

NARA BANCORP INC  
Form 10-Q  
August 09, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2010 or

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-50245

**NARA BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: NARA BANCORP INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4849715**  
(IRS Employer

Identification Number)

**3731 Wilshire Boulevard, Suite 1000, Los Angeles, California**  
(Address of Principal executive offices)

**90010**  
(ZIP Code)

**(213) 639-1700**

(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. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

As of July 31, 2010 there were 37,956,527 outstanding shares of the issuer's Common Stock, \$0.001 par value.

**Table of Contents**

**Table of Contents**

|   | <b><u>Page</u></b> |
|---|--------------------|
| PART I FINANCIAL INFORMATION  |                    |
| <u>Forward - Looking Information</u>  | 3                  |
| Item 1. <b><u>FINANCIAL STATEMENTS</u></b>  | 4                  |
| <u>Condensed Consolidated Statements of Financial Condition -</u>   |                    |
| <u>June 30, 2010 (unaudited) and December 31, 2009</u>  | 4                  |
| <u>Condensed Consolidated Statements of Income (Loss) -</u>   |                    |
| <u>Three and Six Months Ended June 30, 2010 and 2009 (unaudited)</u>  | 6                  |
| <u>Condensed Consolidated Statements of Changes in Stockholders' Equity -</u>                               |                    |
| <u>Six Months Ended June 30, 2010 and 2009 (unaudited)</u>  | 7                  |
| <u>Condensed Consolidated Statements of Cash Flows -</u>  |                    |
| <u>Six Months Ended June 30, 2010 and 2009 (unaudited)</u>  | 8                  |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>                                     | 10                 |
| Item 2. <b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b> | 32                 |
| Item 3. <b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>                            | 51                 |
| Item 4. <b><u>CONTROLS AND PROCEDURES</u></b>   | 52                 |
| PART II OTHER INFORMATION   |                    |
| Item 1. <b><u>Legal Proceedings</u></b>   | 53                 |
| Item 1A. <b><u>Risk Factors</u></b>   | 53                 |
| Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | 53                 |
| Item 3. <b><u>Defaults Upon Senior Securities</u></b>   | 53                 |
| Item 4. <b><u>Reserved</u></b>  | 53                 |
| Item 5. <b><u>Other Information</u></b>   | 53                 |
| Item 6. <b><u>Exhibits</u></b>  | 53                 |
| <u>Signatures</u>   | 54                 |
| <u>Index to Exhibits</u>  | 55                 |
| Certifications  |                    |

**Table of Contents**

**Forward-Looking Information**

Certain matters discussed in this report may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. The risks and uncertainties include deterioration in economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; risks of available for sale securities declining significantly in value as interest rates rise; and regulatory risks associated with current and future regulations as well as the possibility of regulatory enforcement actions to which we are subject. For additional information concerning these and other risk factors, see Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

|   | (Unaudited)<br>June 30, 2010 | December 31,<br>2009 |
|---|------------------------------|----------------------|
| (Dollars in thousands, except share data)   |                              |                      |
| <b>ASSETS</b>   |                              |                      |
| Cash and cash equivalents:  |                              |                      |
| Cash and due from banks   | \$ 27,684                    | \$ 23,739            |
| Interest-bearing deposit at Federal Reserve Bank  | 175,451                      | 81,853               |
| Federal funds sold  |                              | 20,000               |
| <br>  |                              |                      |
| Total cash and cash equivalents   | 203,135                      | 125,592              |
| Securities available for sale, at fair value  | 426,158                      | 782,690              |
| Loans held for sale, at the lower of cost or fair value   | 41,472                       | 4,756                |
| Loans receivable, net of allowance for loan losses (June 30, 2010 - \$62,988 ; December 31, 2009 -\$59,424) | 2,063,726                    | 2,162,009            |
| Other real estate owned   | 4,709                        | 2,044                |
| Federal Reserve Bank stock, at cost   | 6,362                        | 4,399                |
| Federal Home Loan Bank (FHLB) stock, at cost  | 19,194                       | 19,935               |
| Premises and equipment, net   | 10,896                       | 10,865               |
| Accrued interest receivable   | 8,272                        | 11,261               |
| Deferred tax assets, net  | 32,027                       | 28,875               |
| Customers liabilities on acceptances  | 12,588                       | 10,488               |
| Bank owned life insurance   | 23,768                       | 23,571               |
| Goodwill  | 2,509                        | 2,509                |
| Other intangible assets, net  | 788                          | 1,042                |
| Other assets  | 45,461                       | 37,921               |
| <br>  |                              |                      |
| Total assets  | \$ 2,901,065                 | \$ 3,227,957         |

(Continued)

**Table of Contents****NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****LIABILITIES AND STOCKHOLDERS EQUITY**

|  | (Unaudited)<br>June 30,<br>2010           | December 31,<br>2009 |
|--|---|----------------------|
|  | (Dollars in thousands, except share data) |                      |
| <b>LIABILITIES:</b>  |   |                      |
| Deposits:  |   |                      |
| Non-interest bearing   | \$ 342,409                                | \$ 330,489           |
| Interest bearing:  |   |                      |
| Money market and NOW accounts  | 599,995                                   | 524,188              |
| Savings deposits   | 135,917                                   | 136,804              |
| Time deposits of \$100,000 or more   | 386,629                                   | 932,699              |
| Other time deposits  | 665,439                                   | 510,010              |
| <b>Total deposits</b>  | <b>2,130,389</b>                          | <b>2,434,190</b>     |
| Federal Home Loan Bank borrowings  | 350,000                                   | 350,000              |
| Subordinated debentures  | 39,268                                    | 39,268               |
| Secured borrowings   | 3,325                                     |                      |
| Accrued interest payable   | 3,863                                     | 12,674               |
| Acceptances outstanding  | 12,588                                    | 10,488               |
| Other liabilities  | 10,003                                    | 13,362               |
| <b>Total liabilities</b>   | <b>2,549,436</b>                          | <b>2,859,982</b>     |
| <b>STOCKHOLDERS EQUITY:</b>  |   |                      |
| 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 June 30, 2010 and December 31, 2009 |   |                      |
|  | 67,000                                    | 67,000               |
| Preferred stock discount   | (3,269)                                   | (3,737)              |
| Common stock, \$0.001 par value; authorized, 40,000,000 shares; issued and outstanding, 37,956,527 and 37,824,007 shares at June 30, 2010 and December 31, 2009, respectively  |   |                      |
|  | 38  | 38                   |
| Capital surplus  | 171,080                                   | 169,806              |
| Retained earnings  | 111,338                                   | 131,891              |
| Accumulated other comprehensive income, net  | 5,442                                     | 2,977                |
| <b>Total stockholders equity</b>   | <b>351,629</b>                            | <b>367,975</b>       |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 2,901,065</b>                       | <b>\$ 3,227,957</b>  |

See accompanying notes to condensed consolidated financial statements (unaudited)

**Table of Contents****NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

For the three and six months ended June 30, 2010 and 2009

(Unaudited)

|   | Three Months Ended June 30,           |               | Six Months Ended June 30, |               |
|---|---------------------------------------|---------------|---------------------------|---------------|
|   | 2010                                  | 2009          | 2010                      | 2009          |
|   | (In thousands, except per share data) |               |                           |               |
| <b>INTEREST INCOME:</b>   |                                       |               |                           |               |
| Interest and fees on loans  | \$ 33,510                             | \$ 32,461     | \$ 66,858                 | \$ 64,133     |
| Interest on securities  | 2,884                                 | 5,710         | 7,972                     | 10,030        |
| Interest on federal funds sold and other investments              | 199                                   | 239           | 424                       | 306           |
| <b>Total interest income</b>                                      | <b>36,593</b>                         | <b>38,410</b> | <b>75,254</b>             | <b>74,469</b> |
| <b>INTEREST EXPENSE:</b>  |                                       |               |                           |               |
| Interest on deposits  | 6,279                                 | 13,365        | 16,226                    | 25,190        |
| Interest on subordinated debetures                                | 460                                   | 522           | 914                       | 1,081         |
| Interest on other borrowings                                      | 3,046                                 | 3,263         | 6,063                     | 6,499         |
| <b>Total interest expense</b>                                     | <b>9,785</b>                          | <b>17,150</b> | <b>23,203</b>             | <b>32,770</b> |
| <b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES</b>       | <b>26,808</b>                         | <b>21,260</b> | <b>52,051</b>             | <b>41,699</b> |
| <b>PROVISION FOR LOAN LOSSES</b>                                  | <b>42,323</b>                         | <b>19,000</b> | <b>67,730</b>             | <b>34,670</b> |
| <b>NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES</b> | <b>(15,515)</b>                       | <b>2,260</b>  | <b>(15,679)</b>           | <b>7,029</b>  |
| <b>NON-INTEREST INCOME:</b>                                       |                                       |               |                           |               |
| Service fees on deposit accounts                                  | 1,572                                 | 1,698         | 3,191                     | 3,467         |
| International service fees  | 613                                   | 491           | 1,152                     | 911           |
| Loan servicing fees, net  | 443                                   | 469           | 900                       | 944           |
| Wire transfer fees  | 302                                   | 334           | 595                       | 686           |
| Other income and fees   | 517                                   | 366           | 870                       | 726           |
| Net gains on sales of SBA loans                                   | 329                                   | 32            | 372                       | 95            |
| Net gains on sales of other loans                                 | 650                                   | 510           | 650                       | 897           |
| Net gains on sales of securities available for sale               | 96                                    | 220           | 6,392                     | 1,005         |
| Net valuation losses on interest rate swaps                       | (495)                                 | (151)         | (726)                     | (267)         |
| Net gains (losses) on sales of OREO                               | (567)                                 | (184)         | (552)                     | (314)         |
| <b>Total non-interest income</b>                                  | <b>3,460</b>                          | <b>3,785</b>  | <b>12,844</b>             | <b>8,150</b>  |
| <b>NON-INTEREST EXPENSE:</b>                                      |                                       |               |                           |               |
| Salaries and employee benefits                                    | 5,977                                 | 6,551         | 11,570                    | 12,994        |
| Occupancy   | 2,424                                 | 2,484         | 4,851                     | 4,910         |
| Furniture and equipment   | 884                                   | 736           | 1,662                     | 1,431         |
| Advertising and marketing   | 612                                   | 505           | 1,071                     | 962           |
| Data processing and communications                                | 1,051                                 | 990           | 1,984                     | 1,891         |
| Professional fees   | 756                                   | 428           | 1,458                     | 1,106         |
| FDIC assessments  | 1,191                                 | 2,446         | 2,558                     | 3,196         |
| Credit related expenses   | 1,742                                 | 986           | 2,305                     | 2,474         |

Edgar Filing: NARA BANCORP INC - Form 10-Q

|   |   |            |             |             |
|---|---|------------|-------------|-------------|
| Other   | 1,330   | 1,696      | 2,692       | 3,106       |
| Total non-interest expense                          | 15,967  | 16,822     | 30,151      | 32,070      |
| LOSS BEFORE INCOME TAX BENEFIT                      | (28,022)  | (10,777)   | (32,986)    | (16,891)    |
| INCOME TAX BENEFIT                                  | (12,145)  | (4,769)    | (14,577)    | (7,703)     |
| NET LOSS  | \$ (15,877)   | \$ (6,008) | \$ (18,409) | \$ (9,188)  |
| DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK | \$ (1,073)  | \$ (1,069) | \$ (2,144)  | \$ (2,137)  |
| NET LOSS AVAILABLE TO COMMON STOCKHOLDERS           | \$ (16,950)   | \$ (7,077) | \$ (20,553) | \$ (11,325) |
| LOSS PER COMMON SHARE                               |   |            |             |             |
| Basic   | \$ (0.45)   | \$ (0.27)  | \$ (0.54)   | \$ (0.43)   |
| Diluted   | \$ (0.45)   | \$ (0.27)  | (0.54)      | (0.43)      |
|   | See accompanying notes to condensed consolidated financial statements (unaudited) |            |             |             |



**Table of Contents****NARA BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

(Unaudited)

|   | Preferred       |                | Common Stock |        |                 | Retained Earnings | Accumulated Other Comprehensive Income (loss), net | Comprehensive Income (loss) |
|---|-----------------|----------------|--------------|--------|-----------------|-------------------|--|-----------------------------|
|   | Preferred Stock | Stock Discount | Shares       | Amount | Capital Surplus |                   |  |                             |
| <b>BALANCE, JANUARY 1, 2009</b>   | \$ 67,000       | \$ (4,664)     | 26,246,560   | \$ 26  | \$ 86,843       | \$ 141,890        | \$ (1,142)   |                             |
| Issuance of additional stocks pursuant to stock plans                         |                 |                | 10,400       |        |                 |                   |  |                             |
| Tax effects of stock plans  |                 |                |              |        | 14              |                   |  |                             |
| Stock-based compensation  |                 |                |              |        | 973             |                   |  |                             |
| Cash dividends accrued (5%)   |                 |                |              |        |                 | (1,675)           |  |                             |
| Accretion on preferred stock discount   |                 | 462            |              |        |                 | (462)             |  |                             |
| Comprehensive income:   |                 |                |              |        |                 |                   |  |                             |
| Net loss  |                 |                |              |        |                 | (9,188)           |  | \$ (9,188)                  |
| Other comprehensive income (loss):  |                 |                |              |        |                 |                   |  |                             |
| Change in unrealized gain (loss) on securities available for sale, net of tax |                 |                |              |        |                 |                   | 1,377  | 1,377                       |
| Change in unrealized gain (loss) on interest-only strips, net of tax          |                 |                |              |        |                 |                   | 7  | 7                           |
| Change in unrealized gain (loss) on interest rate swaps, net of tax           |                 |                |              |        |                 |                   | (42)   | (42)                        |
| <b>Total comprehensive loss</b>   |                 |                |              |        |                 |                   |  | \$ (7,846)                  |
| <b>BALANCE, JUNE 30, 2009</b>   | \$ 67,000       | \$ (4,202)     | 26,256,960   | \$ 26  | \$ 87,830       | \$ 130,565        | \$ 200   |                             |

|  | Preferred       |                | Common Stock |        |                 | Retained Earnings | Accumulated Other Comprehensive Income (loss), net | Comprehensive Income (loss) |
|--|-----------------|----------------|--------------|--------|-----------------|-------------------|--|-----------------------------|
|  | Preferred Stock | Stock Discount | Shares       | Amount | Capital Surplus |                   |  |                             |
| <b>BALANCE, JANUARY 1, 2010</b>  | \$ 67,000       | \$ (3,737)     | 37,824,007   | \$ 38  | \$ 169,806      | \$ 131,891        | \$ 2,977   |                             |
| Issuance of additional shares pursuant to various stock plans          |                 |                | 132,520      |        | 1,055           |                   |  |                             |
| Tax effects of stock plan  |                 |                |              |        | (21)            |                   |  |                             |
| Stock-based compensation   |                 |                |              |        | 240             |                   |  |                             |
| Cash dividends accrued (5%)  |                 |                |              |        |                 | (1,676)           |  |                             |
| Accretion of preferred stock discount                                  |                 | 468            |              |        |                 | (468)             |  |                             |
| Comprehensive income:  |                 |                |              |        |                 |                   |  |                             |
| Net loss   |                 |                |              |        |                 | (18,409)          |  | \$ (18,409)                 |
| Other comprehensive income (loss):                                     |                 |                |              |        |                 |                   |  |                             |
| Change in unrealized gain on securities available for sale, net of tax |                 |                |              |        |                 |                   | 2,477  | 2,477                       |
| Change in unrealized gain on interest-only strips, net of tax          |                 |                |              |        |                 |                   | 1  | 1                           |
|  |                 |                |              |        |                 |                   | (13)   | (13)                        |

## Edgar Filing: NARA BANCORP INC - Form 10-Q

Change in unrealized gain (loss) on interest rate  
swaps, net of tax

|                            |  |  |  |  |  |  |  |  |    |          |
|----------------------------|--|--|--|--|--|--|--|--|----|----------|
| Total comprehensive income |  |  |  |  |  |  |  |  | \$ | (15,944) |
|----------------------------|--|--|--|--|--|--|--|--|----|----------|

|                        |           |            |            |       |            |            |    |       |  |  |
|------------------------|-----------|------------|------------|-------|------------|------------|----|-------|--|--|
| BALANCE, JUNE 30, 2010 | \$ 67,000 | \$ (3,269) | 37,956,527 | \$ 38 | \$ 171,080 | \$ 111,338 | \$ | 5,442 |  |  |
|------------------------|-----------|------------|------------|-------|------------|------------|----|-------|--|--|

See accompanying notes to consolidated financial statements.

