NARA BANCORP INC
Form 10-K
March 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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 # 000-50245

NARA BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**95-4849715**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification Number)**

3731 Wilshire Boulevard

Suite 1000

Los Angeles, California 90010

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (213) 639-1700

Securities registered pursuant to Section 12(b) of the Act

Title of Class	Name of Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x 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 Act). Yes ¨ No x

The aggregate market value of the Common Stock held by non-affiliates of the Registrant based upon the closing sale price of the Common Stock as of the last business day of the Registrant s most recently completed second fiscal quarter, June 30, 2007, as reported on the NASDAQ Global Market, was approximately $415,503,135.

Number of shares outstanding of the Registrant s Common Stock as of February 29, 2008: 26,193,672

Documents Incorporated by Reference: Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders Part III

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PART I

Forward-Looking Information

Some statements in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our mission and vision. Forward-looking statements include, but are not limited to, statements preceded by, followed by or that include the word will, believes, expects, anticipates, intends, plans, estimates or similar expressions. These statements involve risks and uncertainties. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in such forward-looking statements. For a more detailed discussion of factors that might cause such a difference, see Item 1A, Risk Factors . The Company does not undertake, and specifically disclaims any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

Item 1. *BUSINESS*

General

Nara Bancorp, Inc. (Nara Bancorp, on a parent-only basis, and we or our on a consolidated basis) is a bank holding company headquartered in Los Angeles, California. We offer a full range of commercial banking and to a lesser extent, consumer financial services through our wholly owned subsidiary, Nara Bank, a California state-chartered bank (the Bank or Nara Bank). Nara Bank primarily focuses its business in Korean communities in California and in the New York City metropolitan area. Our headquarters are located at 3731 Wilshire Boulevard, Suite 1000, Los Angeles, California 90010, and our telephone number at that address is (213) 639-1700.

Nara Bancorp is registered as a bank holding company and is regulated in that capacity by the Board of Governors of the Federal Reserve System (the FRB). Nara Bancorp was organized for the purpose of becoming the holding company for Nara Bank through a corporate reorganization that was completed in January 2005. Nara Bank s deposits are insured by the Federal Deposit Insurance Corporation (FDIC), up to applicable limits, and Nara Bank is a member of the Federal Reserve System.

Nara Bank opened for business in June 1989 under the name United Citizens National Bank as a national banking association, was renamed Nara Bank, National Association in January 1994, and, in January 2005, became Nara Bank upon converting to a California state-chartered bank in connection with its holding company reorganization transaction.

Nara Bank has supplemented its internal growth through strategic acquisitions in its primary market areas in California and New York. These have included:

- Purchases of a banking office in Flushing, New York, a bank with three banking offices in Manhattan, Jackson Heights and Flushing, New York, and certain loans and deposits of a third bank in New York in 1998, 2000 and 2002, respectively. In these transactions, Nara Bancorp acquired a total of approximately $138.3 million in deposits and $41.8 million in net loans.

- The acquisition in August 2003, for 852,000 shares of Nara Bancorp common stock, of Asiana Bank in Northern California, with net loans of approximately $22.4 million, deposits of $29.3 million and two banking offices, which were consolidated with existing Nara Bank offices shortly after the acquisition.

- The purchase in October 2003 of approximately $39.5 million in loans and $46.2 million in deposits from the Broadway branch of Korea Exchange Bank in New York.

Further information regarding these transactions is included in Note 5 to Notes to Consolidated Financial Statements contained elsewhere herein.

At December 31, 2007, the Bank had two wholly owned subsidiaries. The first subsidiary, Nara Loan Center, is a New Jersey corporation organized in 2000 that is engaged in the origination of loans in the New Jersey area. The second subsidiary, Nara Real Estate Trust, is a Maryland real estate investment trust formed in April of 2003 to hold loans secured by real estate and, as of December 31, 2007, had total assets of $134.8 million.

We consider our business to have three primary segments: Banking Operations, Trade Finance Services and Small Business Administration Lending Services. Further information regarding our business segments is provided in Note 19 of Notes to Consolidated Financial Statements contained elsewhere in this report.

Our website address is *www.narabank.com*. Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, are available free of charge by visiting our website at *www.narabank.com/i_stock.asp* and *www.narabank.com/I_finan.asp*. These reports are generally posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission.

Business Overview

Our principal business activities are conducted through Nara Bank by earning interest on loans and investment securities that are funded by customer deposits and other borrowings. The difference between interest received and interest paid comprises the majority of our operating earnings. The FDIC insures Nara Bank s deposits up to the maximum legal limits, and the Bank is a member of the Federal Reserve System.

Through our network of 19 branches and eight loan production offices, we offer a full range of commercial banking and to a lesser extent, consumer financial services to our customers, who typically are small- to medium-sized businesses and individuals in our market areas. We accept deposits and originate a variety of loans including commercial loans, commercial real estate loans, trade finance, Small Business Administration (SBA) loans and various consumer loans. To better meet our customers needs, our mini-market branches generally offer extended hours from 9 a.m. to 6 p.m. Each of our branches operates 24-hour automated teller machines (ATM). In addition to the ATM in our existing branches, we entered into an agreement with Allpoint , which is the largest national surcharge-free ATM network, to provide our customers with free ATM usage throughout the nation. Allpoint ATMs are located at convenient retail stores throughout the country, including many major national and regional merchants. We provide courier services to qualifying customers and personal banking officers focus on customers to better support their banking needs. We honor merchant drafts for both VISA and MasterCard and provide debit card services to our customers. In addition, most of our branches offer travelers checks, safe deposit boxes, notary services and other customary bank services. We also offer 24-hour banking by telephone. Our website at *www.narabank.com* features both English and Korean applications and internet banking services.

A significant amount of our operating income and net income depends on the difference between interest income received from interest-earning assets and interest expense paid on interest-bearing liabilities. However, interest rates are highly sensitive to many factors that are beyond our control, such as general economic conditions and the policies of various governmental and regulatory authorities, in particular those of the Federal Reserve Board. Although our business may vary with local and national economic conditions, such variations are not seasonal in nature.

Lending Activities

Commercial Loans

Commercial loans are extended to businesses for various purposes such as providing working capital, purchasing inventory, debt refinance, business acquisition and other business related financing needs.

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Commercial loans are typically classified as (1) short-term loans (or lines of credit), which are often used to finance current assets such as inventory and accounts receivable, which typically have terms of one year with interest paid monthly on the outstanding balance and principal balance due at maturity, and (2) long-term loans (or term loans to businesses) which typically have terms of 5 to 7 years with principal and interest paid monthly. The credit worthiness of our borrowers is determined before a loan is originated and is periodically reviewed to ascertain whether credit quality changes have occurred. Commercial loans are typically collateralized by the borrower s business assets and/or real estate property.

Our commercial loan portfolio includes trade finance loans from Nara Bank s Corporate Banking Center, which generally serves businesses involved in international trade activities. These loans are typically collateralized by business assets and are used to meet the short-term working capital needs (accounts receivable and inventories) of our borrowers. The Corporate Banking Center also issues and advises on letters of credit for export and import businesses.

Commercial Real Estate Loans

Real estate loans are extended for the purchase and refinance of commercial real estate and are generally secured by first deeds of trust. The maturities on such loans are generally restricted to seven years with a balloon payment due at maturity and the loans are amortized for up to 25 years. We offer both fixed and floating rate loans. It is our policy to restrict real estate loan amounts to 70% of appraised value of the property.

Small Business Administration Loans

The Bank also extends loans partially secured by the U.S. Small Business Administration (SBA). The Bank extends SBA loans known as 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for the purpose of providing working capital, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing, or to purchase/construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for business only related loans and up to 25 years for real estate related loans. SBA loans are fully amortized with monthly payments of principal and interest. SBA loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA with a maximum gross loan amount to any one small business borrower of $2.0 million and a maximum SBA guaranteed amount of $1.5 million.

The SBA 7(a) loans we generate represent an important segment of our non-interest income due to our ability to sell the guaranteed portion in the secondary market at a premium while earning servicing fee income on the sold portion over the remaining life of the loan. Therefore, in addition to the interest yield earned on the un-guaranteed portion of the SBA loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA loans sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied commercial real estate or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company (CDC). Generally, the loans are structured so as to give the Bank a 50% first deed of trust (T/D), the SBA a 40% second T/D (SBA 504), and the remaining 10% is funded by the borrower. Rates for the first T/D Bank loans are subject to normal bank commercial rates and the second T/D SBA loans are fixed for the life of the loans based on certain index.

All of our SBA loans are handled through Nara Bank s SBA Loan Department. The SBA Loan Department is staffed by loan officers who provide assistance to qualified businesses. The Bank has been designated as an SBA Preferred Lender, which is the highest designation awarded by the U.S. Small Business Administration and generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide.

