] The increase in 2010 from 2009 was primarily due to the charge-offs taken on the loans that were transferred to loans held for sale during the second quarter 2010.

[3] Includes a net gain of $1.8 million allocated to the SBA segment from the net gain of $3.7 million on sales of problem loans.

	Business Segment			
	Banking Operations	TFS	SBA	Company
	(Dollars in Thousands)			
2009				
Net interest income	$ 76,384	$ 4,637	$ 11,325	$ 92,346
Less provision for loan losses [1]	38,602	3,122	19,299	61,023
Non-interest income	13,667	2,088	2,713	18,468
Net revenue (expense)	51,449	3,603	(5,261)	49,791
Non-interest expense	51,584	2,968	7,161	61,713
Income (loss) before income taxes	$ (135)	$ 635	$ (12,422)	$ (11,922)
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,744,684	$ 181,135	$ 302,138	$ 3,227,957

[1] The increase in the provision for loan losses during 2009 is due to the increase in delinquencies and impaired loans in the loan portfolio.

	Business Segment			
	Banking Operations	TFS	SBA	Company
	(Dollars in Thousands)			
2008				
Net interest income	$ 78,999	$ 4,429	$ 12,793	$ 96,221
Less provision for loan losses	24,141	7,886	16,798	48,825
Non-interest income	9,386	2,140	2,467	13,993
Net revenue (expense)	64,244	(1,317)	(1,538)	61,389
Non-interest expense	45,995	3,405	7,609	57,009
Income (loss) before income taxes	$ 18,249	$ (4,722)	$ (9,147)	$ 4,380
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,147,194	$ 182,821	$ 342,039	$ 2,672,054

The SBA business segment primarily originates for sale and services SBA loans generated from our loan production offices and from branch referrals. It also originates commercial real estate loans and commercial business loans, not covered by the SBA guarantee program. Total SBA business segment assets at December 31, 2010 and 2009 included SBA loans (principally, the unguaranteed portion) of $105.6 million and

$103.2 million; commercial real estate loans of $124.4 million and $189.2 million; and commercial business loans of $16.4 million and $15.7 million, respectively.

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NARA BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The following presents the unconsolidated financial statements of only the parent company, Nara Bancorp, Inc., as of December 31:

STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2010	2009
	(In thousands)	
ASSETS:		
Cash and cash equivalents	$ 11,750	$ 15,760
Other assets	4,197	3,487
Investment in bank subsidiary	382,976	388,609
TOTAL ASSETS	$ 398,923	$ 407,856
LIABILITIES:		
Other borrowings	$ 39,268	$ 39,268
Accounts payable and other liabilities	1,092	613
Total liabilities	40,360	39,881
STOCKHOLDERS EQUITY	358,563	367,975
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 398,923	$ 407,856

STATEMENTS OF INCOME

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Interest income	$ 13	$ 50	$ 50
Interest expense	(1,851)	(2,022)	(2,695)
Dividends from bank subsidiary		1,200	2,000
Other operating expense	(2,263)	(1,530)	(1,352)
Equity in undistributed earnings (losses) of bank subsidiary	(5,574)	(5,242)	3,270
Income (loss) before income tax benefit	(9,675)	(7,544)	1,273
Income tax benefit	(2,436)	(1,821)	(1,482)
Net income (loss)	$ (7,239)	$ (5,723)	$ 2,755

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	**2009**	**2008**
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (7,239)	$ (5,723)	$ 2,755
Adjustments to reconcile net income to net cash from operating activities:			
Amortization	20	21	156
Stock-based compensation expense	52	479	284
Change in other assets	(730)	2,758	591
Change in accounts payable and other liabilities	479	(89)	24
Equity in undistributed loss (earnings) of bank subsidiary	5,574	5,242	(3,270)
Net cash from operating activities	(1,844)	2,688	540
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in Nara Bank		(65,600)	(67,000)
Net cash from investing activities		(65,600)	(67,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of TARP preferred stock			67,000
Issuance of additional common stock		81,972	
Issuance of additional stock pursuant to various stock plans	1,150		443
Tax effect on issuance of shares from stock plan	35	(463)	
Payments of cash dividends	(3,351)	(4,015)	(2,882)
Net cash from financing activities	(2,166)	77,494	64,561
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,010)	14,582	(1,899)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,760	1,178	3,077
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,750	$ 15,760	$ 1,178

21. PENDING CENTER MERGER

On December 9, 2010, we entered into a definitive agreement to merge with Center Financial Corporation (Center Financial) in an all stock transaction valued at $285.7 million, or approximately $7.16 per Center Financial share based on the closing price on December 8, 2010. As of February 17, 2011, the transaction was valued at $314.1 million, or approximately $7.87 per Center Financial share.

Under the terms of the transaction, each Center Financial shareholder will receive 0.7804 shares of our common stock for each share of Center Financial common stock then owned by such shareholder. Based on the number of shares Center Financial common stock outstanding on the date of the Merger Agreement and not including the effect of outstanding in-the-money options, this will result in approximately 31.1 million Nara Bancorp shares being exchanged for approximately 39.9 million outstanding Center Financial shares, subject to adjustment in certain limited circumstances. Nara Bancorp shareholders will own 55% of the combined company and Center Financial shareholders will own 45%. The consummation of the Center Merger is subject to regulatory approval, the approval of the shareholders of both Nara Bancorp and Center Financial, and other customary closing conditions. While there can be no assurance as to the exact timing, or that the Center Merger will be completed at all, we are working to complete the Center Merger in the second half of 2011.