**Table of Contents****NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2010 and 2009**

(Unaudited)

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2010                         | 2009       |
|   | (In thousands)               |            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                              |            |
| Net loss  | \$ (18,409)                  | \$ (9,188) |
| Adjustments to reconcile net loss to net cash from operating activities:  |                              |            |
| Depreciation, amortization, net of discount accretion                     | 6,433                        | 1,396      |
| Stock-based compensation expense  | 240                          | 973        |
| Provision for loan losses   | 67,730                       | 34,670     |
| Valuation adjustment of OREO  | 942                          | 1,379      |
| Proceeds from sales of loans  | 44,884                       | 5,718      |
| Originations of loans held for sale                                       | (8,055)                      | (2,383)    |
| Deferred gain on transfer of assets                                       | (249)                        |            |
| Net gains on sales of SBA and other loans                                 | (1,022)                      | (992)      |
| Net change in bank owned life insurance                                   | (197)                        | (113)      |
| Net gains on sales of securities available for sale                       | (6,392)                      | (1,005)    |
| Net losses on sales of OREO   | 552                          | 314        |
| Net valuation losses on interest rate swaps                               | 726                          | 267        |
| Change in accrued interest receivable                                     | 2,989                        | (2,019)    |
| Change in deferred income taxes   | (4,702)                      | 1          |
| Change in prepaid FDIC insurance  | 2,293                        |            |
| Change in other assets  | (7,694)                      | (7,823)    |
| Change in accrued interest payable  | (8,811)                      | 2,372      |
| Change in other liabilities   | (4,107)                      | 308        |
| Net cash provided by operating activities                                 | 67,151                       | 23,875     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                              |            |
| Net change in loans receivable  | (52,209)                     | (19,161)   |
| Proceeds from sales of securities available for sale                      | 208,141                      | 43,712     |
| Proceeds from sales of OREO   | 6,329                        | 827        |
| Purchase of premises and equipment  | (1,447)                      | (979)      |
| Purchase of securities available for sale                                 |                              | (381,639)  |
| Purchase of Federal Reserve Bank stock                                    | (1,963)                      | (2,070)    |
| Redemption of Federal Home Loan Bank stock                                | 741                          |            |
| Proceeds from matured, called, or paid down securities available for sale | 151,918                      | 66,967     |
| Net cash provided by / (used in) investing activities                     | 311,510                      | (292,343)  |

(Continued)

**Table of Contents****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2010 and 2009**

(Unaudited)

|  | <b>Six Months Ended<br/>June 30,</b> |                   |
|--|--------------------------------------|-------------------|
|  | <b>2010</b>                          | <b>2009</b>       |
|  | <b>(In thousands)</b>                |                   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |                                      |                   |
| Net increase in deposits   | (303,801)                            | 501,192           |
| Net change in secured borrowings   | 3,325                                |                   |
| Payment of cash dividends  | (1,676)                              | (2,341)           |
| Proceeds from FHLB borrowings  | 10,000                               | 10,000            |
| Repayment of FHLB borrowings   | (10,000)                             | (10,000)          |
| Issuance of additional stock pursuant to various stock plans             | 1,055                                |                   |
| Tax effects on issuance of shares from stock plan                        | (21)                                 | 14                |
| <b>Net cash provided by / (used in) financing activities</b>             | <b>(301,118)</b>                     | <b>498,865</b>    |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                           | <b>77,543</b>                        | <b>230,397</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                    | <b>125,592</b>                       | <b>49,057</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                          | <b>\$ 203,135</b>                    | <b>\$ 279,454</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                 |                                      |                   |
| Interest paid  | \$ 32,014                            | \$ 30,398         |
| Income taxes paid  | \$ 819                               | \$ 1,347          |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTMENT ACTIVITIES</b>        |                                      |                   |
| Transfer from loans receivable to other real estate owned                | \$ 10,488                            | \$ 3,356          |
| Transfer from loan receivables to loans held for sale                    | \$ 72,274                            | \$ 6,186          |
| Investment securities purchases pending future settlement                | \$                                   | \$ 118,630        |
| Investment securities sales/principal paydowns pending future settlement | \$ (2,134)                           | \$ (32,487)       |

See accompanying notes to condensed consolidated financial statements (unaudited)

## **Table of Contents**

### **Notes to Condensed Consolidated Financial Statements (Unaudited)**

#### **1. Nara Bancorp, Inc.**

Nara Bancorp, Inc. ( Nara Bancorp , on a parent-only basis, and Company, we or our on a consolidated basis), incorporated under the laws of the State of Delaware in 2000, is a bank holding company, headquartered in Los Angeles, California, offering a full range of commercial banking and certain consumer financial services through its wholly owned subsidiary, Nara Bank ( Nara Bank or the Bank ). The Bank has branches in California, New York and New Jersey as well as a Loan Production Office in Texas.

#### **2. Basis of Presentation**

Our condensed consolidated financial statements included herein have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such SEC rules and regulations.

The condensed consolidated financial statements include the accounts of Nara Bancorp and its wholly owned subsidiaries, principally Nara Bank. All intercompany transactions and balances have been eliminated in consolidation.

We believe that we have made all adjustments, consisting solely of normal recurring accruals, necessary to fairly present our financial position at June 30, 2010 and the results of our operations for the six months then ended. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results to be anticipated for the full year.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in our 2009 Annual Report on Form 10-K.

#### **3. Stock-Based Compensation**

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 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.

**Table of Contents**

The 2007 Plan reserves 1,300,000 shares for issuance. 1,198,800 shares were available for future grants as of June 30, 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 under the 2000 Plan were granted 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 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 six months ended June 30, 2010, no stock options or other awards were granted under the 2007 Plan. The fair value of each option granted for the six months ended June 30, 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.

|  | <b>2009</b> |
|--|-------------|
| 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     |

The following is a summary of stock option activity under the Plan for the six months ended June 30, 2010:

|   | <b>Number<br/>of Shares</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price Per<br/>Share</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|-----------------------------|---|---|--|
| Outstanding - January 1, 2010                         | 1,033,250                   | \$ 11.80  |   |  |
| Granted   |                             |   |   |  |
| Exercised   | (120,000)                   | 8.64  |   |  |
| Forfeited   | (160,000)                   | 19.39   |   |  |
| Outstanding - June 30, 2010                           | 753,250                     | \$ 10.84  | 3.89  | \$ 469,000                               |
| Options exercisable - June 30, 2010                   | 691,250                     | \$ 10.75  | 3.61  | \$ 469,000                               |
| Unvested options expected to vest after June 30, 2010 | 45,607                      | \$ 11.86  | 6.99  | \$                                       |

**Table of Contents**

The following is a summary of restricted and performance unit activity under the Plan for the six months ended June 30, 2010:

|                               | Number<br>of Shares | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (Years) |
|-------------------------------|---------------------|---|--|
| Outstanding - January 1, 2010 | 58,300              | \$ 10.23  |  |
| Granted                       | 15,000              | 8.97  |  |
| Vested                        | (13,400)            | 11.27   |  |
| Forfeited                     | (21,500)            | 10.45   |  |
| Outstanding - June 30, 2010   | 38,400              | \$ 9.26   | 8.73   |

The total fair value of performance units vested for the six months ending June 30, 2010 and 2009 was \$59 thousand and \$28 thousand, respectively.

The amount charged against income, before income tax benefit of \$31 thousand and \$159 thousand, in relation to the stock-based payment arrangements was \$192 thousand and \$395 thousand for the three months ending June 30, 2010 and 2009, respectively. The amount charged against income, before income tax benefit of \$15 thousand and \$397 thousand, in relation to the stock-based payment arrangements was \$240 thousand and \$973 thousand for the six months ending June 30, 2010 and 2009, respectively. At June 30, 2010, unrecognized compensation expense related to non-vested stock option grants and restricted and performance units aggregated \$281 thousand, and is expected to be recognized over a remaining weighted average vesting period of 1.9 years.

The estimated annual stock-based compensation as of June 30, 2010 for each of the succeeding years is indicated in the table below:

|                                 | Stock Based<br>Compensation<br>Expense<br>(In thousands) |
|---------------------------------|--|
| Remainder of 2010               | \$ 111   |
| For the year ended December 31: |  |
| 2011                            | 57   |
| 2012                            | 37   |
| 2013                            | 37   |
| 2014                            | 30   |
| 2015                            | 9  |
| Total                           | \$ 281   |

**4. Earnings Per Share ( EPS )**

Basic EPS excludes dilution and is computed by dividing net income 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 three months ended June 30, 2010 and 2009, stock options and restricted shares awards for approximately 722,000 shares and 1,153,000 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. For the six months ended June 30, 2010 and 2009, stock options and restricted shares awards for approximately 732,000 shares and 1,153,000 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants to purchase 521,266 and 1,042,531 shares of common stock were also antidilutive for the three and six months ended June 30, 2010 and 2009, respectively.





**Table of Contents**

The following table shows the computation of basic and diluted EPS for the three and six months ended June 30, 2010 and 2009.

|   | For the three months ended June 30,                   |                      |                    |   |                      |                    |
|---|---|----------------------|--------------------|---|----------------------|--------------------|
|   | 2010  |                      |                    | 2009  |                      |                    |
|   | Net loss available to common stockholders (Numerator) | Shares (Denominator) | Per Share (Amount) | Net loss available to common stockholders (Numerator) | Shares (Denominator) | Per Share (Amount) |
| Net loss as reported  | \$ (15,877)   |                      |                    | \$ (6,008)  |                      |                    |
| Less: preferred stock dividends and accretion of preferred stock discount | (1,073)   |                      |                    | (1,069)   |                      |                    |
| <b>Basic EPS - common stock</b>   | <b>\$ (16,950)</b>                                    | <b>37,921,885</b>    | <b>\$ (0.45)</b>   | <b>\$ (7,077)</b>                                     | <b>26,256,960</b>    | <b>\$ (0.27)</b>   |
| Effect of Dilutive Securities:<br>Stock Options                           |   |                      |                    |   |                      |                    |
| Diluted EPS - common stock  | \$ (16,950)   | 37,921,885           | \$ (0.45)          | \$ (7,077)  | 26,256,960           | \$ (0.27)          |

|   | For the six months ended June 30,                     |                      |                    |   |                      |                    |
|---|---|----------------------|--------------------|---|----------------------|--------------------|
|   | 2010  |                      |                    | 2009  |                      |                    |
|   | Net loss available to common stockholders (Numerator) | Shares (Denominator) | Per Share (Amount) | Net loss available to common stockholders (Numerator) | Shares (Denominator) | Per Share (Amount) |
| Net loss as reported  | \$ (18,409)   |                      |                    | \$ (9,188)  |                      |                    |
| Less: preferred stock dividends and accretion of preferred stock discount | (2,144)   |                      |                    | (2,137)   |                      |                    |
| <b>Basic EPS - common stock</b>   | <b>\$ (20,553)</b>                                    | <b>37,875,494</b>    | <b>\$ (0.54)</b>   | <b>\$ (11,325)</b>                                    | <b>26,253,627</b>    | <b>\$ (0.43)</b>   |
| Effect of Dilutive Securities:<br>Stock Options                           |   |                      |                    |   |                      |                    |
| Diluted EPS - common stock  | \$ (20,553)   | 37,875,494           | \$ (0.54)          | \$ (11,325)   | 26,253,627           | \$ (0.43)          |

**Table of Contents****5. Securities Available for Sale**

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

|   | Amortized<br>Cost | At June 30, 2010             |                               | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
|   |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                            |
| (In thousands)                          |                   |                              |                               |                            |
| <b>Available for Sale</b>               |                   |                              |                               |                            |
| Debt securities*:                       |                   |                              |                               |                            |
| GSE bonds                               | \$ 55,639         | \$ 1,751                     | \$                            | \$ 57,390                  |
| GSE collateralized mortgage obligations | 126,150           | 2,579                        | (166)                         | 128,563                    |
| GSE mortgage-backed securities          | 220,400           | 5,178                        | (20)                          | 225,558                    |
| Corporate note                          | 4,466             |                              | (869)                         | 3,597                      |
| Municipal bonds                         | 5,258             | 185                          |                               | 5,443                      |
| Total debt securities                   | 411,913           | 9,693                        | (1,055)                       | 420,551                    |
| Mutual funds                            | 5,462             | 145                          |                               | 5,607                      |
|   | \$ 417,375        | \$ 9,838                     | \$ (1,055)                    | \$ 426,158                 |

|   | Amortized<br>Cost | At December 31, 2009         |                               | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
|   |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                            |
| (In thousands)                          |                   |                              |                               |                            |
| <b>Available for Sale</b>               |                   |                              |                               |                            |
| 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                      |
|   | \$ 777,938        | \$ 9,039                     | \$ (4,287)                    | \$ 782,690                 |

\* As of June 30, 2010 and December 31, 2009, Government Sponsored Enterprises (GSE) included GNMA, FHLB, FNMA, FHLMC, and FFCB and are all residential property-based investments.

**Table of Contents**

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

|              | For the three months ended June 30, |      | For the six months ended June 30, |           |
|--------------|-------------------------------------|------|-----------------------------------|-----------|
|              | 2010                                | 2009 | 2010                              | 2009      |
|              | (In thousands)                      |      | (In thousands)                    |           |
| Proceeds     | \$                                  | \$   | \$ 208,141                        | \$ 43,712 |
| Gross gains  |                                     |      | 6,295                             | 1,005     |
| Gross losses |                                     |      |                                   |           |

The proceeds from calls of securities were \$22.3 million and \$0 for the second quarter of 2010 and 2009, respectively, with gross gains of \$96 thousand and \$0, respectively. The proceeds from calls of securities were \$29.3 million and \$0 for the six months ended June 30, 2010 and 2009, respectively, with gross gains of \$97 thousand and \$0, respectively.

The amortized cost and estimated fair value of debt securities at June 30, 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) |                      |
| <b>Available for sale:</b>              |                |                      |
| Due within one year                     | \$             | \$                   |
| Due after one year through five years   |                |                      |
| Due after five years through ten years  | 1,099          | 1,139                |
| Due after ten years                     | 64,264         | 65,291               |
| GSE collateralized mortgage obligations | 126,150        | 128,563              |
| GSE mortgage-backed securities          | 220,400        | 225,558              |
| Mutual funds                            | 5,462          | 5,607                |
|   | \$ 417,375     | \$ 426,158           |

Securities with carrying values of approximately \$253.3 million and \$243.2 million at June 30, 2010 and December 31, 2009, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

The following table shows our investments' gross unrealized losses and estimated fair value, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position as of the dates indicated.

| At June 30, 2010                        | Less than 12 months    |            |                         | 12 months or longer  |            |                         | Total                |            |                         |
|---|------------------------|------------|-------------------------|----------------------|------------|-------------------------|----------------------|------------|-------------------------|
|   | Number of Securities   | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses |
| Description of Securities               | (Dollars in thousands) |            |                         |                      |            |                         |                      |            |                         |
| GSE collateralized mortgage obligations | 1                      | 1,311      | \$ (1)                  | 3                    | 19,546     | \$ (165)                | 4                    | 20,857     | \$ (166)                |
| GSE mortgage-backed securities          | 2                      | 4,696      | (20)                    | 1                    | 58         |                         | 3                    | 4,754      | (20)                    |
| Corporate note                          |                        |            |                         | 1                    | 3,597      | (869)                   | 1                    | 3,597      | (869)                   |
|   | 3                      | \$ 6,007   | \$ (21)                 | 5                    | \$ 23,201  | \$ (1,034)              | 8                    | \$ 29,208  | \$ (1,055)              |



**Table of Contents**

| Description of Securities               | Less than 12 months  |            |                         | 12 months or longer  |            |                         | Total                |            |                         |
|---|----------------------|------------|-------------------------|----------------------|------------|-------------------------|----------------------|------------|-------------------------|
|   | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses |
| GSE bonds                               | 12                   | \$ 45,067  | \$ (468)                |                      | \$         | \$                      | 12                   | \$ 45,067  | \$ (468)                |
| GSE collateralized 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 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 June 30, 2010 and December 31, 2009 consists of one bond with an amortized cost of \$4.5 million and an unrealized loss of \$869 thousand at June 30, 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 other-than-temporary impairment at June 30, 2010 and December 31, 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 other-than-temporary impairment was recognized on the corporate note at June 30, 2010.