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Consumer Loans

Our consumer loans consist of automobile and home equity loans, with a majority of our consumer loan portfolio currently consisting of automobile loans. Effective February 28, 2007, we discontinued originating auto loans and effective January 1, 2008, we discontinued originating new home equity loans due to the lack of scalability and profitability of these types of lending.

Investing Activities

The main objectives of our investment strategy are to provide a source of liquidity while providing a means to manage our interest rate risk, and to generate an adequate level of interest income without taking undue risks. Subject to various restrictions, our investment policy permits investment in various types of securities, certificates of deposits and federal funds sold. Our investment portfolio consists of government sponsored agency bonds, mortgage backed securities, Collaterized Mortgage Obligations (CMOs), corporate bonds, and mutual funds. For a detailed breakdown of our investment portfolio, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Investment Security Portfolio.

Securities are classified as held-to-maturity or available-for-sale. We do not maintain a trading portfolio. Securities in the held-to-maturity category consist of securities purchased for long-term investment in order to enhance our ongoing stream of net interest income. Securities deemed held-to-maturity are classified as such because we have both the intent and ability to hold these securities to maturity. Securities purchased to meet investment-related objectives such as interest rate risk and liquidity management, but which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. At December 31, 2007, we had no securities classified as held to maturity and $258.8 million in securities available-for-sale. We purchased $158.4 million and sold $38.3 million in investment securities during 2007.

Deposit Activities

We attract both short-term and long-term deposits from the general public by offering a wide range of deposit products and services. Through our branch network, we provide our banking customers with money market accounts, savings and checking accounts, certificates of deposit, individual retirement accounts, business checking accounts, 24-hour automated teller machines, Internet banking and bill-pay services.

Our primary source of funds is FDIC-insured deposits. As part of our asset liability management, we analyze our deposits maturities and interest rates to monitor and control the cost of funds as well as to insure the stability of the supply of funds. We believe our deposits are a stable and reliable funding source. For more deposit information, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Deposits.

Borrowing Activities

When we have more funds than required for our reserve requirements or short-term liquidity needs, we sell federal funds to other financial institutions. Conversely, when we have less funds than required, we may borrow funds from the Federal Home Loan Bank of San Francisco, the Federal Reserve Bank or our correspondent banks.

The Federal Home Loan Bank System functions in a reserve credit capacity for qualifying financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of San Francisco (FHLB) and may apply for advances from the FHLB utilizing as collateral, qualifying mortgage loans and certain securities as collateral for these advances. The FHLB offers a full range of borrowing programs on its advances with terms ranging from one day to thirty years at competitive market rates. A prepayment penalty is usually imposed for early repayment of these advances. Information concerning FHLB borrowings is included in Note 7 of Notes to Consolidated Financial Statements

As a member of the Federal Reserve Bank (FRB), we may also borrow from the Federal Reserve Bank of San Francisco. The maximum amount that we may borrow from the FRB discount window is 98% of the market value of the securities that are pledged. At December 31, 2007, the par value of the securities that we have pledged for this purpose was $2.3 million.

Correspondent banks also provide lines of credit to the company. At December 31, 2007, our correspondent borrowing capacity was $55.0 million.

Market Area and Competition

We have 19 banking offices, of which 15 are located in the Los Angeles, Orange County, Oakland and Silicon Valley areas of California, and 4 are located in the New York metropolitan area, together with eight loan production offices located in Los Angeles, Newark, Seattle, Atlanta, Virginia, Dallas, Houston, New Jersey and Las Vegas. Most of our services are offered in Los Angeles County, Orange County, the San Francisco Bay Area and Silicon Valley (Santa Clara County) areas of California, and the New York metropolitan area, each of which has high concentrations of Korean-Americans. The banking and financial services industry generally, and in our market areas specifically, are highly competitive. The increasingly competitive environment is a result primarily of strong competition among the banks servicing the Korean-American community, changes in regulation, changes in technology and product delivery systems, and the consolidation among financial services companies. In addition, federal legislation may have the effect of further increasing the pace of consolidation within the financial services industry. See Item 1. Business Supervision and Regulation.

We compete for loans, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, are more widely recognized, have broader geographic scope and offer a broader range of financial services than we do.

Economic Conditions, Government Policies and Legislation

Our profitability, like most financial institutions, depends primarily on interest rate differentials. In general, the difference between the interest expense on interest-bearing liabilities, such as deposits and borrowings, and the interest income on our interest-earning assets, such as loans we extend to our customers and securities held in our investment portfolio, as well as the level of non-interest bearing deposits, have a significant impact on profitability. Interest rates are highly sensitive to many factors that are beyond our control, such as the economy, inflation, unemployment, consumer spending and political events. The impact that future changes in domestic and foreign economic and political conditions might have on our performance cannot be predicted.

Our business also is influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation or preventing recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on Nara Bancorp and the Bank of future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation, as well as regulations, are enacted which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures, and before various regulatory

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agencies. This legislation may change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. See Item 1. Business Supervision and Regulation below.

Supervision and Regulation

General

Nara Bank is a California state chartered bank that is subject to regulation and examination by the California Department of Financial Institutions (the DFI). It is also a member bank of the Federal Reserve System and its customer deposits are insured up to statutory limits by the FDIC. The Bank is subject to examination and regulation by the DFI and each of the foregoing federal bank regulatory agencies with respect to most of its business activities, including, among others, capital standards, general investment authority, deposit taking and borrowing authority, mergers, establishment of branch offices, and permitted subsidiary investments and activities. Nara Bancorp is registered with and subject to examination by the FRB as a bank holding company and is also subject to the bank holding company provisions of California law, including being subject to examination by the DFI. These regulatory systems are intended primarily for the protection of depositors, the FDIC insurance fund and the banking system as a whole, rather than for the protection of shareholders or other investors.

The following paragraphs summarize certain of the laws and regulations that apply to us and to the Bank. The descriptions of statutes and regulations applicable to us and the possible effects thereof set forth below and elsewhere in this report do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their effects on us, nor do they purport to identify every statute and regulation that may apply to us.

Bank Holding Company Regulation

In general, the federal Bank Holding Company Act (the BHC Act) limits the business activities of bank holding companies, including their subsidiaries, to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto and certain other types of financial business activities. As a result of amendments to the BHC Act, however, bank holding companies that satisfy specified criteria and obtain FRB approval to be designated as financial holding companies may engage in additional activities, or acquire and retain the shares of companies engaged in additional activities, that are either (i) financial in nature or incidental to such financial activity (as determined by the FRB), or (ii) complementary to a financial activity, and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined by the FRB). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments.

The BHC Act, together with the Federal Bank Merger Act and other federal and state statutes, regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition of more than 5% of the voting shares of a commercial bank or its parent holding company. Under the Federal Bank Merger Act, prior federal regulatory approval is required for a federally insured bank to merge with another bank or purchase the assets or assume the deposits of another bank. The approval of the DFI under the California Financial Code, and other applicable state law for acquisitions outside California, would also be required for bank acquisitions by the Company or the Bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities consider, among other factors, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant s performance record under the CRA and the effectiveness of the subject organizations in combating money laundering activities.

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FRB policy requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks and does not permit a bank holding company to conduct its operations in an unsafe or unsound manner. Under this source of strength doctrine, a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment of deposits and to certain other indebtedness of such subsidiary banks. In addition, the FRB has the right to order a bank holding company to terminate any activity that the FRB believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank. The BHC Act also provides that, in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment

Capital Requirements

Nara Bancorp and Nara Bank are subject to federal capital adequacy regulations. Those regulations incorporate both risk-based and leverage capital requirements. The risk-based minimum capital guidelines are intended to provide a measure of capital that reflects the degree of risk associated with a banking institution s operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as federal banking agencies, to 100% for assets with relatively high credit risk. The higher the category, the more risk a bank is subject to and thus the more capital that is required. The guidelines divide an institution s capital into two tiers. Tier I includes common equity, retained earnings, certain non-cumulative perpetual preferred stock, subordinated debentures (limited to 25% of Tier 1 Capital), and minority interest in equity accounts of consolidated subsidiaries. Goodwill and other intangible assets (except for mortgage servicing rights and purchased credit card relationships, subject to certain limitations) are subtracted from Tier I capital. As of December 31, 2007 Nara Bank s Tier I risk-based capital ratio was 11.4% and Nara Bancorp s Tier I risk-based capital ratio was 11.8%.

Tier II capital includes, among other items, cumulative perpetual and long-term, limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses (subject to certain limitations). Certain items are required to be deducted from Tier II capital. Banks must maintain a total risk-based ratio of 8%, of which at least 4% must be Tier I capital. As of December 31, 2007, Nara Bank s total risk-based capital ratio was 12.3% and Nara Bancorp s total risk-based capital ratio was 12.8%.