We consider the losses on our investments in an unrealized loss position at June 30, 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, 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.

**Table of Contents****6. Loans Receivable and Allowance for Loan Losses**

The following is a summary of loans receivable by major category:

|  | June 30, 2010  | December 31, 2009 |
|--|----------------|-------------------|
|  | (In thousands) |                   |
| <b>Loan portfolio composition</b>                                      |                |                   |
| Real estate loans:   |                |                   |
| Residential  | \$ 4,701       | \$ 4,801          |
| Commercial & industrial  | 1,504,099      | 1,595,219         |
| Construction   | 55,827         | 54,084            |
| <br>   |                |                   |
| Total real estate loans  | 1,564,627      | 1,654,104         |
| Commercial business  | 480,811        | 487,736           |
| Trade finance  | 50,777         | 51,411            |
| Consumer and other   | 17,149         | 18,035            |
| <br>   |                |                   |
| Total loans outstanding  | 2,113,364      | 2,211,286         |
| Less: deferred loan fees   | (2,491)        | (2,343)           |
| <br>   |                |                   |
| Gross loans receivable   | 2,110,873      | 2,208,943         |
| Less: allowance for loan losses  | (62,988)       | (59,424)          |
| <br>   |                |                   |
| Loans receivable, excluding guaranteed portion of delinquent SBA loans | 2,047,885      | 2,149,519         |
| Guaranteed portion of delinquent SBA loans                             | 15,841         | 12,490            |
| <br>   |                |                   |
| Loans receivable, net  | \$ 2,063,726   | \$ 2,162,009      |

Activity in the allowance for loan losses is as follows for the periods indicated:

|                              | Six months ended June 30, |           |
|------------------------------|---------------------------|-----------|
|                              | 2010                      | 2009      |
|                              | (In thousands)            |           |
| Balance, beginning of period | \$ 59,424                 | \$ 43,419 |
| Provision for loan losses    | 67,730                    | 34,670    |
| Loan charge-offs             | (65,735)                  | (28,084)  |
| Loan recoveries              | 1,569                     | 334       |
| <br>                         |                           |           |
| Balance, end of period       | \$ 62,988                 | \$ 50,339 |

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.

The increase in charge-offs during the six months ending June 30, 2010 was primarily due to the additional charge-offs of \$26.3 million on \$62.3 million of problem loans transferred to loans held-for-sale as a result of the Company's decision to sell those loans through a loan sale advisor during the second quarter of 2010.

**Table of Contents**

Individually impaired loans were as follows:

|  | June 30, 2010    | December 31, 2009 |
|--|------------------|-------------------|
|  | (In thousands)   |                   |
| Impaired loans with no allocated allowance for loan losses | \$ 42,874        | \$ 37,941         |
| Impaired loans with allocated allowance for loan losses    | 47,985           | 82,599            |
| <b>Total</b>   | <b>\$ 90,859</b> | <b>\$ 120,540</b> |
| Amount of the allowance for loan losses allocated          | \$ 15,708        | \$ 19,803         |

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2010                        | 2009      | 2010                      | 2009      |
|  | (In thousands)              |           | (In thousands)            |           |
| Average of individually impaired loans       | \$ 118,704                  | \$ 82,295 | \$ 119,316                | \$ 71,634 |
| Interest income recognized during impairment | 1,622                       | 1,010     | 3,138                     | 1,860     |
| Cash-basis interest income recognized        | 1,622                       | 968       | 3,138                     | 1,692     |

Non-accrual loans and loans past due 90 days still on accrual were as follows:

|  | June 30, 2010  | December 31, 2009 |
|--|----------------|-------------------|
|  | (In thousands) |                   |
| Loans past due over 90 days still on accrual | \$ 1,845       | \$                |
| Nonaccrual loans                             | 46,174         | 51,674            |

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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 relevance 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 used to track and allocate charge-offs to the various loan grades by loan pools. This enhancement to the reserve methodology, which took into account the charge-offs taken in second quarter 2010, increased the provision for loan losses by \$5.4 million for the second quarter of 2010.

The stratification of the non-impaired loan portfolio resulted in a quantitative general loan loss allowance of \$30.9 million at June 30, 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 Pass loan grade levels. This extended migration analysis process resulted in higher levels of quantitative reserves required for the various Pass graded loan pools. This change in migration analysis and overall methodology as of June 30, 2010 including the effects of the loans transferred to held for sale, resulted in a one-time increase of \$15.4 million in a quantitative general loan loss allowance and a decrease of \$8.9 million in a qualitative loan loss allowance.

**Table of Contents**

In addition to the quantitative analysis, a qualitative analysis is performed each quarter to provide additional loss allowances on the non-impaired loan portfolio for the following factors, among others, that have a bearing on its loss content:

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

Changes in international, 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, troubled debt restructurings, and other loan modifications.

Changes in the quality of our loan review system.

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

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

The qualitative loan loss allowance on the non-impaired loan portfolio was \$16.4 million at June 30, 2010 compared to \$28.4 million at December 31, 2009. The following table presents the allocation of the specific and general components of the allowance by significant loan types:

|                                 | June 30, 2010                |                  |               |              | December 31, 2009            |                  |               |              |
|---------------------------------|------------------------------|------------------|---------------|--------------|------------------------------|------------------|---------------|--------------|
|                                 | Commercial Real Estate Loans | Commercial Loans | Other Loans** | Total        | Commercial Real Estate Loans | Commercial Loans | Other Loans** | Total        |
| Impaired loans                  | \$ 53,561                    | \$ 31,270        | \$ 6,028      | \$ 90,859    | \$ 94,600                    | \$ 23,598        | \$ 2,342      | \$ 120,540   |
| Specific allowance              | \$ (3,757)                   | \$ (10,142)      | \$ (1,809)    | \$ (15,708)  | \$ (10,852)                  | \$ (8,676)       | \$ (275)      | \$ (19,803)  |
| Loss coverage ratio             | 7.01%                        | 32.43%           | 30.01%        | 17.29%       | 11.47%                       | 36.77%           | 11.74%        | 16.43%       |
| Non-impaired loans              | \$ 1,450,538                 | \$ 449,541       | \$ 119,935    | \$ 2,020,014 | \$ 1,500,619                 | \$ 464,138       | \$ 123,646    | \$ 2,088,403 |
| General allowance               | \$ (30,097)                  | \$ (13,802)      | \$ (3,381)    | \$ (47,280)  | \$ (30,193)                  | \$ (6,979)       | \$ (2,449)    | \$ (39,621)  |
| Loss coverage ratio             | 2.07%                        | 3.07%            | 2.82%         | 2.34%        | 2.01%                        | 1.50%            | 1.98%         | 1.90%        |
| Total loans*                    | \$ 1,504,099                 | \$ 480,811       | \$ 125,963    | \$ 2,110,873 | \$ 1,595,219                 | \$ 487,736       | \$ 125,988    | \$ 2,208,943 |
| Total allowance for loan losses | \$ (33,854)                  | \$ (23,944)      | \$ (5,190)    | \$ (62,988)  | \$ (41,045)                  | \$ (15,655)      | \$ (2,724)    | \$ (59,424)  |
| Loss coverage ratio             | 2.25%                        | 4.98%            | 4.12%         | 2.98%        | 2.57%                        | 3.21%            | 2.16%         | 2.69%        |

\* Excludes the guaranteed portion of delinquent SBA loans.

\*\* Includes residential real estate, construction, trade finance and consumer loans.





**Table of Contents**

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 June 30, 2010 total modified loans were \$90.9 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 June 30, 2010 total temporary modifications outstanding were \$32.0 million compared to \$26.3 million at December 31, 2009. 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 FASB ASC 310-10-35; or 3) is disposed of through foreclosure or liquidation.

Troubled Debt Restructured (TDR) loans are defined by FASB ASC 310-40, Troubled Debt Restructurings by Creditors and FASB ASC 470-60, Troubled Debt Restructurings by Debtors and evaluated for impairment in accordance with FASB ASC 310-10-35. At June 30, 2010, loans classified as TDRs totaled \$58.9 million, of which \$25.0 million were on non-accrual status and \$33.9 million were on accrual status. At December 31, 2009, loans classified as a TDR totaled \$82.1 million, of which \$17.8 million was on non-accrual status and \$64.3 million was on accrual status. The Company has allocated \$11.3 million and \$14.1 million of specific reserves to TDRs as of June 30, 2010 and December 31, 2009, respectively. TDRs are generally downgraded to substandard. The decrease in TDRs is primarily due to TDR loans transferred to loans held for sale during the second quarter of 2010. As of June 30, 2010 and December 31, 2009, we did not have any outstanding commitments to extend additional funds to these borrowers.

**7. Borrowings**

We maintain 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 \$595.4 million at June 30, 2010. The terms of this credit facility require the Company to pledge eligible collateral with the FHLB-SF equal to at least 100% of outstanding advances.

At June 30, 2010 and December 31, 2009, real estate secured loans with a carrying amount of approximately \$1.1 billion and \$1.1 billion, respectively, were pledged as collateral for borrowings from the FHLB-SF. At June 30, 2010 and December 31, 2009, other than FHLB-SF stock, no securities were pledged as collateral for borrowings from the FHLB-SF.

At June 30, 2010 and December 31, 2009, FHLB-SF borrowings were \$350 million, had a weighted average interest rate of 3.42% and 3.46%, respectively, and had various maturities through September 2016. At June 30, 2010 and December 31, 2009, we had advances with various put dates and strike prices were \$150 million. The cost of FHLB borrowings as of June 30, 2010 ranged between 1.68% and 4.57%. At June 30, 2010, the Company had a remaining borrowing capacity of \$245.0 million.

At June 30, 2010, the contractual maturities for FHLB-SF borrowings were as follows:

|  | <b>Contractual<br/>Maturities</b> | <b>Maturity/<br/>Put Date</b> |
|--|-----------------------------------|-------------------------------|
|  | <b>(In thousands)</b>             |                               |
| Due within one year                    | \$ 75,000                         | \$ 225,000                    |
| Due after one year through five years  | 270,000                           | 120,000                       |
| Due after five years through ten years | 5,000                             | 5,000                         |
|  | <b>\$ 350,000</b>                 | <b>\$ 350,000</b>             |

In addition, as a member of the Federal Reserve Bank ( FRB ) system, we may 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 we pledge and up to 63% of the outstanding principal balance of the qualifying loans that we pledge. At June 30, 2010, the outstanding principal balance of the qualifying loans was \$372.9 million. As of June 30, 2010 and December 31, 2009, no borrowing was outstanding against the line.

**Table of Contents****8. Subordinated Debentures**

At June 30, 2010, five wholly-owned subsidiary grantor trusts that were established by Nara Bancorp at various times 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 for such securities. The trusts used the net proceeds from their respective offerings 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 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 of the Debentures 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 redemption prices 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 the related Debentures at June 30, 2010:

| Issuance Trust               | (Dollars in Thousands) |                                 |                                |           |              |                 |               |
|------------------------------|------------------------|---------------------------------|--------------------------------|-----------|--------------|-----------------|---------------|
|                              | Issuance Date          | Trust Preferred Security Amount | Subordinated Debentures Amount | Rate Type | Initial Rate | Rate at 3/31/10 | Maturity Date |
| Nara Bancorp Capital Trust I | 3/28/2001              | \$ 10,000                       | \$ 10,400                      | Fixed     | N/A          | 10.18%          | 6/8/2031      |
| Nara Capital Trust III       | 6/5/2003               | 5,000                           | 5,155                          | Variable  | 4.44%        | 3.69%           | 6/15/2033     |
| Nara Statutory Trust IV      | 12/22/2003             | 5,000                           | 5,155                          | Variable  | 4.02%        | 3.15%           | 1/7/2034      |
| Nara Statutory Trust V       | 12/17/2003             | 10,000                          | 10,310                         | Variable  | 4.12%        | 3.49%           | 12/17/2033    |
| Nara Statutory Trust VI      | 3/22/2007              | 8,000                           | 8,248                          | Variable  | 7.00%        | 2.19%           | 6/15/2037     |
| TOTAL ISSUANCE               |                        | \$ 38,000                       | \$ 39,268                      |           |              |                 |               |

The Company's investment in the common trust securities of the issuer trusts of \$1.5 million at June 30, 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 \$63.7 million of our outstanding Fixed Rate Cumulative Perpetual Preferred Stock, net of discount, up to a maximum of 25% of capital on an aggregate basis. Any amount that exceeds 25% qualifies as Tier 2 capital. At June 30, 2010, all of the combined \$101.7 million of the trusts' securities and preferred stock outstanding qualified as Tier 1 capital.

The Board of Governors of the Federal Reserve System, which is the holding company'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 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 trust preferred securities for purposes of Tier 1 capital.

**Table of Contents****9. 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.

In January of 2008, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$50 million. Under these swap agreements, the Company 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 rate swap agreements matured on January 14, 2010 and the Company did not have any outstanding interest rate swap agreements at June 30, 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 two-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 up front 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 June 30, 2010, the aggregate fair value of the outstanding interest rate caps was \$320 thousand and we recognized mark-to-market losses on valuation of \$506 thousand for the quarter and \$748 thousand for the six months ended June 30, 2010.

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

|   | Derivatives at         |            |                        |            |
|---|------------------------|------------|------------------------|------------|
|   | June 30, 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           | \$ 320     | Other Assets           | \$ 177     |
| Interest rate swaps                                     | Other Liabilities      |            | Other Liabilities      | (645)      |
| Total derivatives not designated as hedging instruments |                        | \$ 320     |                        | \$ (468)   |

**Table of Contents**

The effects of derivative instruments on the Consolidated Statement of Income for the three months ended June 30, 2010 and 2009 are as follows:

|   | Location of Loss<br>Recognized in Income on<br>Derivatives | Three Months Ended,                                      |                 | Six Months Ended,  |                 |
|---|--|--|-----------------|--|-----------------|
|   |  | 6/30/2010  | 6/30/2009       | 6/30/2010  | 6/30/2009       |
|   |  | Amount of Loss<br>Recognized in Income on<br>Derivatives |                 | Amount of Loss<br>Recognized in Income on<br>Derivatives |                 |
| Derivatives not designated as hedging instruments under FASB ASC 815: |  |  |                 |  |                 |
| Interest rate contracts (1)   | Other income   | \$ (506)   | \$ (185)        | \$ (748)   | \$ (337)        |
| <b>Total</b>  |  | <b>\$ (506)</b>  | <b>\$ (185)</b> | <b>\$ (748)</b>  | <b>\$ (337)</b> |

- (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.

**10. Business Segments**

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.

**Table of Contents**

The following tables present the operating results and other key financial measures for the individual operating segments for the three and six months ended June 30, 2010 and 2009.

**Three Months Ended June,****(Dollars in thousands)**

|   | Business Segment      |            |             |              |
|---|-----------------------|------------|-------------|--------------|
|   | Banking<br>Operations | TFS*       | SBA         | Company      |
| <b>2010</b>   |                       |            |             |              |
| Net interest income, before provision for loan losses | \$ 21,215             | \$ 2,860   | \$ 2,733    | \$ 26,808    |
| Less provision for loan losses                        | 25,955                | 2,570      | 13,798**    | 42,323       |
| Non-interest income                                   | 2,568                 | 662        | 230         | 3,460        |
| Net revenue   | (2,172)               | 952        | (10,835)    | (12,055)     |
| Non-interest expense                                  | 14,057                | 522        | 1,388       | 15,967       |
| Income (loss) before income taxes                     | \$ (16,229)           | \$ 430     | \$ (12,223) | \$ (28,022)  |
| Goodwill  | \$ 2,509              | \$         | \$          | \$ 2,509     |
| Total assets  | \$ 2,390,512          | \$ 244,594 | \$ 265,959  | \$ 2,901,065 |
| <b>2009</b>   |                       |            |             |              |
| Net interest income, before provision for loan losses | \$ 17,148             | \$ 1,080   | \$ 3,032    | \$ 21,260    |
| Less provision for loan losses                        | 11,814                | 3,122      | 4,064       | 19,000       |
| Non-interest income                                   | 2,433                 | 513        | 839         | 3,785        |
| Net revenue   | 7,767                 | (1,529)    | (193)       | 6,045        |
| Non-interest expense                                  | 14,207                | 647        | 1,968       | 16,822       |
| Income (loss) before income taxes                     | \$ (6,440)            | \$ (2,176) | \$ (2,161)  | \$ (10,777)  |
| Goodwill  | \$ 2,509              | \$         | \$          | \$ 2,509     |
| Total assets  | \$ 2,761,812          | \$ 164,591 | \$ 334,406  | \$ 3,260,809 |

\* 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.

\*\* A substantial portion of the loans transferred to loans held for sale, which were marked down to be carried at the lower of cost or fair value upon transfer, was from the SBA segment.

**Table of Contents**

Six Months Ended June,

(Dollars in thousands)

| 2010  | Banking<br>Operations | Business Segment |             |              |
|---|-----------------------|------------------|-------------|--------------|
|   |                       | TFS*             | SBA         | Company      |
| Net interest income, before provision for loan losses | \$ 41,961             | \$ 4,880         | \$ 5,210    | \$ 52,051    |
| Less provision for loan losses**                      | 45,797                | 5,564            | 16,369      | 67,730       |
| Non-interest income                                   | 10,880                | 1,219            | 745         | 12,844       |
| Net revenue   | 7,044                 | 535              | (10,414)    | (2,835)      |
| Non-interest expense                                  | 27,303                | 995              | 1,853       | 30,151       |
| Income (loss) before income taxes                     | \$ (20,259)           | \$ (460)         | \$ (12,267) | \$ (32,986)  |
| Goodwill  | \$ 2,509              | \$               | \$          | \$ 2,509     |
| Total assets  | \$ 2,390,512          | \$ 244,594       | \$ 265,959  | \$ 2,901,065 |
| 2009  | Banking<br>Operations | TFS              | SBA         | Company      |
| Net interest income, before provision for loan losses | \$ 34,084             | \$ 1,874         | \$ 5,741    | \$ 41,699    |
| Less provision for loan losses                        | 19,844                | 3,122            | 11,704      | 34,670       |
| Non-interest income                                   | 5,914                 | 955              | 1,281       | 8,150        |
| Net revenue   | 20,154                | (293)            | (4,682)     | 15,179       |
| Non-interest expense                                  | 26,270                | 1,449            | 4,351       | 32,070       |
| Income (loss) before income taxes                     | \$ (6,116)            | \$ (1,742)       | \$ (9,033)  | \$ (16,891)  |
| Goodwill  | \$ 2,509              | \$               | \$          | \$ 2,509     |
| Total assets  | \$ 2,761,812          | \$ 164,591       | \$ 334,406  | \$ 3,260,809 |

\* 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.

\*\* 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.

The SBA business segment primarily originates for sale and services SBA loans. It also originates commercial real estate loans and commercial business loans, not covered by the SBA guarantee program. Total SBA business segment assets at June 30, 2010 and 2009 included SBA loans (principally, the unguaranteed portion) of \$100.0 million and \$92.4 million; commercial real estate loans of \$129.8 million and \$197.3 million; and commercial business loans of \$14.4 million and \$14.9 million, respectively.

**11. Income Taxes**

Our Company and its 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. We had total unrecognized tax benefits of \$173 thousand at June 30, 2010 and \$151 thousand at December 31, 2009 that related primarily to uncertainties related to income taxes for the 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 \$173 thousand and \$151 thousand at June 30, 2010

## Edgar Filing: NARA BANCORP INC - Form 10-Q

and December 31, 2009, respectively. The amount of unrecognized tax benefits increased slightly due to the uncertainties related to income taxes for the California Enterprise Zone loan interest deductions added in 2010.

We recognize interest and penalties related to income tax matters in income tax expense. We accrued approximately \$16 thousand and \$11 thousand for interest and penalties at June 30, 2010 and December 31, 2009, respectively.



**Table of Contents**

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 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. At June 30, 2010, the Company has cumulative losses of \$11.9 million for the three years from July 1, 2007 to June 30, 2010. The cumulative loss was primarily driven by an additional provision for losses of \$26 million as a result of the Company's decision to sell its substandard non-accrual loans through a loan sale advisor to improve the quality of the Company's loan portfolio in the second quarter of 2010. Without this additional provision, the Company would have cumulative income of approximately \$14.1 million. Based on the Company's ability to carryback up to \$24 million of potential pre-tax losses generated in future years to prior years and other positive evidences including (1) the Company's history of having taxable income, including during 2008 and 2009, (2) projection of taxable income in future years, based on the improvement of net interest margin and pre-tax pre-provision earnings, and (3) various tax planning strategies, included, but not limited to the sale of various loans, securities and/or core deposits, as well as the sale of certain lines of business or assets, the Company has determined that a valuation allowance for deferred tax assets was not required as of June 30, 2010.

**12. Fair Value Measurements**

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).

**Table of Contents****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). The fair value of non-performing loans held for sale is generally based upon the fair value of the collateral which is obtained from recent real estate appraisals. These 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:

|   | At June 30, 2010 | Fair Value Measurements Using                                  |   |   |
|---|------------------|--|---|---|
|   |                  | 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                               | \$ 57,390        | \$   | \$ 57,390                                     | \$  |
| GSE collateralized mortgage obligations | 128,563          |  | 128,563                                       |   |
| GSE mortgage-backed securities          | 225,558          |  | 225,558                                       |   |
| Corporate note                          | 3,597            |  | 3,597   |   |
| Municipal bonds                         | 5,443            |  | 5,443   |   |
| Mutual funds                            | 5,607            | 5,607  |   |   |
| Derivatives - Interest rate caps        | 320              |  | 320   |   |

**Table of Contents**

|   | 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)                          |                               |  |   |   |
| <b>Assets:</b>                          |                               |  |   |   |
| 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   |   |
| <b>Liabilities:</b>                     |                               |  |   |   |
| Derivatives - Interest rate swaps       | (645)                         |  | (645)   |   |

Fair value adjustments for interest rate caps resulted in a net expense of \$748 thousand for the six months ended June 30, 2010 and \$181 thousand for the year ended December 31, 2009. Fair value adjustments for interest rate swaps resulted in a net expense of \$405 thousand for the year ended December 31, 2009. There were no interest rate swaps outstanding at June 30, 2010.

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

|                                      | Fair Value Measurements Using |  |   |   |
|--------------------------------------|-------------------------------|--|---|---|
|                                      | June 30, 2010                 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (In thousands)                       |                               |  |   |   |
| <b>Assets:</b>                       |                               |  |   |   |
| Impaired loans at fair value         | \$ 35,634                     | \$   | \$  | \$ 35,634                                 |
| Non-accrual loans held for sale, net | 35,954                        |  | 35,954  |   |
| Other real estate owned              | 1,456                         |  |   | 1,456                                     |

**Table of Contents**

|                   | Fair Value Measurements Using  |   |  |
|-------------------|--|---|--|
|                   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| December 31, 2009 | 1)   | (Level 2)   | (Level 3)  |
|                   | (In thousands)   |   |  |

|                              |           |           |           |
|------------------------------|-----------|-----------|-----------|
| <b>Assets:</b>               |           |           |           |
| 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 carrying amount of \$58.9 million at June 30, 2010, after partial charge-offs of \$10.9 million. In addition, these loans had a specific valuation allowance of \$5.5 million at June 30, 2010. Of this \$58.9 million, \$41.1 million were carried at their fair value of \$35.6 million as a result of the aforementioned charge-offs and specific valuation allowances. The remaining \$17.8 million were carried at cost at June 30, 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 \$31.9 million at June 30, 2010 which are measured based on the present value of expected cash flows. Of these \$27.0 million were carried below cost as a result of charge-offs or assigned specific reserves of \$10.2 million at June 30, 2010. The remaining \$4.9 million 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 for the three and six months ended June 30, 2010 on impaired loans carried at the fair value of loan collateral at June 30, 2010 resulted in additional provision for loan losses of \$14.0 million and \$33.2 million, respectively.

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 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 \$1.5 million at June 30, 2010, which is made up of an outstanding balance of \$2.2 million, with a valuation allowance of \$785 thousand. Changes in the valuation allowance on other real estate owned outstanding at June 30, 2010 resulted in a write-down of \$785 thousand and \$942 thousand for the three and six months ended June 30, 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.

Non-accrual loans held for sale were carried at their fair value of \$36.0 million, which was made up of the outstanding balance of \$62.3 million, after partial charge-offs and corresponding provision for loan losses of \$26.3 million. The remaining \$5.5 million of loans held for sale were carried at cost at June 30, 2010, as fair value of these loans exceeded the book value for each individual credit. The charge-offs on loans held for sale were \$27.7 million and \$31.7 million for the three and six months ended June 30, 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 the year ended December 31, 2010.

**Table of Contents****Fair Value of Financial Instruments**

Carrying amounts and estimated fair values of financial instruments, not previously presented, at June 30, 2010 and December 31, 2009 were as follows:

|   | <b>June 30, 2010</b>       |                                 |
|---|----------------------------|---------------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
|   | <b>(In thousands)</b>      |                                 |
| <b>Financial Assets:</b>                          |                            |                                 |
| Cash and cash equivalents                         | \$ 203,135                 | \$ 203,135                      |
| Loans held for sale                               | 5,518                      | 5,947                           |
| Loans receivable - net                            | 2,028,092                  | 2,086,299                       |
| Federal Reserve Bank stock                        | 6,362                      | N/A                             |
| Federal Home Loan Bank stock                      | 19,194                     | N/A                             |
| Accrued interest receivable                       | 8,272                      | 8,272                           |
| Customers' liabilities on acceptances             | 12,588                     | 12,588                          |
| <b>Financial Liabilities:</b>                     |                            |                                 |
| Noninterest-bearing deposits                      | \$ (342,409)               | \$ (342,409)                    |
| Saving and other interest bearing demand deposits | (735,912)                  | (735,912)                       |
| Time deposits                                     | (1,052,068)                | (1,056,218)                     |
| Borrowings from Federal Home Loan Bank            | (350,000)                  | (367,893)                       |
| Subordinated debentures                           | (39,268)                   | (40,282)                        |
| Secured borrowing                                 | (3,325)                    | (3,325)                         |
| Accrued interest payable                          | (3,863)                    | (3,863)                         |
| Bank's liabilities on acceptances outstanding     | (12,588)                   | (12,588)                        |

|   | <b>December 31, 2009</b>   |                                 |
|---|----------------------------|---------------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
|   | <b>(In thousands)</b>      |                                 |
| <b>Financial Assets:</b>                          |                            |                                 |
| 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                          |
| <b>Financial Liabilities:</b>                     |                            |                                 |
| 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.

**Table of Contents**

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, 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.

**13. Comprehensive Income (Loss)**

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

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2010                           | 2009       | 2010                         | 2009       |
|  | (In thousands)                 |            | (In thousands)               |            |
| <b>Net loss</b>  | \$ (15,877)                    | \$ (6,008) | \$ (18,409)                  | \$ (9,188) |
| Unrealized holding gains (losses) on securities available-for sale and interest only strips  | 5,532                          | (2,760)    | 10,429                       | 3,283      |
| Reclassification adjustments for gains realized in income  | (96)                           | (220)      | (6,392)                      | (1,005)    |
| Net unrealized gain (loss)   | 5,436                          | (2,980)    | 4,037                        | 2,278      |
| Tax expense (benefit)  | 2,137                          | (1,186)    | 1,559                        | 894        |
| Net of tax amount  | \$ 3,299                       | \$ (1,794) | \$ 2,478                     | \$ 1,384   |
| <b>Reclassification adjustment for gains realized for the ineffective portion of swaps and caps and discontinued hedge positions</b> | \$ (11)                        | \$ (35)    | \$ (22)                      | \$ (70)    |
| Net unrealized gain (loss)   | (11)                           | (35)       | (22)                         | (70)       |
| Tax expense (benefit)  | (4)                            | (14)       | (9)                          | (28)       |
| Net of tax amount  | \$ (7)                         | \$ (21)    | \$ (13)                      | \$ (42)    |
| <b>Total other comprehensive income (loss)</b>   | \$ 3,292                       | \$ (1,815) | \$ 2,465                     | \$ 1,342   |
| Comprehensive loss   | \$ (12,585)                    | \$ (7,823) | \$ (15,944)                  | \$ (7,846) |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 and the unaudited consolidated financial statements and notes set forth elsewhere in this report.