In addition to the risk-based guidelines, the federal banking regulations require banking institutions to maintain a minimum ratio of Tier I capital to total assets, which is referred to as the leverage ratio . For a banking institution rated in the highest of the five categories used by regulators to rate banking institutions, the minimum leverage ratio of Tier I capital to total assets must be 4%. As of December 31, 2007, Nara Bank s leverage ratio was 10.4% and Nara Bancorp s leverage ratio was 10.8%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the federal banking regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For further discussion of our compliance with regulatory capital requirements, see Capital Resources under Management Discussion and Analysis of Financial Condition and Results of Operations.

On March 1, 2005, the FRB adopted a final rule that allows the continued limited inclusion of trust preferred securities in Tier 1 capital of bank holding companies. However, under the final rule, trust preferred securities will be subject to stricter quantitative limits. The FRB s final rule limits restricted core capital elements to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of

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restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period ending March 31, 2009, for application of the new quantitative limits.

Prompt Corrective Action and Other Enforcement Mechanisms

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2007, Nara Bank exceeded the required ratios for classification as well capitalized.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking institutions may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution s primary regulator.

Loans to One Borrower

Under California law and with limited exceptions, the maximum amount of loans and other obligations that the Bank is permitted to have outstanding to any borrower (including certain related persons and entities) at any time may not exceed 25%, and unsecured loans and obligations may not at any time exceed 15%, of the Bank s shareholder equity, allowance for loan losses and capital notes and debentures outstanding at such time. At December 31, 2007, the maximum amount that the Bank could lend to any one borrower (including related persons and entities) under the current loans to one borrower regulatory limit was $39.9 million. At December 31, 2007 the largest aggregate amount of loans that we had outstanding to any one borrower and related entities was $22.2 million.

Community Reinvestment Act

The Community Reinvestment Act (the CRA) requires each banking institution, as well as certain other federally regulated lenders, to identify the communities served by the institution s offices and to identify the types of credit and investments the institution is prepared to make available within those communities. The CRA also requires the federal banking regulatory agencies to assess the performance of the institution in meeting the credit needs of its communities as part of its examination of the institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of an institution s CRA performance, the bank regulatory agencies assign ratings of outstanding, satisfactory, needs to improve or substantial noncompliance. The Banl was rated satisfactory in its most recent CRA examination.

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Anti-Money Laundering Requirements

The USA PATRIOT Act was enacted after September 11, 2001 to provide the federal government with additional powers to prevent, detect, and prosecute terrorism and international money laundering. The anti-money laundering (AML) regulations have a direct impact on banking and other financial institutions and their relationships with customers. Such institutions must have number of programs in place, including (i) programs to manage BSA/AML risk; (ii) customer identification programs designed to determine the identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorist or terrorist organizations; (iii) reporting and recordkeeping requirements for individual customer cash transactions exceeding $10,000; and (iv) programs for monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Failure to comply with these AML requirements can result in regulatory action, including restrictions on a bank s operations.

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit an OTS-regulated institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, California law limits the payment of dividends by the Bank. Under the California Financial Code, the Bank is permitted to pay dividends out of the Bank s net profits up to the lesser of retained earnings or the Bank s net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the DFI, in an amount not exceeding the greatest of (i) the Bank s retained earnings, (ii) its net income for the Bank s last fiscal year and (iii) the Bank s net income for its current fiscal year. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and cash-out mergers.

Affiliate Transactions

Federal law limits the ability of the Bank to extend credit to Nara Bancorp or its other affiliates, to invest in stock or other securities thereof, to take such securities as collateral for loans, and to purchase assets from Nara Bancorp or other affiliates. These restrictions prevent Nara Bancorp and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in Nara Bancorp or to or in any other affiliate are limited individually to 10% of the Bank s capital stock and surplus and in the aggregate to 20% of the Bank s capital stock and surplus.

Federal law also provides that extensions of credit and other transactions between the Bank and Nara Bancorp or one of its non-bank subsidiaries must be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for comparable transactions involving other non-affiliated companies, or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

Consumer Protection Laws

The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts.

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In addition, federal law and certain state laws, including those of California, contain customer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to customers and, in some circumstance, allow consumers to prevent disclosure of personal information to affiliates or non-affiliated third parties by means of opt out or opt in authorizations

Employees

As of December 31, 2007, we had 404 full-time equivalent employees. None of our employees are represented by a union or covered by a collective bargaining agreement. Management believes that its relations with its employees are good.

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Item 1A. ***RISK FACTORS***

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock will likely decline.

If we fail to maintain an effective system of internal and disclosure controls, we may not be able to accurately report our financial results or prevent fraud. Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We have in the past discovered, and may in the future discover, areas of our disclosure and internal controls that need improvement. Any failure to develop or maintain effective controls or difficulties encountered in their implementation or other ineffective improvement of our internal and disclosure controls could harm our operating results or cause us to fail to meet our reporting obligations.

Deterioration of economic conditions in California, New York or South Korea could adversely affect our loan portfolio and reduce the demand for our services. We focus our business primarily in Korean communities in California and in the greater New York City metropolitan area. Deterioration in economic conditions in our market areas could have a material adverse impact on the quality of our business. An economic slowdown in California, New York, or South Korea could have the following consequences, any of which could reduce our net income:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- claims and lawsuits may increase;
- demand for our products and services may decline; and
- collateral for loans may decline in value below the principal amount owed by the borrower.

Our allowance for loan losses may not cover actual loan losses. If our actual loan losses exceed the amount we have allocated for probable losses, it will hurt our business. We try to limit the risk that borrowers will fail to repay loans by carefully underwriting the loans. Losses nevertheless occur. We create allowance allocations for estimated loan losses in our accounting records. We base these allowances on estimates of the following:

- historical experience with our loans;
- evaluation of current economic conditions;
- reviews of the quality, mix and size of the overall loan portfolio;
- reviews of delinquencies;

the quality of the collateral underlying our loans.

If these allocations were inadequate, our financial condition could be materially and adversely affected.

A downturn in the real estate market could seriously impair our loan portfolio. As of December 31, 2007, approximately 68% of our loan portfolio consisted of loans secured by various types of real estate, including

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commercial loans that are secured by real estate in a form of second position. If real estate values decline significantly, especially in California or New York, higher vacancies and other factors could harm the financial condition of our borrowers, the collateral for our loans will provide less security, and we would be more likely to suffer losses on defaulted loans.

Changes in interest rates affect our profitability. Changes in prevailing interest rates may hurt our business. We derive our income mainly from the difference or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the wider the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can greatly affect our income. In addition, interest rate fluctuations can affect how much money we may be able to lend.

If we lose key employees, our business may suffer. If we lose key employees temporarily or permanently, it could hurt our business. We could be particularly hurt if our key employees went to work for competitors. Our future success depends on the continued contributions of existing senior management personnel.

Environmental laws could force us to pay for environmental problems. The cost of cleaning up or paying damages and penalties associated with environmental problems could increase our operating expenses. When a borrower defaults on a loan secured by real property, we often purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties whose owners have defaulted on loans. We also lease premises where our branches and other facilities are located and where environmental problems may exist. Although we have lending, foreclosure and facilities guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances may exist on some of the properties that we own, lease, manage or occupy. We may face the risk that environmental laws could force us to clean up the properties at our expense. It may cost much more to clean up a property than the property is worth. We could also be liable for pollution generated by a borrower s operations if we take a role in managing those operations after a default. We may find it difficult or impossible to sell contaminated properties.

We are exposed to the risks of natural disasters. A significant portion of our operations is concentrated in Southern California. California is in an earthquake-prone region. A major earthquake could result in material loss to us. A significant percentage of our loans are and will be secured by real estate. Many of our borrowers could suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans could decline significantly in value. Unlike a bank with operations that are more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.

An increase in non-performing assets would reduce our income and increase our expenses. If the level of non-performing assets rises in the future, it could adversely affect our operating results. Non-performing assets are mainly loans on which the borrowers are not making their required payments. Non-performing assets also include loans that have been restructured to permit the borrower to have smaller payments and real estate that has been acquired through foreclosure of unpaid loans. To the extent that assets are non-performing, we have less cash available for lending and other activities.

Changes in governmental regulation may impair our operations or restrict our growth. We are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors. Statutes and regulations affecting our business may be changed at any time, and the interpretation of these statutes and regulations by examining authorities may also change. Within the last several years Congress and the President have passed and enacted significant changes to these statutes and regulations. There can be no assurance that such changes to the statutes and regulations or in their interpretation will not adversely

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affect our business. Nara Bank is subject to regulation and examination by the DFI and the Federal Reserve Board. In addition to governmental supervision and regulation, Nara Bank is subject to changes in other federal and state laws, including changes in tax laws, which could materially affect the banking industry. Nara Bancorp is subject to the rules and regulations of the Federal Reserve Board. If we fail to comply with federal and state bank regulations, the regulators may limit our activities or growth, fine us or ultimately put us out of business. Banking laws and regulations change from time to time. Bank regulations can hinder our ability to compete with financial services companies that are not regulated or are less regulated.