**GENERAL****Selected Financial Data**

The following table sets forth certain selected financial data concerning the periods indicated:

|   | At or for the Three Months<br>Ended June,<br>2010          |              | At or for the Six Months<br>Ended June 30,<br>2009         |              |
|---|--|--------------|--|--------------|
|   | (Dollars in thousands, except<br>share and per share data) |              | (Dollars in thousands, except<br>share and per share data) |              |
| <b>Income Statement Data:</b>   |  |              |  |              |
| Interest income   | \$ 36,593  | \$ 38,410    | \$ 75,254  | \$ 74,469    |
| Interest expense  | 9,785  | 17,150       | 23,203   | 32,770       |
| Net interest income   | 26,808   | 21,260       | 52,051   | 41,699       |
| Provision for loan losses   | 42,323   | 19,000       | 67,730   | 34,670       |
| Net interest income after provision for loan losses                               | (15,515)   | 2,260        | (15,679)   | 7,029        |
| Non-interest income   | 3,460  | 3,785        | 12,844   | 8,150        |
| Non-interest expense  | 15,967   | 16,822       | 30,151   | 32,070       |
| Loss before income tax benefit  | (28,022)   | (10,777)     | (32,986)   | (16,891)     |
| Income tax benefit  | (12,145)   | (4,769)      | (14,577)   | (7,703)      |
| Net loss  | \$ (15,877)  | \$ (6,008)   | \$ (18,409)  | \$ (9,188)   |
| Dividends and discount accretion on preferred stock                               | \$ (1,073)   | \$ (1,069)   | \$ (2,144)   | \$ (2,137)   |
| Net loss available to common stockholders   | \$ (16,950)  | \$ (7,077)   | \$ (20,553)  | \$ (11,325)  |
| <b>Per Share Data:</b>  |  |              |  |              |
| Earnings (loss) per common share - basic  | \$ (0.45)  | \$ (0.27)    | \$ (0.54)  | \$ (0.43)    |
| Earnings (loss) per common share - diluted  | \$ (0.45)  | \$ (0.27)    | \$ (0.54)  | \$ (0.43)    |
| Book value (period end, excluding preferred stock and warrants)                   | \$ 7.52  | \$ 8.14      | \$ 7.52  | \$ 8.14      |
| Common shares outstanding   | 37,956,527   | 26,256,960   | 37,956,527   | 26,256,960   |
| Weighted average shares - basic   | 37,921,885   | 26,256,960   | 37,875,494   | 26,253,627   |
| Weighted average shares - diluted   | 37,921,885   | 26,256,960   | 37,875,494   | 26,253,627   |
| <b>Statement of Financial Condition Data - at Period End:</b>                     |  |              |  |              |
| Assets  | \$ 2,901,065   | \$ 3,260,809 | \$ 2,901,065   | \$ 3,260,809 |
| Securities available for sale   | 426,158  | 745,792      | 426,158  | 745,792      |
| Gross loans, net of deferred loan fees and costs * (excludes loans held for sale) | 2,110,873  | 2,080,312    | 2,110,873  | 2,080,312    |
| Deposits  | 2,130,389  | 2,439,795    | 2,130,389  | 2,439,795    |
| Federal Home Loan Bank borrowings   | 350,000  | 350,000      | 350,000  | 350,000      |
| Subordinated debentures   | 39,268   | 39,268       | 39,268   | 39,268       |
| Stockholders' equity  | 351,629  | 281,419      | 351,629  | 281,419      |





**Table of Contents**

|   | At or for the Three Months<br>Ended June 30, |              | At or for the Six Months<br>Ended June 30, |              |
|---|--|--------------|--|--------------|
|   | 2010   | 2009         | 2010                                       | 2009         |
| <b>Average Balance Sheet Data:</b>                                      |  |              |  |              |
| Assets  | \$ 2,899,677                                 | \$ 3,007,256 | \$ 3,037,248                               | \$ 2,852,961 |
| Securities available for sale and held to maturity                      | 459,883                                      | 530,322      | 560,395                                    | 477,424      |
| Gross loans, including loans held for sale *                            | 2,177,523                                    | 2,092,809    | 2,188,942                                  | 2,100,206    |
| Deposits  | 2,109,103                                    | 2,274,661    | 2,241,078                                  | 2,118,335    |
| Stockholders' equity  | 367,038                                      | 290,959      | 369,686                                    | 291,094      |
| <b>Selected Performance Ratios:</b>                                     |  |              |  |              |
| Return on average assets (1) (7)  | -2.19%                                       | -0.80%       | -1.21%                                     | -0.64%       |
| Return on average stockholders' equity (1) (7)                          | -17.30%                                      | -8.26%       | -9.96%                                     | -6.31%       |
| Non-interest expense to average assets (1)                              | 2.20%  | 2.24%        | 1.99%                                      | 2.25%        |
| Efficiency ratio (2)  | 52.75%                                       | 67.17%       | 46.46%                                     | 64.33%       |
| Net interest margin (3) *   | 3.85%  | 2.94%        | 3.57%                                      | 3.04%        |
| <b>Regulatory Capital Ratios (4)</b>                                    |  |              |  |              |
| Leverage capital ratio (5)  | 13.15%                                       | 10.50%       | 13.15%                                     | 10.50%       |
| Tier 1 risk-based capital ratio   | 16.68%                                       | 13.37%       | 16.68%                                     | 13.37%       |
| Total risk-based capital ratio  | 17.95%                                       | 14.63%       | 17.95%                                     | 14.63%       |
| Tangible common equity ratio (8)  | 9.74%  | 6.45%        | 9.74%                                      | 6.45%        |
| <b>Asset Quality Ratios: *</b>  |  |              |  |              |
| Allowance for loan losses to gross loans, excluding loans held for sale | 2.98%  | 2.42%        | 2.98%                                      | 2.42%        |
| Allowance for loan losses to non-performing loans                       | 131.17%                                      | 163.17%      | 131.17%                                    | 163.17%      |
| Total non-performing loans to gross loans                               | 2.27%  | 1.48%        | 2.27%                                      | 1.48%        |
| Total non-performing assets to total assets (6)                         | 2.99%  | 2.20%        | 2.99%                                      | 2.20%        |

\* Excludes the guaranteed portion of delinquent SBA loans

(1) Annualized.

(2) Efficiency ratio is defined as non-interest expense divided by the sum of net interest income and non-interest income.

(3) Net interest margin is calculated by dividing annualized net interest income by average total interest-earning assets.

(4) The required ratios for a well-capitalized institution are 5% leverage capital, 6% tier I risk-based capital and 10% total risk-based capital.

(5) Calculations are based on average quarterly asset balances.

(6) Non-performing assets include non-accrual loans, loans past due 90 or more and still accruing interest, other real estate owned, and restructured loans. \$36.0 million in substandard non-accrual loans classified as held for sale were excluded from non-performing assets at June 30, 2010.

(7) Based on net loss before effect of dividends and discount accretion on preferred stock (8) Excludes TARP preferred stock, net of discount, of \$63.7 million and \$62.8 million and stock warrants of \$2.4 million and \$4.8 million at June 30, 2010 and 2009, respectively.

(8) Excludes TARP preferred stock, net of discount, of \$63.7 million and \$62.8 million and stock warrants of \$2.4 million and \$4.8 million at June 30, 2010 and 2009, respectively.

---

**Table of Contents****Results of Operations****Overview**

During the six months ended June 30, 2010, total assets decreased as we used investments to fund withdrawals of higher yielding retail jumbo time deposits at their maturities. Our total assets decreased \$326.9 million, or 10%, to \$2.90 billion at June 30, 2010, from \$3.23 billion at December 31, 2009. Our deposits decreased \$303.8 million, or 13%, to \$2.13 billion at June 30, 2010 from \$2.43 billion at December 31, 2009. Gross loans also decreased 4% during the six months ended June 30, 2010. We continued to build up our liquidity by selling our investment securities to fund runoffs of retail time deposits, which matured by the second quarter of 2010. Investment securities declined 46% during the first six months of 2010 as a result of sales and paydowns.

Our net loss available to common stockholders for the second quarter of 2010 was (\$17.0) million, or (\$0.45) per diluted share, compared to the net loss available to common stockholders of (\$7.1) million, or (\$0.27) per diluted share, for the same period of 2009, representing an increase in net loss of \$9.9 million, or 140%. The increase in net loss is primarily due to an increase in provision for loan losses, offset by an increase in net interest income.

The annualized loss on average assets was (2.19%) for the second quarter of 2010, compared to (0.80%) for the same period of 2009. The annualized loss on average equity was (17.30%) for the second quarter of 2010, compared to (8.26%) for the same period of 2009. The efficiency ratio was 52.75% for the second quarter of 2010, compared to 67.17% for the same period of 2009.

Our net loss available to common stockholders for the six months ended June 30, 2010 was (\$20.6) million, or (\$0.54) per diluted share, compared to net loss available to common stockholders of (\$11.3) million, or (\$0.43) per diluted share, for the same period of 2009, representing an increase in net loss of \$9.2 million, or 81%. The increase in net loss is primarily due to an increase in provision for loan losses, offset by an increase in net interest income and increase in net gains from the sale of securities available for sale.

The annualized loss on average assets was (1.21%) for the six months ended June 30, 2010, compared to (0.64%) for the same period of 2009. The annualized loss on average equity was (9.96%) for the six months ended June 30, 2010, compared to (6.31%) for the same period of 2009. The efficiency ratio was 46.46% for the six months ended June 30, 2010, compared to 64.33% for the same period of 2009.

**Net Interest Income and Net Interest Margin***Net Interest Income and Expense*

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and borrowed funds. Net interest income expressed as a percentage of average interest-earning assets is referred to as net interest margin. The net interest spread is the yield on average interest-earning assets less the cost of average interest-bearing liabilities (interest-bearing deposits and borrowed funds). Net interest income is affected by changes in the respective volumes of interest-earning assets and funding liabilities as well as by changes in the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities.

Net interest income before provision for loan losses was \$26.8 million for the second quarter of 2010, an increase of \$5.5 million, or 26%, compared to \$21.3 million for the same period of 2009. The increase is primarily due to an improved net interest margin. The net interest margin improved to 3.85% for the second quarter 2010, compared to 2.94% for the same period of 2009. The improvement in the net interest margin was primarily caused by the downward repricing of our interest bearing liabilities.

Interest income for the second quarter of 2010 was \$36.6 million compared to \$38.4 million for the same period of 2009. Interest income increased \$492 thousand due to an increase in the volume of average interest-earning assets. The increase was offset by a \$2.3 million decrease in interest income due to a decrease in the average yield earning on average interest-earning assets, particularly in investment securities

---

**Table of Contents**

Interest expense for the second quarter of 2010 was \$9.8 million, a decrease of \$7.4 million, or 43%, compared to interest expense of \$17.2 million for the same quarter of 2009. The decrease was primarily the result of a \$6.0 million decrease in interest expense due to a decrease in the average rates paid on interest-bearing liabilities and a \$1.4 million decrease in interest expense due to a decrease in the volume of average interest-bearing liabilities.

Net interest income before provision for loan losses was \$52.1 million for the six months ended June 30, 2010, an increase of \$10.4 million, or 25%, compared to \$41.7 million for the same period of 2009. The increase is primarily due to the increase in average interest earning assets and an improved net interest margin. Average interest earning assets increased \$175 million, or 6%, to \$2.92 billion at June 30, 2010 from \$2.74 billion at June 30, 2009. The net interest margin improved to 3.57% for the six months ended June 30, 2010, compared to 3.04% for the same period of 2009. The improvement in the net interest margin was caused by the downward repricing of our interest bearing liabilities.

Interest income for the six months ended June 30, 2010 was \$75.3 million compared to \$74.5 million for the same period of 2009. Interest income increased \$4.3 million due to an increase in the volume of average interest-earning assets. The increase was offset by a \$3.5 million decrease in interest income due to a decrease in the average yield earning on average interest-earning assets, particularly in investment securities

Interest expense for the six months ended June 30, 2010 was \$23.2 million, a decrease of \$9.6 million, or 29%, compared to interest expense of \$32.8 million for the same period of 2009. The decrease was primarily the result of a \$9.9 million decrease in interest expense due to a decrease in the average rates paid on interest-bearing liabilities (rate change), offset by a \$311 thousand increase in interest expense due to an increase in the volume of average interest-bearing liabilities (volume change).

*Net Interest Margin*

During the second quarter 2010, our net interest margin increased 91 basis points to 3.85% from 2.94% for the same quarter of last year. The weighted average yield on the loan portfolio for the second quarter 2010 slightly decreased by 4 basis points to 6.16% from 6.20% for the same quarter of last year.

The weighted average yield on our investment securities for the second quarter 2010 decreased 180 basis points to 2.51% from 4.31% for the same quarter 2009. The decrease was primarily attributable to \$788 million in new investment securities purchased during 2009, which had lower yields than the weighted average yield of the portfolio at June 30, 2009. The weighted average yield on available-for-sale investment securities purchased during 2009 was 3.8%. The yield also decreased due to the sales of securities to balance the duration and mix of the investment portfolio as well as for liquidity purposes during the fourth quarter of 2009 and the first quarter of 2010. Lastly, an accelerated amortization of the premium on the mortgage backed securities issued by FNMA and FHLMC as a result of an accelerated repurchase during the first half of 2010 of seriously delinquent loans by FNMA and FHLMC contributed to the lower investment yield. The effect of such premium amortization on net interest margin was approximately 20 basis points for second quarter 2010 and 12 basis points for first quarter 2010.

The weighted average cost of deposits for the second quarter of 2010 decreased 116 basis points to 1.19% from 2.35% for the same quarter last year. The cost of time deposits decreased 127 basis points to 1.49% from 2.76%, accounting for a substantial portion of the decrease. During the quarter, approximately \$574 million in time deposits with an average rate of 2.78% matured, of which approximately 46% were retained and repriced to an average rate of 1.53%.

**Table of Contents**

Following are selected weighted average data on a spot rate basis at June 30, 2010 and 2009:

|  | June 30,<br>2010 | June 30,<br>2009 |
|--|------------------|------------------|
| Weighted average loan portfolio yield (excluding discounts)    | 5.99%            | 6.03%            |
| Weighted average securities available-for-sale portfolio yield | 2.93%            | 4.60%            |
| Weighted average cost of deposits                              | 1.07%            | 2.27%            |
| Weighted average cost of total interest-bearing deposits       | 1.28%            | 2.62%            |
| Weighted average cost of FHLB advances                         | 3.42%            | 3.75%            |
| Net interest margin  | 3.83%            | 2.94%            |

Prepayment penalty income for the second quarter of 2010 and 2009 was \$123 thousand and \$145 thousand, respectively. Non-accrual interest income reversed was \$304 thousand and \$169 thousand for the second quarter of 2010 and 2009, respectively. Excluding the effects of both non-accrual loan interest income and prepayment penalty income, the net interest margin for the second quarter 2010 and 2009 would have been as 3.88% and 2.94%, respectively.

During the six months ended June 30, 2010, our net interest margin increased 53 basis points to 3.57% from 3.04% for the same period of last year. The weighted average yield on the loan portfolio for the six months ended June 30, 2010 was 6.11%, which remained the same from the same quarter of last year.

The weighted average yield on our investment securities for the six months ended June 30, 2010 decreased 136 basis points to 2.85% from 4.20% for the same period of 2009. The decrease was for the reasons mentioned previously in the second quarter discussion.

The weighted average cost of deposits for the six months ended June 30, 2010 decreased 93 basis points to 1.45% from 2.38% for the same period of 2009. The cost of time deposits decreased 86 basis points to 1.92% from 2.78%, accounting for a substantial portion of the decrease. The decrease was for the reasons mentioned previously in the second quarter discussion.

Prepayment penalty income for the six months ended June 30, 2010 and 2009 was \$296 thousand and \$292 thousand, respectively. Non-accrual interest income reversed was \$1.1 million and \$560 thousand for the six months ended June 30, 2010 and 2009, respectively. Excluding the effects of both non-accrual loan interest income and prepayment penalty income, the net interest margin for the six months ended June 30, 2010 and 2009 would have been 3.62% and 3.06%, respectively.