Federal and state bank regulatory agencies regulate many aspects of our operations. These areas include:

- the capital that must be maintained;
- the kinds of activities that can be engaged in;
- the kinds and amounts of investments that can be made;
- the locations of offices;
- how much interest can be paid on demand deposits;
- insurance of deposits and the premiums that must be paid for this insurance; and
- how much cash must be set aside as reserves for deposits.

Our stock price may be volatile, which could result in substantial losses for our stockholders. The market price of our common stock could be subject to wide fluctuations in response to a number of factors, including:

- issuing new equity securities;
- the amount of our common stock outstanding and the trading volume of our stock;
- actual or anticipated changes in our future financial performance;
- changes in financial performance estimates of us by securities analysts;
- competitive developments, including announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the operating and stock performance of our competitors;

changes in interest rates;

addition or departures of key personnel;

changes in economic conditions that affect bank performance.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend distributions, may adversely affect the market price of our common stock. In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. If we issue preferred stock, we would have a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because a decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock or diluting their stock holdings in us.

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Item 1B. ***UNRESOLVED STAFF COMMENTS.***

None.

Item 2. ***PROPERTIES***

Our principal executive offices are located at 3731 Wilshire Blvd., Suite 1000, Los Angeles, California 90010. We conduct our operations through 19 branch offices and eight loan production offices. We lease all of our offices. We believe our present facilities are adequate for our current needs. We also believe that, if necessary, we could secure suitable alternative facilities on similar terms, without adversely impacting operations.

As part of our expansion strategy, we signed four leases to open new branch or loan production offices. We signed lease agreements for loan production offices in Newark, California, Las Vegas, Nevada and Houston, Texas. We also signed a lease agreement for an additional branch office in the downtown Los Angeles fashion district, which is currently under construction.

As of December 31, 2007, premises and equipment, net of accumulated depreciation and amortization, totaled $11.3 million. Total occupancy expense, including furniture and equipment expense for the year ended December 31, 2007, was $11.2 million. Total lease expense for the year ended December 31, 2007 was $5.8 million.

Item 3. ***LEGAL PROCEEDINGS***

We are involved in routine litigation incidental to our business, none of which is expected to have a material adverse effect on us.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matter was submitted to a vote of our security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2007.

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Part II

Item 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our common stock, par value $0.001 per share, is traded on the Nasdaq Global Market under the symbol NARA. The common stock of Nara Bank, par value $3.00 per share, was also traded on the Nasdaq National Market under the symbol NARA through February 2, 2001, which was Nara Bank s last trading day prior to the formation of our holding company, Nara Bancorp, Inc.

We had approximately 2,906 beneficial owners and 505 registered holders of our common stock as of February 29, 2008. The following table sets forth, the range of high and low sales prices for, and quarterly dividend paid on for our common stock for the calendar quarters indicated.

Quarters ended:	**High Sales Price**	**Low Sales Price**	**Dividends**
December 31, 2007	$ 16.96	$ 10.86	$ 0.0275
September 30, 2007	$ 17.88	$ 13.59	$ 0.0275
June 30, 2007	$ 18.00	$ 15.56	$ 0.0275
March 31, 2007	$ 21.19	$ 17.31	$ 0.0275
December 31, 2006	$ 21.40	$ 17.81	$ 0.0275
September 30, 2006	$ 19.87	$ 17.30	$ 0.0275
June 30, 2006	$ 19.49	$ 16.52	$ 0.0275
March 31, 2006	$ 18.91	$ 15.55	$ 0.0275

Future dividends are subject to the discretion of our Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash needs and general business conditions. All dividends must comply with applicable bank regulations.

Nara Bancorp s ability to pay dividends is subject to restrictions set forth in the Delaware General Corporation Law. The Delaware General Corporation Law provides that a Delaware corporation may pay dividends either (i) out of the corporation s surplus (as defined by Delaware law), or (ii) if there is no surplus, out of the corporation s net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Nara Bancorp s ability to pay cash dividends in the future will depend in large part on the ability of the Bank to pay dividends on its capital stock to Nara Bancorp. The ability of the Bank to declare a cash dividend to Nara Bancorp is subject to minimum capital requirements and California law, which restricts the amount available for cash dividends to the lesser of the retained earnings or the Bank s net income for its last three fiscal years plus current year income. Where the above test is not met, cash dividends may still be paid, with the prior approval of the DFI in an amount not exceeding the greatest of (1) the retained earnings of the Bank; (2) the net income of the Bank for its last fiscal year; or (3) the net income of the Bank for its current fiscal year. The closing price for our common stock on the Nasdaq Global Market on February 29, 2008 was $10.96 per share.

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Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in Column (a) (c)
Equity compensation plans approved by security holders	1,296,250	$ 12.30	1,285,000
Equity compensation plans not approved by security holders		$	
Total	1,296,250	$ 12.30	1,285,000

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Stock Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return (stock price appreciation plus reinvested dividends) on the common stock of the Company with (i) the cumulative total return of the Nasdaq Market Index, (ii) the cumulative total return of the S&P SmallCap 600 Index, (iii) a published index comprised by SNL Financial LC of banks and thrifts, (iv) the cumulative total return of the S&P 500 Index, and (v) a published index comprised by Hemscott PLC of banks and bank holding companies in the Pacific Region. The graph assumes an initial investment of $100 and reinvestment of dividends. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance.

The following graph does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any filing by the Company under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that we may specifically incorporate this graph by reference.

	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
Nara Bancorp, Inc.	100.00	270.10	418.96	352.59	417.29	234.51
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
S&P SmallCap 600	100.00	138.80	170.22	183.30	211.01	210.39
SNL Bank and Thrift	100.00	135.57	151.82	154.20	180.17	137.40
S&P 500	100.00	128.68	142.69	149.70	173.34	182.86
Hemscott Group Index	100.00	151.45	184.88	193.62	202.01	144.94

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Item 6. ***SELECTED FINANCIAL DATA***

The following table presents selected financial and other data of Nara Bancorp as of and for each of the years in the five-year period ended December 31, 2007. The information below should be read in conjunction with, and is qualified in its entirety by; the more detailed information included elsewhere herein including our Audited Consolidated Financial Statements and Notes thereto.

	For The Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands, except share and per share data)				
Income Statement Data:					
Interest income	$ 175,773	$ 155,831	$ 117,224	$ 77,497	$ 61,425
Interest expense	78,568	61,216	37,651	18,686	15,933
Net interest income	97,205	94,615	79,573	58,811	45,492
Provision for loan losses	7,530	3,754	5,427	3,900	5,250
Net interest income after provision for loan losses	89,675	90,861	74,146	54,911	40,242
Noninterest income	22,573	19,269	20,170	20,307	20,081
Noninterest expense	56,450	53,927	48,648	41,979	38,170
Income before income tax provision	55,798	56,203	45,668	33,239	22,153
Income tax provision	22,599	22,397	18,811	13,457	8,425
Net income	$ 33,199	$ 33,806	$ 26,857	$ 19,782	$ 13,728
Per Share Data:*					
Earnings basic	$ 1.27	$ 1.31	$ 1.11	$ 0.85	$ 0.62
Earnings diluted	1.25	1.28	1.07	0.80	0.59
Book value (period end)	8.48	7.15	5.77	4.34	3.57
Cash dividend declared per common share	0.11	0.11	0.11	0.11	0.10
Number of common shares outstanding (period end) *	26,193,672	26,107,672	25,444,442	23,333,338	23,120,178
Balance Sheet Data At Period End:					
Assets	$ 2,423,410	$ 2,046,985	$ 1,775,822	$ 1,508,311	$ 1,259,771
Securities available for sale and held to maturity	258,773	163,851	175,710	135,387	128,414
Gross loans, net of unearned loan fees (excludes loans held for sale)	2,008,729	1,714,865	1,445,740	1,221,734	997,338
Deposits	1,833,346	1,712,235	1,526,486	1,255,975	1,061,415
Federal Home Loan Bank borrowings	297,000	76,000	31,000	90,000	60,000
Subordinated debentures	39,268	39,268	39,268	39,268	39,268
Stockholders equity	222,180	186,627	146,754	101,254	82,572
Average Balance Sheet Data:					
Assets	$ 2,216,514	$ 1,934,913	$ 1,684,577	$ 1,365,531	$ 1,086,017
Securities available for sale and held to maturity	199,293	185,587	150,332	126,117	136,068
Gross loans, including loans held for sale	1,879,457	1,593,453	1,383,758	1,113,750	839,097
Deposits	1,772,230	1,645,527	1,436,019	1,177,258	895,943
Stockholders equity	204,863	166,206	120,793	92,275	73,126
Selected Performance Ratios:					
Return on average assets	1.50%	1.75%	1.59%	1.45%	1.26%
Return on average stockholders equity	16.21%	20.34%	22.23%	21.44%	18.77%
Average stockholders equity to average assets	9.24%	8.59%	7.17%	6.76%	6.73%
Dividend payout ratio (Dividends per share/earnings per share)	8.66%	8.40%	9.91%	12.94%	16.13%
Net interest spread(3)	3.41%	3.96%	4.16%	4.05%	3.85%
Net interest margin(4)	4.60%	5.14%	5.00%	4.61%	4.46%
Yield on interest-earning assets(5)	8.32%	8.47%	7.36%	6.08%	6.02%
Cost of interest-bearing liabilities(6)	4.91%	4.51%	3.20%	2.03%	2.17%
Efficiency ratio(7)	47.13%	47.35%	48.77%	53.06%	58.21%

* Number of shares and per share data were retroactively adjusted for the stock splits declared on February 14, 2003 and May 17, 2004.

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	For The Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Regulatory Capital Ratios:					
Bancorp:					
Leverage	10.77%	11.19%	10.22%	8.87%	8.25%
Tier 1 risk-based	11.84%	12.17%	11.77%	9.65%	9.28%
Total risk-based	12.78%	13.22%	12.90%	11.26%	11.73%
Bank:					
Leverage	10.36%	10.55%	9.80%	9.10%	7.98%
Tier I risk-based	11.41%	11.49%	11.26%	9.90%	8.99%
Total risk-based	12.34%	12.54%	12.40%	11.01%	10.15%
Asset Quality Data:					
Nonaccrual loans	$ 16,592	$ 3,271	$ 5,489	$ 2,679	$ 4,855
Loans 90 days or more past due and still accruing					209
Total nonperforming loans	16,592	3,271	5,489	2,679	5,064
Other real estate owned					
Restructured loans	765	298	741	229	529
Total nonperforming assets	$ 17,357	$ 3,569	$ 6,230	$ 2,908	$ 5,593
Asset Quality Ratios:					
Nonperforming loans to gross loans	0.83%	0.19%	0.38%	0.22%	0.51%
Nonperforming assets to total assets	0.72%	0.17%	0.35%	0.19%	0.44%
Allowance for loan losses to gross loans	1.00%	1.11%	1.22%	1.20%	1.25%
Allowance for loan losses to nonperforming loans	121%	584%	321%	546%	246%
Net charge-offs to average gross loans	0.35%	0.14%	0.18%	0.16%	0.23%

(1) Net income divided by the average assets

(2) Net income divided by the average stockholders equity

(3) Difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities

(4) Net interest income expressed as a percentage of average total interest-earning assets

(5) Interest income divided by the average interest-earning assets

(6) Interest expense divided by the average interest-bearing liabilities

(7) Noninterest expense divided by the sum of net interest income plus noninterest income

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Item 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

You should read the following discussion and analysis of our financial condition and results of operations together with our Consolidated Financial Statements and accompanying notes presented elsewhere in this Report. This discussion and analysis may contain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A Risk Factors and elsewhere in this Report.

Overview

Nara Bancorp, Inc. is a bank holding company headquartered in Los Angeles, California. We offer a full range of commercial banking and to a lesser extent, consumer financial services through our wholly owned subsidiary, Nara Bank, a California state-chartered bank. Nara Bank primarily focuses its business in Korean communities in California and in the New York City metropolitan area. We offer our banking services through our network of 19 banking offices in California and the New York metropolitan area and 8 loan production offices mostly located in other parts of the country, to our customers who typically are small- to medium-sized businesses in our market areas. We accept deposits and originate a variety of loans including commercial loans, commercial real estate loans, trade finance, Small Business Administration (SBA) loans. Effective February 28, 2007, we discontinued originating auto loans and effective January 1, 2008 we discontinued originating new home equity loans.

Our principal business involves earning interest on loans and investment securities that are funded by customer deposits and other borrowings. Our operating income and net income are derived primarily from the difference between interest income received from interest-earning assets and interest expense paid on interest-bearing liabilities and, to a lesser extent, from fees received in connection with servicing loan and deposit accounts and income from the sale of SBA loans. Our major expenses are the interest we pay on deposits and borrowings, provisions for loan losses and general operating expenses, which primarily consist of salaries and employee benefits and occupancy costs. Interest rates are highly sensitive to many factors that are beyond our control, such as changes in the national economy and in the related monetary policies of the Board of Governors of the Federal Reserve System, inflation, unemployment, consumer spending and political events. We cannot predict the impact that these factors and future changes in domestic and foreign economic and political conditions might have on our performance.

We have a significant business and geographic concentration in the Korean communities in California and in the New York City metropolitan area, and our results are affected by economic conditions in these areas and in Korea. A decline in economic and business conditions in our market areas and in Korea could have a material impact on the quality of our loan portfolio or the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

During 2007, we experienced asset growth of 18%. The increase in total assets in 2007 was the result of growth in our investments and loans funded by increases in deposits and borrowings. Our loan growth during 2007 continued to be predominantly in real estate and commercial loans and deposit growth was in time deposits and money market accounts.

Our net income was $33.2 million for the year ended December 31, 2007, representing a 2% decrease from $33.8 million for the year ended December 31, 2006. The decrease in net income for the year ended December 31, 2007 was the increase in provision for loan losses as a result of higher levels of problem loans we experienced in 2007 offset by increases in net interest income and non-interest income.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The financial information contained

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within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. All of our significant accounting policies are described in Note 1 of our consolidated financial statements presented elsewhere herein and are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The following is a summary of the more judgmental and complex accounting estimates and principles affecting the financial condition and results reported in our financial statements. In each area, we have identified the variables we believe to be the most important in the estimation process. We use the best information available to us to make the estimations necessary to value the related assets and liabilities in each of these areas.

We are obligated to assess, at each reporting date, whether there is an other-than-temporary impairment to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors we examine to assess impairment include the severity and duration of the loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any change in the rating of the securities by the various rating agencies. Additionally, we reexamine the financial resources and overall ability we have and our intent to hold the securities until their fair values recover. We do not believe that we had any investment securities with unrealized losses that would be deemed to be other-than-temporarily impaired as of December 31, 2007. Investment securities are discussed in more detail under Financial Condition Investment Securities Portfolios below.

We assess the carrying value of intangible assets including goodwill at least annually in order to determine whether if such intangible assets are impaired. In reviewing the carrying value of intangible assets, we assess the recoverability of such assets by evaluating the fair value of the related business unit. Any impairment would be required to be recorded during the period identified. If our intangible assets were determined to be impaired, the related charge to earnings could be material. For additional information regarding intangible assets, see Note 5 to our consolidated financial statements presented elsewhere herein.

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which has a material impact on the carrying value of net loans. The judgments and assumptions used by management are based on historical data and management s analysis of the current economic environment as described under Financial Condition Allowance for Loan Losses below.

Certain Small Business Administration (SBA) loans that we have the intent to sell prior to maturity are designated as held for sale at origination and are recorded at the lower of cost or market value, on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the premium on sale of SBA loans is recognized as other operating income at the time of the sale. The remaining portion of the premium (relating to the portion of the loan retained) is deferred and amortized over the remaining life of the loan as an adjustment to yield. Servicing assets are recognized when loans are sold with servicing retained. Servicing assets are recorded based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate plus 1% to 2%. The market rate is used to determine servicing costs. Servicing assets are amortized in proportion to and over the period of estimated future servicing income. Management periodically evaluates the servicing asset for impairment, which is the amount, if any, by which the carrying value of the servicing asset exceeds the fair value of the servicing asset. Impairment, if it occurs, is recognized as a write down or charge-off in the period of impairment.

As part of our asset and liability management strategy, we have entered into interest rate swaps and interest rate caps, which are derivative financial instruments, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. The interest rate swaps are recorded as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, and are designated as hedges of the variability of cash flows we receive from certain of our variable rate loans indexed to Prime. The interest rate caps also qualify as cash flow hedges under SFAS No. 133 and were purchased to protect against a rise in the cost of 3-month LIBOR to which one of our money market products is tied. In accordance with SFAS No. 133, qualifying interest rate swaps and interest rate cap agreements are measured at fair value and reported as assets or liabilities on our consolidated statement of financial condition. The portion of the change in the fair value of the interest rate swaps that is deemed effective in hedging the cash flows of the designated assets is recorded in stockholders equity as a component of accumulated other comprehensive income (loss) (OCI), net of tax, and reclassified into interest income as such cash flows occur in the future. Any ineffectiveness resulting from the hedges is recorded as a gain or loss in the consolidated statements of income as a part of non-interest income. Currently, the fair value of the interest rate swaps is estimated by discounting the future cash flows using a discount rate based on 3 month LIBOR.