**Table of Contents**

The following table presents our condensed consolidated average balance sheet information, together with interest rates earned and paid on the various sources and uses of funds for the periods indicated:

|   | Three months ended<br>June 30, 2010 |                                |                             | Three months ended<br>June 30, 2009 |                                |                             |
|---|-------------------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|-----------------------------|
|   | Average<br>Balance                  | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate * | Average<br>Balance                  | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate * |
| <b>INTEREST EARNINGS ASSETS:</b>  |                                     |                                |                             |                                     |                                |                             |
| Loans <sup>(1) (2)</sup>  | \$ 2,177,523                        | \$ 33,510                      | 6.16%                       | \$ 2,092,809                        | \$ 32,461                      | 6.20%                       |
| Securities available for sale <sup>(3)</sup>  | 459,883                             | 2,884                          | 2.51%                       | 530,322                             | 5,710                          | 4.31%                       |
| FRB and FHLB stock and other investments  | 142,210                             | 192                            | 0.54%                       | 266,179                             | 212                            | 0.32%                       |
| Federal funds sold  | 4,615                               | 7                              | 0.61%                       | 5,934                               | 27                             | 1.82%                       |
| Total interest earning assets   | \$ 2,784,231                        | \$ 36,593                      | 5.26%                       | \$ 2,895,244                        | \$ 38,410                      | 5.31%                       |
| <b>INTEREST BEARING LIABILITIES:</b>  |                                     |                                |                             |                                     |                                |                             |
| <b>Deposits:</b>  |                                     |                                |                             |                                     |                                |                             |
| Demand, interest-bearing  | \$ 591,012                          | \$ 1,603                       | 1.08%                       | \$ 416,561                          | \$ 2,417                       | 2.32%                       |
| Savings   | 135,906                             | 828                            | 2.44%                       | 117,948                             | 1,008                          | 3.42%                       |
| Time deposits:  |                                     |                                |                             |                                     |                                |                             |
| \$100,000 or more   | 461,708                             | 1,349                          | 1.17%                       | 679,064                             | 4,109                          | 2.42%                       |
| Other   | 571,790                             | 2,499                          | 1.75%                       | 763,999                             | 5,831                          | 3.05%                       |
| Total time deposits   | 1,033,498                           | 3,848                          | 1.49%                       | 1,443,063                           | 9,940                          | 2.76%                       |
| Total interest bearing deposits   | 1,760,416                           | 6,279                          | 1.43%                       | 1,977,572                           | 13,365                         | 2.70%                       |
| FHLB advances   | 350,000                             | 2,981                          | 3.41%                       | 350,000                             | 3,263                          | 3.73%                       |
| Other borrowings  | 40,927                              | 525                            | 5.13%                       | 37,764                              | 522                            | 5.53%                       |
| Total interest bearing liabilities  | 2,151,343                           | \$ 9,785                       | 1.82%                       | 2,365,336                           | \$ 17,150                      | 2.90%                       |
| Non-interest bearing demand deposits  | 348,687                             |                                |                             | 297,089                             |                                |                             |
| Total funding liabilities / cost of funds   | \$ 2,500,030                        |                                | 1.57%                       | \$ 2,662,425                        |                                | 2.58%                       |
| Net interest income/net interest spread   |                                     | \$ 26,808                      | 3.44%                       |                                     | \$ 21,260                      | 2.41%                       |
| Net interest margin   |                                     |                                | 3.85%                       |                                     |                                | 2.94%                       |
| Net interest margin, excluding effect of non-accrual loan income (expense) <sup>(4)</sup>                               |                                     |                                | 3.90%                       |                                     |                                | 2.96%                       |
| Net interest margin, excluding effect of non-accrual loan income (expense) and prepayment fee income <sup>(4) (5)</sup> |                                     |                                | 3.88%                       |                                     |                                | 2.94%                       |
| Cost of deposits:   |                                     |                                |                             |                                     |                                |                             |
| Non-interest demand deposits  | \$ 348,687                          | \$                             |                             | \$ 297,089                          | \$                             |                             |
| Interest bearing deposits   | 1,760,416                           | 6,279                          | 1.43%                       | 1,977,572                           | 13,365                         | 2.70%                       |
| Total deposits  | \$ 2,109,103                        | \$ 6,279                       | 1.19%                       | \$ 2,274,661                        | \$ 13,365                      | 2.35%                       |

## Edgar Filing: NARA BANCORP INC - Form 10-Q

\* Annualized

- (1) Interest income on loans includes loan fees.
- (2) Average balances of loans are net of deferred loan fees and costs and include nonaccrual loans and loans held for sale, but excludes the guaranteed portion of delinquent SBA loans.
- (3) Interest income and yields are not presented on a tax-equivalent basis.
- (4) Non-accrual interest income reversed was \$304 thousand and \$169 thousand for the three months ended June 30, 2010 and 2009, respectively.
- (5) Loan prepayment fee income excluded was \$123 thousand and \$145 thousand for the three months ended June 30, 2010 and 2009, respectively.

**Table of Contents**

|   | Six months ended<br>June 30, 2010 |                                |                             | Six months ended<br>June 30, 2009 |                                |                             |
|---|-----------------------------------|--------------------------------|-----------------------------|-----------------------------------|--------------------------------|-----------------------------|
|   | Average<br>Balance                | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate * | Average<br>Balance                | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate * |
| <b>INTEREST EARNINGS ASSETS:</b>  |                                   |                                |                             |                                   |                                |                             |
| Loans <sup>(1) (2)</sup>  | \$ 2,188,942                      | \$ 66,858                      | 6.11%                       | \$ 2,100,206                      | \$ 64,133                      | 6.11%                       |
| Securities available for sale <sup>(3)</sup>  | 560,395                           | 7,972                          | 2.85%                       | 477,424                           | 10,030                         | 4.20%                       |
| FRB and FHLB stock and other investments  | 154,134                           | 375                            | 0.49%                       | 158,692                           | 278                            | 0.35%                       |
| Federal funds sold  | 12,265                            | 49                             | 0.80%                       | 4,110                             | 28                             | 1.36%                       |
| Total interest earning assets   | \$ 2,915,736                      | \$ 75,254                      | 5.16%                       | \$ 2,740,432                      | \$ 74,469                      | 5.43%                       |
| <b>INTEREST BEARING LIABILITIES:</b>  |                                   |                                |                             |                                   |                                |                             |
| <b>Deposits:</b>  |                                   |                                |                             |                                   |                                |                             |
| Demand, interest-bearing  | \$ 548,078                        | \$ 2,894                       | 1.06%                       | \$ 379,905                        | \$ 4,681                       | 2.46%                       |
| Savings   | 135,177                           | 1,633                          | 2.42%                       | 114,609                           | 2,016                          | 3.52%                       |
| Time deposits:  |                                   |                                |                             |                                   |                                |                             |
| \$100,000 or more   | 681,367                           | 6,308                          | 1.85%                       | 629,474                           | 7,654                          | 2.43%                       |
| Other   | 536,127                           | 5,391                          | 2.01%                       | 700,963                           | 10,839                         | 3.09%                       |
| Total time deposits   | 1,217,494                         | 11,699                         | 1.92%                       | 1,330,437                         | 18,493                         | 2.78%                       |
| Total interest bearing deposits   | 1,900,749                         | 16,226                         | 1.71%                       | 1,824,951                         | 25,190                         | 2.76%                       |
| FHLB advances   | 350,000                           | 5,997                          | 3.43%                       | 359,252                           | 6,499                          | 3.62%                       |
| Other borrowings  | 40,350                            | 980                            | 4.86%                       | 37,985                            | 1,081                          | 5.69%                       |
| Total interest bearing liabilities  | 2,291,099                         | \$ 23,203                      | 2.03%                       | 2,222,188                         | \$ 32,770                      | 2.95%                       |
| Non-interest bearing demand deposits  | 340,329                           |                                |                             | 293,384                           |                                |                             |
| Total funding liabilities / cost of funds   | \$ 2,631,428                      |                                | 1.76%                       | \$ 2,515,572                      |                                | 2.61%                       |
| Net interest income/net interest spread   |                                   | \$ 52,051                      | 3.14%                       |                                   | \$ 41,699                      | 2.49%                       |
| Net interest margin   |                                   |                                | 3.57%                       |                                   |                                | 3.04%                       |
| Net interest margin, excluding effect of non-accrual loan income (expense) <sup>(4)</sup>                               |                                   |                                | 3.65%                       |                                   |                                | 3.08%                       |
| Net interest margin, excluding effect of non-accrual loan income (expense) and prepayment fee income <sup>(4) (5)</sup> |                                   |                                | 3.62%                       |                                   |                                | 3.06%                       |
| Cost of deposits:   |                                   |                                |                             |                                   |                                |                             |
| Non-interest demand deposits  | \$ 340,329                        | \$                             |                             | \$ 293,384                        | \$                             |                             |
| Interest bearing deposits   | 1,900,749                         | 16,226                         | 1.71%                       | 1,824,951                         | 25,190                         | 2.76%                       |
| Total deposits  | \$ 2,241,078                      | \$ 16,226                      | 1.45%                       | \$ 2,118,335                      | \$ 25,190                      | 2.38%                       |

\* Annualized

(1) Interest income on loans includes loan fees.

(2) Average balances of loans are net of deferred loan fees and costs and include nonaccrual loans and loans held for sale, but excludes the guaranteed portion of delinquent SBA loans.

(3) Interest income and yields are not presented on a tax-equivalent basis.

## Edgar Filing: NARA BANCORP INC - Form 10-Q

- (4) Non-accrual interest income reversed was \$1.1 million and \$560 thousand for the six months ended June 30, 2010 and 2009, respectively.
- (5) Loan prepayment fee income excluded was \$296 thousand and \$292 thousand for the six months ended June 30, 2010 and 2009, respectively.



**Table of Contents**

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

|                                | <b>Three months ended<br/>June 30, 2010 over June 30, 2009</b> |   |                   |
|--------------------------------|--|---|-------------------|
|                                | <b>Net<br/>Increase<br/>(Decrease)</b>                         | <b>Change due to<br/>Rate      Volume</b> |                   |
|                                | <b>(Dollars in thousands)</b>                                  |   |                   |
| <b>INTEREST INCOME :</b>       |  |   |                   |
| Interest and fees on loans     | \$ 1,049   | \$ (256)                                  | \$ 1,305          |
| Interest on securities         | (2,826)  | (2,144)                                   | (682)             |
| Interest on other investments  | (20)   | 106                                       | (126)             |
| Interest on federal funds sold | (20)   | (15)                                      | (5)               |
| <b>Total interest income</b>   | <b>\$ (1,817)</b>  | <b>\$ (2,309)</b>                         | <b>\$ 492</b>     |
| <b>INTEREST EXPENSE :</b>      |  |   |                   |
| Interest on demand deposits    | \$ (814)   | \$ (1,589)                                | \$ 775            |
| Interest on savings            | (180)  | (318)                                     | 138               |
| Interest on time deposits      | (6,092)  | (3,766)                                   | (2,326)           |
| Interest on FHLB borrowings    | (282)  | (282)                                     |                   |
| Interest on other borrowings   | 3  | (39)                                      | 42                |
| <b>Total interest expense</b>  | <b>\$ (7,365)</b>  | <b>\$ (5,994)</b>                         | <b>\$ (1,371)</b> |
| Net Interest Income            | \$ 5,548   | \$ 3,685                                  | \$ 1,863          |

|                                | <b>Six months ended<br/>June 30, 2010 over June 30, 2009</b> |   |                 |
|--------------------------------|--|---|-----------------|
|                                | <b>Net<br/>Increase<br/>(Decrease)</b>                       | <b>Change due to<br/>Rate      Volume</b> |                 |
|                                | <b>(Dollars in thousands)</b>                                |   |                 |
| <b>INTEREST INCOME :</b>       |  |   |                 |
| Interest and fees on loans     | \$ 2,725   | \$ 15                                     | \$ 2,710        |
| Interest on securities         | (2,058)  | (3,604)                                   | 1,546           |
| Interest on other investments  | 97   | 105                                       | (8)             |
| Interest on federal funds sold | 21   | (16)                                      | 37              |
| <b>Total interest income</b>   | <b>\$ 785</b>  | <b>\$ (3,500)</b>                         | <b>\$ 4,285</b> |
| <b>INTEREST EXPENSE :</b>      |  |   |                 |
| Interest on demand deposits    | \$ (1,787)   | \$ (3,342)                                | \$ 1,555        |
| Interest on savings            | (383)  | (704)                                     | 321             |
| Interest on time deposits      | (6,794)  | (5,329)                                   | (1,465)         |
| Interest on FHLB borrowings    | (502)  | (338)                                     | (164)           |
| Interest on other borrowings   | (101)  | (165)                                     | 64              |
| <b>Total interest expense</b>  | <b>\$ (9,567)</b>  | <b>\$ (9,878)</b>                         | <b>\$ 311</b>   |

Net Interest Income

\$ 10,352    \$ 6,378    \$ 3,974

---

**Table of Contents****Provision for Loan Losses**

The provision for loan losses reflects our judgment of the current period cost associated with credit risk inherent in our loan portfolio. The loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, assessments by management, third parties and regulators examination of the loan portfolio, the value of the underlying collateral on problem loans and the general economic conditions in our market areas. The provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that, in our judgment, is adequate to absorb probable incurred losses inherent in our loan portfolio. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses; however, actual loan losses may vary from current estimates. If the allowance for loan losses is inadequate, it could have a material adverse effect on our financial condition.

The provision for loan losses for the second quarter of 2010 was \$42.3 million, an increase of \$23.3 million, or 123%, from \$19.0 million for the same period last year. The increase in the provision for loan losses is primarily due to the charge offs taken on the loans that were transferred to loans held for sale at June 30, 2010 and to a lesser extent also due to the impact of enhancing the methodology for calculating the allowance for loan losses as discussed in Footnote 6 of the Notes to Condensed Consolidated Financial Statements (unaudited) and Financial Condition-Loans Receivable and Allowance for Loan Losses. The charge-offs were taken to reduce the carrying value of such loans to estimated current market value as the Bank no longer intends to hold such loans to maturity.

Net charge-offs increased to \$43.3 million for the second quarter of 2010, compared to \$19.2 million for the same period last year. Higher net charge-offs were primarily due to the loans transferred to loans held for sale as mentioned previously.

During the second quarter of 2010, the Company entered into an agreement with a loan sale advisor for assistance in selling approximately \$63.3 million of problem assets, resulting in additional loan charge offs and other valuation adjustments of \$26.7 million to mark such assets to estimated fair market value, less selling costs. The assets are being marketed under a competitive bidding process in which the Company determines what bids will be accepted. It is anticipated that the closing will occur before August 31, 2010.

The provision for loan losses for the six months ended June 30, 2010 was \$67.7 million, an increase of \$33.1 million, or 95%, from \$34.7 million for the same period last year. The increase is also due to the same reasons previously discussed for the second quarter.

Net charge-offs increased to \$64.2 million for the six months ended June 30, 2010, compared to \$27.8 million for the same period last year. The higher net charge-offs were primarily due to the previously mentioned transfer of loans to loans held for sale.

See also Footnote 6 of the Notes to Condensed Consolidated Financial Statements (unaudited) and Financial Condition-Loans Receivable and Allowance for Loan Losses for further discussion.

**Non-interest Income**

Non-interest income is primarily comprised of service fees on deposits accounts, fees received from our trade finance letter of credit operations and net gains on sales of loans and securities available for sale.

Non-interest income for the second quarter of 2010 was \$3.5 million, compared to \$3.8 million for the same quarter of 2009, a decrease of \$325 thousand, or 9%. The decrease was primarily due to an increase in the net valuation loss on interest rate caps of \$344 thousand and an increase in net loss on sales of OREO of \$383 thousand, partially offset by an increase in net gains on sales of SBA loans of \$297 thousand. During the second quarter of 2010, the net valuation loss on interest rate cap contracts was \$495 thousand, compared to \$151 thousand during the same period of 2009. During the second quarter of 2010, we sold four OREO properties totaling \$6.2 million with net losses of \$567 thousand. Net gains on sales of SBA loans for the second quarter of 2010 were \$329 thousand, compared to \$0 for the same quarter of 2009. The net gains recognized in the second quarter were from the deferred gains on \$4.1 million of SBA loans sold in the first quarter. During the second quarter of 2010, we sold \$3.3 million of SBA loans with deferred gains of \$249 thousand, which will be recognized in the third quarter of 2010.

**Table of Contents**

Non-interest income for the six months ended June 30, 2010 was \$12.8 million compared to \$8.2 million for the same period of 2009, an increase of \$4.7 million, or 58%. The increase was primarily due to an increase in net gains on sales of securities available for sale of \$5.4 million, partially offset by an increase in net valuation loss on interest rate swaps of \$459 thousand. During the six months ended June 30, 2010, we sold \$201.8 million in securities available for sale at net gains of \$6.3 million. During the same period in 2009, we sold \$42.9 million in securities available for sale at net gains of \$1.0 million. During the six months ended June 30, 2010, the net valuation loss on interest rate contracts was \$726 thousand, compared to \$267 thousand during the same period of 2009.