Results of Operations

General

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from the loans we extend to our customers and investments, and interest expense is generated from interest-bearing deposits our customers have with us and borrowings that we may have, such as Federal Home Loan Bank borrowings and subordinated debentures. Our ability to generate profitable levels of net interest income is largely dependent on our ability to manage the levels of interest earning assets and interest-bearing liabilities, and the rates received or paid on them, as well as our ability to maintain sound asset quality and appropriate levels of capital and liquidity. As mentioned above, interest income and interest expense may fluctuate based on factors beyond our control, such as economic or political conditions.

We attempt to minimize the effect of interest rate fluctuations on net interest margin by monitoring our interest-sensitive assets and our interest-sensitive liabilities. Net interest income can be affected by a change in the composition of assets and liabilities, for example, if higher yielding loans were to replace a like amount of lower yielding investment securities. Changes in volume and changes in rates can also affect net interest income. Volume changes are caused by differences in the level of interest-earning assets and interest-bearing liabilities. Rate changes result from differences in yields earned on assets and rates paid on liabilities.

We also have non-interest income, including service charges and fees on deposit accounts, fees from trade finance activities and the issuance of letters of credit, and net gains on sale of loans that were held for sale and investment securities available for sale.

In addition to interest expense, our income is impacted by provision for loan losses, and non-interest expenses, primarily salaries and benefits and occupancy expense.

Net Income

Our net income was $33.2 million for 2007, compared to $33.8 million for 2006 and $26.9 million for 2005, representing a decrease of 2% for 2007 and an increase of 26% for 2006. Our earnings per share based on fully diluted shares were $1.25, $1.28 and $1.07 for 2007, 2006 and 2005, respectively. The return on average assets was 1.50%, 1.75% and 1.59% and the return on average stockholders equity was 16.21%, 20.34% and 22.23% for these same periods.

During 2007, net income decreased slightly due to higher loan loss provisions and non-interest expense, partially offset by higher net interest income and non-interest income. During 2006, the increase in net income was largely attributable to higher net interest income and a higher net interest margin, and lower loan loss provisions, partially offset by higher non-interest expense and income tax provision.

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Operations Summary

	Year Ended December 31,						
		Increase (Decrease)			Increase (Decrease)		
	2007	Amount	%	2006	Amount	%	2005
	(Dollars in thousands)						
Interest income	$ 175,773	$ 19,942	13%	$ 155,831	$ 38,607	33%	$ 117,224
Interest expense	78,568	17,352	28%	61,216	23,565	63%	37,651
Net interest income	97,205	2,590	3%	94,615	15,042	19%	79,573
Provision for loan losses	7,530	3,776	101%	3,754	(1,673)	(31)%	5,427
Non-interest income	22,573	3,304	17%	19,269	(901)	(4)%	20,170
Non-interest expense	56,450	2,523	5%	53,927	5,279	11%	48,648
Income before income tax provision	55,798	(405)	-1%	56,203	10,535	23%	45,668
Income tax provision	22,599	202	1%	22,397	3,586	19%	18,811
Net income	$ 33,199	$ (607)	(2)%	$ 33,806	$ 6,949	26%	$ 26,857

Net Interest Income and Net Interest Margin

Net interest income was $97.2 million for 2007, compared to $94.6 million for 2006 and $79.6 million for 2005. The net interest margin was 4.60%% for 2007 compared to 5.14% for 2006 and 5.00% for 2005.

Net interest income increased $2.6 million, or 3%, during 2007. The increase resulted from an increase of $271.5 million, or 15%, in average interest-earning assets partially offset by a decline in net interest margin. The decline in net interest margin reflects the impact of the higher cost of deposits resulting from competition and the lower yield on variable rate loans as a result of a 100 basis point decrease in the prime rate during 2007. The increase in net interest income of $15.0 million, or 19%, for 2006 over 2005 was primarily due to an increase of $248.4 million, or 16%, in average interest-earning assets, as well as a 14 basis point increase in our net interest margin.

Interest Income

Interest income was $175.8 million for 2007, compared to $155.8 million for 2006 and $117.2 million for 2005. The average yield on average interest-earning assets was 8.32% for 2007, compared to 8.47% for 2006 and 7.36% for 2005.

The increase in interest income of $19.9 million, or 13%, for 2007 compared to 2006 was primarily due to a $271.5 million increase in average interest-earning assets, which resulted mainly from loan growth. Average loans increased $286.0 million, or 18%, to $1.88 billion for 2007 from $1.59 billion for 2006. The increase in interest income from loan growth was partially offset by the decrease in the average yield on loans, which decreased to 8.73% for 2007 from 9.06% for 2006 resulting from the 100 basis point decrease in the prime rate for 2007. During 2007, interest income on loans increased $25.1 million due to the growth in loan volume, and decreased $5.3 million due to the decrease in interest rates. Interest income on securities also increased $1.4 million, or 17%, to $9.9 million for 2007 from $8.4 million for 2006, mostly attributable to the growth in the securities portfolio and to the replacement of lower yielding securities with higher yielding securities.

The increase in interest income of $38.6 million, or 33%, for 2006 compared to 2005 was primarily due to the increase in loan volume supported by the increase in the prime rate to which the majority of our loans is tied. Average loans increased $209.7 million, or 15%, to $1.59 billion for 2006 from $1.38 billion for 2005. The average yield on loans increased to 9.06% for 2006 from 7.87% for 2005. During 2006, interest income on loans increased $17.8 million due to the growth in loan volume, and $17.7 million due to the increase in interest rates. Interest income on securities also increased $2.2 million, or 36%, to $8.4 million for 2006 from $6.2 million for 2005, which was primarily attributable to the growth in the securities portfolio.

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Interest Expense

Deposits

Interest expense on deposits was $68.2 million for 2007 compared to $55.6 million for 2006 and $32.7 million for 2005. The average cost of total deposits was 3.85% for 2007 compared to 3.38% for 2006 and 2.28% for 2005. The average cost of interest-bearing deposits was 4.86% for 2007 compared to 4.38% for 2006 and 3.03% for 2005. The increase in interest expense on total deposits of $12.7 million, or 23%, for 2007 compared to 2006 was due to the increase in rates paid for deposits resulting from continued robust competition for deposits during the year. Downward repricing of deposit rates lags the repricing of the federal funds rate due to competition and the fixed maturities of CDs. Additionally, average interest-bearing deposits increased $128.9 million, or 10%, to $1.40 billion for 2007 from $1.27 billion for 2006. Average time deposits increased $91.4 million, or 10%, during 2007. The increase in cost of deposits occurred for all types of interest-bearing deposits. During 2007, $6.8 million of the increase in interest expense on deposits was attributable to the increase in the rates paid on deposits, and $5.9 million was attributable to the net growth in deposits.

The increase in interest expense on deposits of $22.9 million, or 70%, for 2006 compared to 2005 was due to an increase in the cost of those deposits, mostly in time deposits, as the market interest rate increased. Additionally, average interest-bearing deposits increased $191.2 million, or 18%, to $1.27 billion for 2006 from $1.08 billion for 2005. Average time deposits increased $206.1 million, or 29%, during 2006 and the average cost of time deposits increased 143 basis points during 2006. During 2006, $15.2 million of the increase in interest expense on deposits was attributable to the increase in the rates paid on deposits, and $7.6 million was attributable to the net growth in deposits.

Borrowings

Borrowings include the borrowings from the FHLB, federal funds purchased and subordinated debentures. As part of our asset liability management, we utilize FHLB borrowings to supplement our deposit source of funds. Therefore, there may be fluctuations in these balances depending on the short-term liquidity and longer-term financing needs of the Bank.

Average FHLB and other borrowings increased $112.5 million, or 230%, for 2007 compared to 2006 to augment the funding from deposits. The competition for deposits in our marketplace made it difficult to fund loans and investments solely from deposits, and the use of FHLB advances provided a lower cost alternative. Interest expense on FHLB borrowings and federal funds purchased was $7.0 million for 2007, compared to $2.3 million for 2006 and $2.1 million for 2005. The average cost of those borrowings was 4.33% for 2007, compared to 4.72% for 2006 and 3.49% for 2005. Interest expense on subordinated debentures was $3.3 million for 2007, compared to $3.3 million for 2006 and $2.9 million for 2005. The average cost of subordinated debentures was 8.87% for 2007, compared to 9.00% for 2006 and 7.71% for 2005, as LIBOR, to which the majority of subordinated debentures is tied, changed over the years. With the exception of one subordinated debenture, which has a fixed interest rate, all other subordinated debentures have variable interest rates that are tied to LIBOR with quarterly adjustments.