The breakdown of changes in our non-interest income by category is shown below:

|  | Three Months Ended<br>June 30, |                 | Increase (Decrease) |              |
|--|--------------------------------|-----------------|---------------------|--------------|
|  | 2010                           | 2009            | Amount              | Percent (%)  |
|  | (Dollars in thousands)         |                 |                     |              |
| Service fees on deposit accounts                 | \$ 1,572                       | \$ 1,698        | \$ (126)            | -7.4%        |
| International service fees                       | 613                            | 491             | 122                 | 24.8%        |
| Loan servicing fees, net                         | 443                            | 469             | (26)                | -5.5%        |
| Wire transfer fees                               | 302                            | 334             | (32)                | -9.6%        |
| Other income and fees                            | 517                            | 366             | 151                 | 41.3%        |
| Net gains on sales of SBA loans                  | 329                            | 32              | 297                 | 928.1%       |
| Net losses on sales of other loans               | 650                            | 510             | 140                 | 27.5%        |
| Net gains on sales securities available for sale | 96                             | 220             | (124)               | -56.4%       |
| Net valuation losses on interest rate contracts  | (495)                          | (151)           | (344)               | -227.8%      |
| Net gains (losses) on sale of OREO               | (567)                          | (184)           | (383)               | -208.2%      |
| <b>Total non-interest income</b>                 | <b>\$ 3,460</b>                | <b>\$ 3,785</b> | <b>\$ (325)</b>     | <b>-8.6%</b> |

|  | Six Months Ended<br>June 30, |                 | Increase (Decrease) |              |
|--|------------------------------|-----------------|---------------------|--------------|
|  | 2010                         | 2009            | Amount              | Percent (%)  |
|  | (Dollars in thousands)       |                 |                     |              |
| Service fees on deposit accounts                 | \$ 3,191                     | \$ 3,467        | \$ (276)            | -8.0%        |
| International service fees                       | 1,152                        | 911             | 241                 | 26.5%        |
| Loan servicing fees, net                         | 900                          | 944             | (44)                | -4.7%        |
| Wire transfer fees                               | 595                          | 686             | (91)                | -13.3%       |
| Other income and fees                            | 870                          | 726             | 144                 | 19.8%        |
| Net gains on sales of SBA loans                  | 372                          | 95              | 277                 | 291.6%       |
| Net losses on sales of other loans               | 650                          | 897             | (247)               | -27.5%       |
| Net gains on sales securities available for sale | 6,392                        | 1,005           | 5,387               | 536.0%       |
| Net valuation losses on interest rate contracts  | (726)                        | (267)           | (459)               | -171.9%      |
| Net gains (losses) on sale of OREO               | (552)                        | (314)           | (238)               | -75.8%       |
| <b>Total non-interest income</b>                 | <b>\$ 12,844</b>             | <b>\$ 8,150</b> | <b>\$ 4,694</b>     | <b>57.6%</b> |

**Non-interest Expense**

Non-interest expense for the second quarter of 2010 was \$16.0 million, a decrease of \$855 thousand, or 5%, compared to \$16.8 million for the same quarter of 2009. The decrease was primarily due to decreases in the FDIC assessment and salaries and benefits expense, partially offset by an increase in credit related expense. The FDIC assessment was lower during second quarter 2010, compared to the same quarter 2009, primarily due to the one-time assessment of \$1.47 million paid on June 30, 2009. Excluding the one-time assessment, the FDIC insurance assessment increased \$218 thousand, or 22%, due to an increase in the assessment rate, offset by the decrease in average deposit balances. Salaries and employee benefits expense decreased to \$6.0 million, a decrease of \$574 thousand, or 9%, for the second quarter of 2010, compared to \$6.6 million for the same quarter of 2009. The decrease is primarily due to decreases in stock compensation expense and in the number of full-time equivalent employees, which decreased to 347 at June 30, 2010 from 368 at June 30, 2009. The decrease in stock compensation expense is primarily due to the completed amortization of stock compensation costs over the vesting period of certain stock options and grants. Credit

## Edgar Filing: NARA BANCORP INC - Form 10-Q

related expense increased \$756 thousand, or 77%, to \$1.7 million for second quarter 2010, compared to \$986 thousand for the same period last year. The increase was primarily due to increases in OREO valuation allowances and the increase in the allowance for unfunded loan commitments.

**Table of Contents**

Non-interest expense for the six months ended June 30, 2010 was \$30.2 million, a decrease of \$1.9 million, or 6%, compared to \$32.1 million for the same period of 2009. The decrease was primarily due to decreases in the FDIC assessment and salaries and benefits expense, partially offset by increases in furniture and equipment expense and professional fees. The FDIC assessment and salaries and benefits expense were lower for the reasons mentioned previously. The increase of \$231 thousand in furniture and equipment expense was due to the increase in IT related expenditures. The increase of \$352 thousand in professional fees is primarily due to the services we outsourced, including temporary staffing, search fees for directors and the CFO position, and system conversion consulting fees.

The breakdown of changes in non-interest expense by category is shown below:

|                                    | Three Months Ended June 30, |           | Increase (Decrease) |             |
|------------------------------------|-----------------------------|-----------|---------------------|-------------|
|                                    | 2010                        | 2009      | Amount              | Percent (%) |
|                                    | (Dollars in thousands)      |           |                     |             |
| Salaries and employee benefits     | \$ 5,977                    | \$ 6,551  | \$ (574)            | -8.8%       |
| Occupancy                          | 2,424                       | 2,484     | (60)                | -2.4%       |
| Furniture and equipment            | 884                         | 736       | 148                 | 20.1%       |
| Advertising and marketing          | 612                         | 505       | 107                 | 21.2%       |
| Data processing and communications | 1,051                       | 990       | 61                  | 6.2%        |
| Professional fees                  | 756                         | 428       | 328                 | 76.6%       |
| FDIC assessment                    | 1,191                       | 2,446     | (1,255)             | -51.3%      |
| Credit related expenses            | 1,742                       | 986       | 756                 | 76.7%       |
| Other                              | 1,330                       | 1,696     | (366)               | -21.6%      |
| Total non-interest expense         | \$ 15,967                   | \$ 16,822 | \$ (855)            | -5.1%       |

|                                    | Six Months Ended June 30, |           | Increase (Decrease) |             |
|------------------------------------|---------------------------|-----------|---------------------|-------------|
|                                    | 2010                      | 2009      | Amount              | Percent (%) |
|                                    | (Dollars in thousands)    |           |                     |             |
| Salaries and employee benefits     | \$ 11,570                 | \$ 12,994 | \$ (1,424)          | -11.0%      |
| Occupancy                          | 4,851                     | 4,910     | (59)                | -1.2%       |
| Furniture and equipment            | 1,662                     | 1,431     | 231                 | 16.1%       |
| Advertising and marketing          | 1,071                     | 962       | 109                 | 11.3%       |
| Data processing and communications | 1,984                     | 1,891     | 93                  | 4.9%        |
| Professional fees                  | 1,458                     | 1,106     | 352                 | 31.8%       |
| FDIC assessment                    | 2,558                     | 3,196     | (638)               | -20.0%      |
| Credit related expenses            | 2,305                     | 2,474     | (169)               | -6.8%       |
| Other                              | 2,692                     | 3,106     | (414)               | -13.3%      |
| Total non-interest expense         | \$ 30,151                 | \$ 32,070 | \$ (1,919)          | -6.0%       |

**Provision for Income Taxes**

The income tax benefit was \$12.1 million and \$4.8 million for the second quarter ended June 30, 2010 and 2009, respectively. The effective income tax rate for the quarters ended June 30, 2010 and 2009 was 43.3% and 44.3%, respectively. The income tax benefit was \$14.6 million and \$7.7 million for the six months ended June 30, 2010 and 2009, respectively. The effective income tax rate for the six months ended June 30, 2010 and 2009 was 44.2% and 45.6%, respectively.

**Table of Contents****Financial Condition**

At June 30, 2010, our total assets were \$2.9 billion, a decrease of \$326.9 million, or 10%, from \$3.23 billion at December 31, 2009. The decrease was primarily due to a 12% decrease in deposits.

**Investment Securities Portfolio**

As of June 30, 2010, we had \$426.2 million in available-for-sale securities, compared to \$782.7 million of such securities at December 31, 2009. The net unrealized gain on the available-for sale securities at June 30, 2010 was \$8.8 million, compared to a net unrealized gain on such securities of \$4.8 million at December 31, 2009. During the six months ended June 30, 2010, we sold \$201.8 million in various available-for-sale agency debt and mortgage related securities, and recognized gross gains of \$6.3 million. No purchases were made during the six months ended June 30, 2010. The sales of securities were part of our on-going asset liability management strategy to rebalance the duration and mix of the investment securities portfolio and to hold higher levels of cash to cover anticipated outflows of time deposits.

**Loan Portfolio**

As of June 30, 2010, gross loans outstanding, net of deferred loan fees and costs and excluding loans held for sale and the guaranteed portion of delinquent SBA loans, decreased by \$97.9 million, or 4.4%, to \$2.11 billion from \$2.21 billion at December 31, 2009. Loan originations were impacted by stricter loan underwriting criteria and decreased loan demand during the year. New loan production during the six months ended June 30, 2010 was \$150.3 million, compared to \$143.3 million during the same period of 2009.

The following table summarizes our loan portfolio by amount and percentage of gross loans in each major loan category at the dates indicated:

|  | June 30, 2010 |         | December 31, 2009 |         |
|--|---------------|---------|-------------------|---------|
|  | Amount        | Percent | Amount            | Percent |
| (In thousands)   |               |         |                   |         |
| <b>Loan portfolio composition</b>                                      |               |         |                   |         |
| Real estate loans:   |               |         |                   |         |
| Residential  | \$ 4,701      | 0%      | \$ 4,801          | 0%      |
| Commercial & industrial  | 1,504,099     | 71%     | 1,595,219         | 72%     |
| Construction   | 55,827        | 3%      | 54,084            | 2%      |
| Total real estate loans  | 1,564,627     | 74%     | 1,654,104         | 74%     |
| Commercial business  | 480,811       | 23%     | 487,736           | 22%     |
| Trade finance  | 50,777        | 2%      | 51,411            | 3%      |
| Consumer and other   | 17,149        | 1%      | 18,035            | 1%      |
| Total loans outstanding  | 2,113,364     | 100%    | 2,211,286         | 100%    |
| Less: deferred loan fees   | (2,491)       |         | (2,343)           |         |
| Gross loans receivable   | 2,110,873     |         | 2,208,943         |         |
| Less: allowance for loan losses  | (62,988)      |         | (59,424)          |         |
| Loans receivable, excluding guaranteed portion of delinquent SBA loans | 2,047,885     |         | 2,149,519         |         |
| Guaranteed portion of delinquent SBA loans                             | 15,841        |         | 12,490            |         |
| Loans receivable, net  | \$ 2,063,726  |         | \$ 2,162,009      |         |

**Table of Contents**

SBA loans, consisting principally of the unguaranteed portion, are included in commercial business loans and commercial and industrial real estate loans. SBA loans included in commercial business loans were \$31.5 million at June 30, 2010 and \$36.0 million at December 31, 2009 and SBA loans included in commercial and industrial real estate loans were \$52.3 million at June 30, 2010 and \$54.7 million at December 31, 2009.

We normally do not extend lines of credit or make loan commitments to business customers for periods in excess of one year. We use the same credit policies in making commitments and conditional obligations as we do for providing loan facilities to our customers. We perform annual reviews of such commitments prior to renewal.

The following table shows our loan commitments and letters of credit outstanding at the dates indicated:

|                                    | June 30, 2010          | December 31, 2009 |
|------------------------------------|------------------------|-------------------|
|                                    | (Dollars in thousands) |                   |
| Loan commitments                   | \$ 172,617             | \$ 198,807        |
| Standby letters of credit          | 11,418                 | 9,907             |
| Other commercial letters of credit | 39,805                 | 23,575            |
|                                    | \$ 223,840             | \$ 232,289        |

**Non-performing Assets**

At June 30, 2010, nonperforming assets, which include non-accrual loans, loans past due 90 days or more and still accruing interest, restructured loans, and other real estate owned, were \$86.7 million, a decrease of \$31.4 million, or 26.6%, from \$118.1 million at December 31, 2009. The decline in nonperforming assets is due primarily to the \$63.3 million of problem assets transferred to loans held for sale as a result of the Company's decision to sell those assets through a loan sale advisor. Accruing troubled debt restructured loans included in non-performing assets decreased \$30.4 million to \$34.0 million at June 30, 2010, from \$64.3 million at December 31, 2009 due primarily to the loans transferred to loans held for sale. The ratio of nonperforming assets to gross loans plus OREO was 4.10% and 5.34% at June 30, 2010 and December 31, 2009, respectively. Non-performing loans decreased \$3.7 million during the six months ended June 30, 2010.

The following table summarizes the composition of our nonperforming assets as of the dates indicated.

|   | June 30,<br>2010       | December 31,<br>2009 |
|---|------------------------|----------------------|
|   | (Dollars in thousands) |                      |
| Nonaccrual loans  | \$ 46,174              | \$ 51,674            |
| Loans past due 90 days or more, still accruing                            | 1,845                  |                      |
| <b>Total Nonperforming Loans</b>  | <b>48,019</b>          | <b>51,674</b>        |
| Other real estate owned   | 4,709                  | 2,044                |
| Restructured loans  | 33,950                 | 64,341               |
| <b>Total Nonperforming Assets*</b>  | <b>\$ 86,678</b>       | <b>\$ 118,059</b>    |
| Nonperforming loans to total gross loans**, excluding loans held for sale | 2.27%                  | 2.34%                |
| Nonperforming assets to gross loans plus OREO                             | 4.10%                  | 5.34%                |

\* Excludes \$36.0 million in substandard non-accrual loans classified as loans held for sale at June 30, 2010.

\*\* Excludes the guaranteed portion of delinquent SBA loans for the amounts indicated at each period as these are 100% guaranteed by the SBA.

**Allowance for Loan Losses**



## Edgar Filing: NARA BANCORP INC - Form 10-Q

The allowance for loan losses was \$63.0 million at June 30, 2010, compared to \$59.4 million at December 31, 2009. We recorded a provision for loan losses of \$67.7 million during the six months ended June 30, 2010, compared to \$34.7 million for the same period of 2009. The allowance for loan losses was 2.98% of gross loans at June 30, 2010 and 2.69% of gross loans at December 31, 2009. Impaired loans as defined by FASB ASC 310-10-35, Accounting by Creditors for Impairment of a Loan, totaled \$90.9 million and \$120.5 million, respectively as of June 30, 2010 and December 31, 2009, with specific allowances of \$15.7 million and \$19.8 million, respectively.

**Table of Contents**

Total delinquent loans and watch list loans, at June 30, 2010 and December 31, 2009, were as follows:

|                                  | 6/30/2010        | 12/31/2009       |
|----------------------------------|------------------|------------------|
| <b>DELINQUENT LOANS BY TYPE*</b> |                  |                  |
| Real estate loans                | \$ 37,501        | \$ 52,660        |
| Commercial business loans        | 16,194           | 15,303           |
| Consumer loans                   | 638              | 1,514            |
| <b>Total Delinquent Loans</b>    | <b>\$ 54,333</b> | <b>\$ 69,477</b> |

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

|                               | 6/30/2010         | 12/31/2009        |
|-------------------------------|-------------------|-------------------|
| <b>WATCH LIST LOANS</b>       |                   |                   |
| Special Mention               | \$ 46,449         | \$ 42,671         |
| Substandard                   | 116,069           | 153,535           |
| Doubtful                      | 783               | 3,655             |
| Loss                          |                   |                   |
| <b>Total Watch List Loans</b> | <b>\$ 163,301</b> | <b>\$ 199,861</b> |

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:

| Loan Type                           | Allocation of Allowance for Loan Losses |             |                  |             |
|-------------------------------------|---|-------------|------------------|-------------|
|                                     | 6/30/2010                               |             | 12/31/2009       |             |
|                                     | Amount                                  | %           | Amount           | %           |
| (Dollars in thousands)              |   |             |                  |             |
| Residential real estate             | \$ 17                                   | 0%          | \$ 18            | 0%          |
| Commercial & industrial real estate | 33,854                                  | 71%         | 41,045           | 73%         |
| Construction                        | 3,512                                   | 3%          | 913              | 2%          |
| Commercial business loans           | 23,944                                  | 23%         | 15,655           | 22%         |
| Trade finance                       | 190                                     | 2%          | 410              | 2%          |
| Consumer and other                  | 1,471                                   | 1%          | 940              | 1%          |
| Unallocated                         |   | N/A         | 443              | N/A         |
| <b>Total</b>                        | <b>\$ 62,988</b>                        | <b>100%</b> | <b>\$ 59,424</b> | <b>100%</b> |

The percentage allocation of the allowance for loan losses during the six months ended June 30, 2010 changed primarily due to the loans transferred to loans held for sale and enhancement to the reserve methodology discussed in Footnote 6 of the Notes to Condensed Consolidated Financial Statements (unaudited) and Financial Condition-Loans Receivable and Allowance for Loan Losses.