Net Interest Margin and Net Interest Rate Spread

We analyze our earnings performance using, among other measures, the net interest spread and net interest margin. The net interest spread represents the difference between the average yield on interest-earning assets and average rate paid on interest-bearing liabilities. Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. Our net interest margin is affected by changes in the yields earned on assets and rates paid on liabilities, as well as the ratio of the amounts of interest-earning assets to interest-bearing liabilities.

Interest rates charged on our loans are affected principally by the demand for such loans, the supply of money available for lending purposes, and other competitive factors. These factors are in turn affected by general economic conditions and other factors including those beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve Board. The table below presents the average yield on each category of interest-earning asset, the average rate paid on each category of interest-bearing liability, and the resulting net interest spread and net interest margin for each year in the three-year period ended December 31, 2007.

Average Balance Sheet and Analysis of Net Interest Income

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)								
INTEREST-EARNING ASSETS:									
Loans[1][2][3]	$ 1,879,457	$ 164,163	8.73%	$ 1,593,453	$ 144,349	9.06%	$ 1,383,758	$ 108,915	7.87%
Other investments	12,460	690	5.54%	9,253	511	5.52%	7,822	373	4.77%
Securities[3]	199,293	9,867	4.95%	185,587	8,435	4.55%	150,332	6,217	4.14%
Federal funds sold	20,514	1,053	5.13%	51,883	2,536	4.89%	49,832	1,719	3.45%
Total interest-earning assets	2,111,724	175,773	8.32%	1,840,176	155,831	8.47%	1,591,744	117,224	7.36%
	40,474								
Non-interest earning assets:									
Cash and due from bank	53,406			34,757			35,577		
Premises and equipment, net	11,753			9,907			7,551		
Accrued interest receivable	9,208			8,192			6,399		
Intangible assets	4,935			5,610			5,933		
Other assets	25,488			36,271			37,373		
Total non-interest earning assets	104,790			94,737			92,833		
Total assets	$ 2,216,514			$ 1,934,913			$ 1,684,577		
INTEREST-BEARING LIABILITIES:									
Deposits:									
Demand, interest-bearing	$ 241,152	9,895	4.10%	$ 210,604	7,074	3.36%	$ 254,752	6,260	2.46%
Savings	143,762	5,373	3.74%	136,846	4,155	3.04%	107,695	2,214	2.06%
Time certificates	1,015,717	52,979	5.22%	924,288	44,328	4.80%	718,141	24,224	3.37%
FHLB and other borrowings	161,410	6,988	4.33%	48,949	2,311	4.72%	59,856	2,090	3.49%
Subordinated debentures	37,564	3,333	8.87%	37,187	3,348	9.00%	37,156	2,863	7.71%
Total interest-bearing liabilities	1,599,605	78,568	4.91%	1,357,874	61,216	4.51%	1,177,600	37,651	3.20%
Non-interest bearing liabilities									
Demand deposits	371,599			373,789			355,431		
Other liabilities	40,447			37,044			30,753		
Stockholders equity	204,863			166,206			120,793		
Total liabilities and stockholders equity	$ 2,216,514			$ 1,934,913			$ 1,684,577		
NET INTEREST INCOME AND YIELD:									
Net interest income		$ 97,205			$ 94,615			$ 79,573	
Net interest margin			4.60%			5.14%			5.00%
Net interest margin, excluding loan prepayment fee income			4.51%			5.05%			4.95%
Net interest spread[4]			3.41%			3.96%			4.16%
Net interest spread[5]			4.33%			4.93%			4.91%
Cost of funds[6]			3.99%			3.54%			2.46%

(1) Interest income on loans includes amortization of loan fees and net interest settlements from interest rate swaps and prepayment fees received on loan pay-offs. The average balance of loans is net of deferred loan fees.

	Loan Fees	Deferred (Fees) cost	Loan prepayment fee income
		(Dollars in thousands)	
Year ended December 31,			
2007	$ 2,037	$ (1,459)	1,880
2006	$ 2,723	$ (2,167)	1,751
2005	$ 2,167	$ (2,823)	713

(2) Average loans outstanding include non-accrual loans and loans held for sale.
(3) Interest income and yields are not presented on a tax-equivalent basis.
(4) Interest on earning assets minus interest on interest-bearing liabilities
(5) Interest on earning assets minus interest on interest-bearing liabilities and non-interest bearing deposits
(6) Interest on interest bearing liabilities and non-interest bearing deposits

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The following table illustrates changes in interest income (including loan fees) and interest expense and the amounts of such changes attributable to variations in interest rates and volumes for the period indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amounts attributable solely to the change in volume and to the change in rate.

	Year Ended December 31,					
	2007 compared to 2006			2006 compared to 2005		
	Net Increase (Decrease)	Change due to Rate	Change due to Volume	Net Increase (Decrease)	Change due to Rate	Change due to Volume
	(Dollars in thousands)					
INTEREST INCOME:						
Interest and fees on loans	$ 19,814	$ (5,322)	$ 25,136	$ 35,434	$ 17,681	$ 17,753
Interest on other investments	179	1	178	138	64	74
Interest on securities	1,432	784	648	2,218	659	1,559
Interest on federal funds sold	(1,483)	121	(1,604)	817	744	73
TOTAL INTEREST INCOME	$ 19,942	$ (4,416)	$ 24,358	$ 38,607	$ 19,148	$ 19,459
INTEREST EXPENSE:						
Interest on demand deposits	$ 2,821	$ 1,705	$ 1,116	$ 814	$ 2,027	$ (1,213)
Interest on savings	1,218	999	219	1,941	1,238	703
Interest on time certificates of deposit	8,651	4,063	4,588	20,104	11,962	8,142
Interest on FHLB and other borrowings.	4,677	(207)	4,884	221	648	(427)
Interest on subordinated debentures	(15)	(49)	34	485	483	2
TOTAL INTEREST EXPENSE	$ 17,352	$ 6,511	$ 10,841	$ 23,565	$ 16,358	$ 7,207
NET INTEREST INCOME	$ 2,590	$ (10,927)	$ 13,517	$ 15,042	$ 2,790	$ 12,252

Provision for Loan Losses

The provision for loan losses was $7.5 million for 2007 compared to $3.8 million for 2006 and $5.4 million for 2005. The increase in the provision for loan losses of $3.8 million, or 101%, for 2007 over 2006 is primarily due to an increase in net charge-offs and an increase in classified loans. Net charge-offs increased to $6.6 million in 2007 from $2.3 million in 2006. The increase in net charge-offs was primarily related to commercial loans to retail businesses. One commercial loan relationship aggregating $5.0 million, which was secured by wholesale and retail business assets, experienced a misappropriation of funds by employees. The Bank charged off $1.5 million of the loans. Total classified loans increased to $21.4 million at December 31, 2007 compared to $5.0 million at December 31, 2006. Classified loans increased primarily due to the loan mentioned above, which amounted to $3.5 million net of the charge-off, and a $7.5 million commercial real estate loan collateralized by a car wash business property, which is involved in a dispute between co-owners.

The decrease in the provision for loan losses of $1.7 million, or 31%, for 2006 over 2005 was primarily due to improvement in criticized loans as well as a decrease in non-performing loans notwithstanding the continued growth in our loan portfolio. Total classified loans decreased to $5.0 million at December 31, 2006 compared to $10.5 million at December 31, 2005. Average gross loans increased $209.7 million or 15% during 2006.

See Financial Condition Allowance for Loan Losses for a description of our methodology for determining the allowance for loan losses.

Non-interest Income

Non-interest income was $22.6 million for 2007 compared to $19.3 million for 2006 and $20.2 million for 2005.

Service charges on deposit accounts increased $942 thousand, or 15%, to $7.0 million for 2007 from $6.1 million for 2006. The increase was primarily due to changes in our fee structure and an increase in deposits. Net

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loan servicing fee income increased $155 thousand, or 8%, during 2007 as our serviced loans, primarily consisting of SBA loans we sold, increased to $299.8 million in 2007 from $246.1 million in 2006. Net gains on sales of SBA loans increased $378 thousand, or 8%, to $5.2 million for 2007 from $4.8 million for 2006. Total SBA loan originations during 2007 were $123.6 million compared to $82.5 million for 2006. Sales of SBA loans during 2007 were $126.4 million compared to $76.4 million for 2006. The level of the increase in net gain on sales of SBA loans lagged the level of the increase in SBA loans sold primarily due to lower gross premiums received from sales in 2007.