**Table of Contents**

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

|  | <b>Six months ended June 30,</b> |              |
|--|----------------------------------|--------------|
|  | <b>2010</b>                      | <b>2009</b>  |
|  | <b>(Dollars in thousands)</b>    |              |
| <b>LOANS <sup>(1)</sup></b>  |                                  |              |
| Average gross loans, including loans held for sale   | \$ 2,188,942                     | \$ 2,100,206 |
| Gross loans, excluding loans held for sale, the guaranteed portion of delinquent SBA loans and net of deferred loan fees and costs, at end of period | \$ 2,110,873                     | \$ 2,080,312 |
| <b>ALLOWANCE:</b>  |                                  |              |
| Balance-beginning of period  | \$ 59,424                        | \$ 43,419    |
| Less: Loan charge-offs:  |                                  |              |
| Residential real estate  | 119                              |              |
| Commercial & industrial real estate  | 46,513                           | 9,080        |
| Construction   | 1,274                            | 5,617        |
| Commercial business loans  | 16,747                           | 11,852       |
| Trade finance  |                                  | 92           |
| Consumer and other loans   | 1,082                            | 1,443        |
|  | 65,735                           | 28,084       |
| Plus: Loan recoveries  |                                  |              |
| Commercial & industrial real estate  | 208                              | 166          |
| Commercial business loans  | 1,302                            | 132          |
| Consumer and other loans   | 59                               | 36           |
|  | 1,569                            | 334          |
| Net loan charge-offs   | 64,166                           | 27,750       |
| Provision for loan losses  | 67,730                           | 34,670       |
| Balance-end of period  | \$ 62,988                        | \$ 50,339    |
| Net loan charge-offs to average gross loans *  | 5.86%                            | 2.64%        |
| Allowance for loan losses to total loans at end of period  | 2.98%                            | 2.42%        |
| Net loan charge-offs to beginning allowance *  | 215.96%                          | 127.82%      |
| Net loan charge-offs to provision for loan losses  | 94.74%                           | 80.04%       |

\* Annualized

(1) Total loans are net of deferred loan fees and costs of \$2.5 million and \$1.6 million at June 30, 2010 and 2009, respectively. They also exclude the guaranteed portion of delinquent SBA loans of \$15.8 million and \$19.8 million at June 30, 2010 and 2009.

**Table of Contents**

We believe the allowance for loan losses as of June 30, 2010 is adequate to absorb probable incurred losses in the loan portfolio. However, no assurance can be given that actual losses will not exceed the estimated amounts.

For further discussion of changes to the allowance for loan losses, see Note 6, Loans Receivable and Allowance for Loan Losses in the Notes to Condensed Consolidated Financial Statements (unaudited), included in Item 1. Financial Statements.

**Deposits and Other Borrowings**

**Deposits.** Deposits are our primary source of funds used in our lending and investment activities. At June 30, 2010, our deposits had decreased by \$303.8 million, or 12.5%, to \$2.13 billion from \$2.43 billion at December 31, 2009. The decrease was primarily due to runoff of matured retail jumbo time deposits as we offered lower renewal interest rates. Most of the runoff was from the deposits raised during the 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 weighted average cost of such deposits decreased 153 basis points to 1.52% at June 30, 2010. The decrease in retail jumbo CDs was offset by increases primarily in non-jumbo CDs and money market accounts. Retail deposits totaled \$1.80 billion at June 30, 2010, a decrease of \$433 million, or 19.4%, from \$2.23 billion at December 31, 2009. Interest-bearing demand deposits, including money market and Super Now accounts, totaled \$600.0 million at June 30, 2010, an increase of \$75.8 million, or 14.5%, from \$524.2 million at December 31, 2009. Total jumbo time deposits were \$386.6 million, a decrease of \$546.1 million, or 58.5%, from \$932.7 million at December 31, 2009.

At June 30, 2010, 16.1% of total deposits were non-interest bearing demand deposits, 49.4% were time deposits and 34.5% were interest bearing demand and saving deposits. By comparison, at December 31, 2009, 13.6% of total deposits were non-interest bearing demand deposits, 59.3% were time deposits, and 27.1% were interest bearing demand and saving deposits. Time deposits continued to dominate our deposit composition; however, our focus on transaction accounts has helped to reduce our dependency on time deposits.

At June 30, 2010, we had \$145.6 million in brokered deposits and \$200.0 million in California State Treasurer deposits, compared to \$18.1 million and \$200.0 million at December 31, 2009, respectively. The California State Treasurer deposits have three-month maturities with a weighted average interest rate of 0.21% at June 30, 2010 and were collateralized with securities with a carrying value of \$250.8 million.

The following is a schedule of CD maturities as of June 30, 2010.:

**Maturity Schedule of Time Deposits**

(in millions)

| Quarter Ending         | Balance* | Weighted Average Interest Rate |
|------------------------|----------|--------------------------------|
| September 30, 2010     | \$ 115   | 1.48%                          |
| December 31, 2010      | 109      | 1.59%                          |
| March 31, 2011         | 135      | 1.61%                          |
| June 30, 2011          | 86       | 1.42%                          |
| Total one year or less | 445      | 1.53%                          |
| Over one year          | 275      | 1.82%                          |
| Total time deposits    | \$ 720   | 1.64%                          |

\* Excludes wholesale time deposits

---

## **Table of Contents**

**Other Borrowings.** Advances may be obtained from the FHLB as an alternative source of funds. Advances from the FHLB are typically secured by a pledge of commercial real estate loans and/or securities with a market value at least equal to the outstanding advances plus our investment in FHLB stock.

At June 30, 2010 and December 31, 2009, we had \$350.0 million of FHLB advances with average remaining maturities of 2.4 years. The weighted average rate was 3.42% and 3.46% at June 30, 2010 and at December 31, 2009, respectively.

At June 30, 2010 and December 31, 2009, five wholly-owned subsidiary grantor trusts established at various times by Nara Bancorp 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. The trusts used the net proceeds from their respective offerings 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 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 redemption prices specified in the indentures plus any accrued but unpaid interest to the redemption date.

### **Off-Balance-Sheet Activities and Contractual Obligations**

We routinely engage 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 could 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.

We enter into interest rate swap contracts under which we are required to either receive cash from or pay cash to counterparties depending on changes in interest rates. We also purchase interest rate caps to protect against increases in market interest rates. We utilize interest rate swap contracts and interest rate caps to help manage the risk of changing interest rates.

We do not anticipate that our current off-balance-sheet activities will have a material impact on our future results of operations or our financial condition. Further information regarding our financial instruments with off-balance-sheet risk can be found in Item 3 Quantitative and Qualitative Disclosures about Market Risk .

We continue lease our banking facilities and equipment under non-cancelable operating leases under which we must make monthly payments over periods up to 30 years.

### **Stockholders Equity and Regulatory Capital**

To ensure adequate levels of capital, we manage our capital needs as part of our strategic planning process, which includes a capital policy and a capital plan. We consider the capital levels required by law as a starting point, and set initial target capital ratios, based on a risk assessment of the Bank's operations. Our capital policy specifies the sources of additional capital should the Company decide to increase capital.

**Table of Contents**

Total stockholders' equity was \$351.6 million at June 30, 2010 compared to \$368.0 million at December 31, 2009. The decrease was primarily due to the net loss to common stockholders of \$20.6 million for the six months ended June 30, 2010. Our ratio of tangible common equity to tangible assets was 9.74% at June 30, 2010, compared to 9.27% at December 31, 2009. The increase was attributable to the decrease in tangible assets.

The federal banking agencies require a minimum ratio of qualifying total capital to risk-weighted assets of 8% and a minimum ratio of Tier I capital to risk-weighted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier I capital to average total assets, referred to as the leverage ratio. Capital requirements apply to the Company and the Bank separately. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At June 30, 2010, our Tier I capital, defined as stockholders' equity less intangible assets, plus proceeds from the trust preferred securities (subject to limitations), was \$380.9 million, compared to \$399.4 million at December 31, 2009, representing a decrease of \$18.5 million, or 4.6%. This decrease was primarily due to the net loss to common stockholders of \$20.6 million for the six months ended June 30, 2010. At June 30, 2010, the total capital to risk-weighted assets ratio was 18.0% and the Tier I capital to risk-weighted assets ratio was 16.7%. The Tier I leverage capital ratio was 13.2%.

As of June 30, 2010 and December 31, 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 capital ratios as set forth in the table below.

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

|   | Actual     |       | Required<br>For Capital<br>Adequacy Purposes |       | Required<br>To Be Well<br>Capitalized under<br>Prompt Corrective<br>Action Provisions |       |
|---|------------|-------|--|-------|---|-------|
|   | Amount     | Ratio | Amount                                       | Ratio | Amount  | Ratio |
| <b>As of June 30, 2010:</b>               |            |       |  |       |   |       |
| Total capital (to risk-weighted assets):  |            |       |  |       |   |       |
| Company                                   | \$ 409,929 | 18.0% | \$ 182,684                                   | 8.0%  | N/A   | N/A   |
| Bank                                      | \$ 393,794 | 17.3% | \$ 182,435                                   | 8.0%  | \$ 228,044  | 10.0% |
| Tier I capital (to risk-weighted assets): |            |       |  |       |   |       |
| Company                                   | \$ 380,890 | 16.7% | \$ 91,342                                    | 4.0%  | N/A   | N/A   |
| Bank                                      | \$ 364,794 | 16.0% | \$ 91,218                                    | 4.0%  | \$ 136,827  | 6.0%  |
| Tier I capital (to average assets):       |            |       |  |       |   |       |
| Company                                   | \$ 380,890 | 13.2% | \$ 115,852                                   | 4.0%  | N/A   | N/A   |
| Bank                                      | \$ 364,794 | 12.6% | \$ 115,739                                   | 4.0%  | \$ 144,673  | 5.0%  |

**Table of Contents**

|   | Actual     |       | Required<br>For Capital<br>Adequacy Purposes |       | Required<br>To Be Well<br>Capitalized under<br>Prompt Corrective<br>Action Provisions |       |
|---|------------|-------|--|-------|---|-------|
|   | Amount     | Ratio | Amount                                       | Ratio | Amount  | Ratio |
| <b>As of December 31, 2009:</b>           |            |       |  |       |   |       |
| 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 and regulations, 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 their prior written approval to pay any dividends.

**Liquidity Management**

Liquidity risk is the risk to earnings or capital that would arise if we were to become unable to meet our obligations when they come due without incurring unacceptable losses. Liquidity risk includes the possibility of having to manage unplanned decreases or changes in funding sources and to recognize or address changes in market conditions that affect our ability to liquidate assets quickly and with a minimum loss of value or to access other sources of cash. Factors considered in liquidity risk management are stability of the deposit base, marketability, maturity, and our ability to pledge investments, the availability of alternative sources of funds, and the demand for credit. We manage liquidity risk by managing interest-earning assets and interest-bearing liabilities, and by maintaining alternative sources of funds as described below.

Our sources of liquidity are derived from financing activities, which include customer and broker deposits, federal funds facilities, deposits from the California State Treasurer, advances from the Federal Home Loan Bank of San Francisco and borrowings from the Federal Reserve Bank. In addition, these funding sources are augmented by payments of principal and interest on loans and the routine liquidation of securities from our available-for-sale portfolio. Our uses of funds include withdrawal of and interest payments on deposits, repayments of borrowed funds, originations of loans, purchases of investment securities, purchases of premises and equipment, payment of dividends and payment of operating expenses.

At June 30, 2010, our total borrowing capacity from the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank was \$818 million, of which \$468 million was available to borrow. In addition to these lines, our liquid assets include cash and due from banks, federal funds sold, and available-for-sale securities that are not pledged as collateral. The carrying value of these assets totaled \$379 million at June 30, 2010 compared to \$659 million at December 31, 2009. (See also discussion under Financial Condition – Investment Securities Portfolio.) We believe our liquidity sources are stable and adequate.

---

**Table of Contents****Item 3. 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 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 also use risk management instruments to modify interest rate characteristics of certain assets and liabilities to hedge against our exposure to interest rate fluctuations with the objective of, reducing the effects these fluctuations might have on associated cash flows or values. Finally, we perform internal analyses to measure, evaluate and monitor risk.

***Interest Rate Risk***

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

Market risk is the risk of adverse impacts on our future earnings, the fair values of our assets and liabilities, or our future cash flows that may result from changes in the price of a financial instrument. The fundamental objective of our ALCO is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. Our ALCO meets regularly to monitor interest rate risk, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of our assets and liabilities, and our investment activities. It also directs changes in the composition of our assets and liabilities. 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. Furthermore, 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.

***Interest Rate Sensitivity***

We monitor interest rate risk through the use of a simulation model that provides us with the ability to simulate our net interest income. In order to measure, at June 30, 2010, the sensitivity of our forecasted net interest income to changing interest rates, both 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 immediate and parallel changes in market interest rates.



**Table of Contents**

The impacts on our net interest income and market value of equity exposed to immediate and parallel hypothetical changes in market interest rates as projected by the model we use for this purpose are illustrated in the following table.

| Simulated Rate Changes | June 30, 2010                             |                                   | December 31, 2009                         |                                   |
|------------------------|---|-----------------------------------|---|-----------------------------------|
|                        | Estimated Net Interest Income Sensitivity | Market Value of Equity Volatility | Estimated Net Interest Income Sensitivity | Market Value of Equity Volatility |
| + 200 basis points     | (5.98%)                                   | (2.45%)                           | (6.47%)                                   | (10.29%)                          |
| + 100 basis points     | (3.8%)                                    | (0.60%)                           | (4.06%)                                   | (4.31%)                           |
| - 100 basis points     | 3.48%                                     | (0.41%)                           | 2.35%                                     | 1.89%                             |
| - 200 basis points     | (0.02%)                                   | (1.21%)                           | (1.61%)                                   | 1.77%                             |

The results obtained from using the simulation model are somewhat uncertain as the model does not take into account other impacts or changes and the effect they could have on Company's business or changes in business strategy the Company might make in reaction to changes in the interest rate environment.

**Item 4. Controls and Procedures****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 Acting 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 Securities Exchange Act of 1934) for the period ended June 30, 2010. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer determined that our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Chung Lawsuit described in the Company's Form 10-K for the period ended December 31, 2009 is continuing. The Company filed a motion for summary judgment in March 2010.

**Item 1A. Risk Factors**

There were no material changes from risk factors previously disclosed in our 2009 Annual Report on Form 10-K, except for further operating losses could require us to establish a valuation allowance on our deferred tax assets. (See Footnote 11 of the Notes to Condensed Consolidated Financial Statements (unaudited) and Financial Condition-Income Taxes for further discussion.)

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Reserved**

**Item 5. Other Information**

None

**Item 6. Exhibits**

See Index to Exhibits .

**Table of Contents**

**SIGNATURES**

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

**NARA BANCORP, INC.**

Date: August 9, 2010

/s/ Alvin D. Kang  
Alvin D. Kang  
President, Chief Executive Officer and  
Acting Chief Financial Officer (Principal financial officer)

**Table of Contents**

**INDEX TO EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.1                       | Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on June 5, 2000 (incorporated herein by reference to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission ( SEC ) on November 16, 2000)     |
| 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)     |
| 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 Registration Statement 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 Registration Statement on DEF14 A, 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 Registration Statement on DEF14 A, Appendix C filed with the SEC on April 19, 2007)       |
| 3.6                       | Amended and Restated Bylaws of Nara Bancorp, Inc. (incorporated herein by reference to Current Report on Form 8-K Exhibit 3.1 filed with the SEC on December 28, 2007)  |
| 31.1                      | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*   |
| 31.2                      | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act 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*   |

\* **Filed herewith**