We also recognized a gain of $2.4 million on the sale of $60.5 million in commercial real estate loans to reduce certain industry concentrations within the commercial real estate portfolio as well as to provide liquidity. Net gains on sales of commercial real estate loans for 2007 increased $1.1 million, or 86% from $1.3 million for 2006. We sold $60.5 million in commercial real estate loans during 2007, compared to $32.1 million during 2006. The average premium received was 3.92% and 3.96% for 2007 and 2006, respectively. Other income and fees increased $889 thousand, or 81%, during 2007. The increase was primarily due to the write-offs of $230 thousand from disposition of premises and equipment related to the corporate headquarters relocation and a relocation of a branch in 2006. In addition, a loss of $132 thousand on derivatives related to the ineffectiveness portion of the swaps that were recorded in 2006 was recovered as respective agreements matured in 2007. The increase in other income and fees was also attributable to an increase of $198 thousand, or 30%, in BOLI income resulting from additional policies of $6.9 million purchased in 2007.

Service charges on deposit accounts decreased $200 thousand or 3% to $6.1 million for 2006 from $6.3 million for 2005 due to due to continued promotion of free checking accounts during 2006 in an effort to increase demand deposit accounts. Net loan servicing fee income increased $221 thousand, or 14%, during 2006 as our serviced loans increased to $246.1 million in 2006 from $245.6 million in 2005. Net gains on sales of SBA loans decreased $1.2 million, or 19%, to $4.8 million for 2006 from $6.0 million for 2005 due to SBA management turnover, which led to lower loan production and sales. Total SBA loan originations during 2006 were $82.5 million compared to $113.3 million for 2005. Sales of SBA loans during 2006 were $76.4 million compared to $101.0 million for 2005. During the fourth quarter of 2006, we also recognized a gain of $1.3 million on the sale of $31.9 million in commercial real estate loans to reduce certain industry concentrations within the commercial real estate portfolio. Other income and fees decreased $765 thousand or 41% during 2006. The decrease was primarily due to the write-offs of $230 thousand from disposition of premises and equipment related to the corporate headquarters relocation and a relocation of a branch. We also recognized a loss of $132 thousand on derivatives related to changes in the fair value of the portion of those derivatives that no longer qualify as a cash flow hedges due to pay-offs of the underlying instruments that were being hedged.

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

	Year Ended December 31,						
		Increase (Decrease)			Increase (Decrease)		
	2007	Amount	%	2006	Amount	%	2005
	(Dollars in thousands)						
Non-interest Income:							
Service charges on deposit accounts	$ 7,023	$ 942	15%	$ 6,081	$ (200)	(3)%	$ 6,281
International service fees	2,564	(102)	(4)%	2,666	(188)	(7)%	2,854
Loan servicing fees, net	1,988	155	8%	1,833	221	14%	1,612
Wire transfer fees	1,407	7	1%	1,400	(29)	(2)%	1,429
Net gains on sales of SBA loans	5,204	378	8%	4,826	(1,161)	(19)%	5,987
Net gains on sales of other loans	2,372	1,100	86%	1,272	1,272	N/A	
Net gains on sales of securities available for sale	27	(65)	(71)%	92	(51)	(36)%	143
Others income and fees	1,988	889	81%	1,099	(765)	(41)%	1,864
Total non-interest income	$ 22,573	$ 3,304	17%	$ 19,269	$ (901)	(4)%	$ 20,170

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Non-interest Expense

Non-interest expense was $56.5 million for 2007, compared to $53.9 million for 2006 and $48.7 million for 2005. The increases were $2.5 million, or 5%, for 2007 and $5.3 million, or 11%, for 2006.

Salaries and employee benefits increased $1.3 million, or 5%, to $28.4 million in 2007 from $27.1 million in 2006. The increase was due to an annual salary adjustment and an increase in group insurance offset by a decrease in accrued bonuses during 2007, including the reversal of a $600,000 contingent liability accrual during the 2007 first quarter that had been established during 2002 related to a past compensation matter for which we determined during the first quarter of 2007 that no liability continued to exist. Occupancy expense increased to $692 thousand, or 9% to $8.5 million in 2007 compared to $7.8 million in 2006. The increase is primarily due to lease renewals at higher lease rates for four branches and a new lease related to the relocation of our corporate headquarters during the fourth quarter of 2006. Furniture and equipment expense increased 20% to $2.7 million in 2007 compared to $2.6 million in 2006. This increase was due to our new branch set-up, depreciation and amortization expenses related to purchases for the new corporate headquarters and IT related equipment purchased to support and enhance our technology for better service to our customers and for better efficiency.

Data processing and communications expense decreased $359 thousand, or 15%, due to the purging of closed accounts during 2007, reducing per item costs, the use of an in-house check imaging system, and the closing of unused telephone lines. Other expense increased $825 thousand, or 11%, to $8.5 million in 2007 compared to $7.7 million in 2006. This increase was primarily due to the settlement expense related to an arbitration matter, which cost approximately $668 thousand.

Comparing 2006 to 2005, non-interest expense increased $5.3 million, or 11%. Salaries and employee benefits increased $3.2 million, or 13%, to $27.1 million in 2006 from $23.9 million in 2005. This expense for 2006 included $1.5 million in stock-based compensation expense to comply with a new accounting standard that became effective in January of 2006. Excluding the $1.5 million in stock-based compensation expense, salaries and employee benefits increased $1.7 million or 7% over the prior period. The increase was primarily due to an increase in average FTE employees to 394 in 2006 from 355 in 2005 partially offset by a decrease in accrued bonus expense.

Occupancy expense also increased $851 thousand or 12% to $7.8 million for 2006 from $7.0 million for 2005, primarily due to higher lease renewals of certain existing branches, the full year impact of branches added during 2005 and the relocation of our corporate headquarters. Advertising and marketing expense increased $203 thousand or 9% during 2006, primarily due to various promotions during the year. Data processing and communications expense increased $365 thousand, or 11%, as we increased the number of accounts and transactions. Professional fees decreased $776 thousand, or 21%, to $2.9 million in 2006 compared to $3.7 million in 2005. The decrease was primarily due to the completion of consulting work related to regulatory MOU compliance offset by additional fees related to our CEO search and human resources related consulting fees. Other expense increased $1.3 million or 20% to $7.7 million in 2006 compared to $6.4 million in 2005. Included in other expense was the FDIC insurance premium, which increased $495 thousand or 273% over the prior year, as a result of the FDIC risk rating formula. Other expense also included directors and officers related insurance, which increased $482 thousand, or 158%, over the prior year, as a result of the restatement of our prior year financial statements.

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A breakdown of non-interest expense by category is illustrated below:

	Year Ended December 31,						
	2007	Increase (Decrease) Amount	%	2006	Increase (Decrease) Amount	%	2005
	(Dollars in thousands)						
Non-interest Expense:							
Salaries and employee benefits	$ 28,429	$ 1,332	5%	$ 27,097	$ 3,172	13%	$ 23,925
Occupancy	8,506	692	9%	7,814	851	12%	6,963
Furniture and equipment	2,724	455	20%	2,269	169	8%	2,100
Advertising and marketing	1,993	(359)	(15)%	2,352	203	9%	2,149
Data processing and communications	3,482	(299)	(8)%	3,781	365	11%	3,416
Professional fees	2,815	(123)	(4)%	2,938	(776)	(21)%	3,714
Other	8,501	825	11%	7,676	1,295	20%	6,381
Total non-interest expense:	$ 56,450	$ 2,523	5%	$ 53,927	$ 5,279	11%	$ 48,648

Income Tax Provision

The income tax provision for 2007 was $22.6 million compared to $22.4 million in 2006 and $18.8 million in 2005. The effective tax rate was 41% for 2007 compared to 40% for 2006 rand 41% for 2005. The decrease in the effective tax rate in 2006 was due primarily to the resolution of certain tax contingencies during the second half of 2006, which resulted in a reduction of deferred tax liabilities and a credit to income tax expense of approximately $1.0 million.

Financial Condition

Our total assets were $2.42 billion at December 31, 2007 compared to $2.05 billion at December 31, 2006, an increase of $376.4 million or 18%. The increase in total assets was primarily attributable to a 17% increase in net loans and a 59% increase in investment securities available-for-sale. We continued to experience strong loan growth (on a percentage basis) in our existing branches from new customer relationships as well as from our existing customers. Gross loans, net of unearned, increased $293.9 million, or 17% during 2007. These increases were primarily funded by growth in deposits and FHLB advances.

Loan Portfolio

We offer various products designed to meet the credit needs of our borrowers. Our lending activities primarily consist of commercial real estate loans, commercial business loans, trade finance loans, and to a lesser extent, consumer loans. We continued to experience strong loan demand throughout 2007. Our loans receivable, net of allowance for loan losses, increased $292.9 million, or 17%, to $1.99 billion at December 31, 2007 compared to $1.70 billion at December 31, 2006. Average loans, as a percentage of our average total interest-earning assets, were 89% for 2007 compared to 87% for 2006. Average loans were $1.88 billion and $1.59 billion for the years ended December 31, 2007 and 2006, respectively. The increases in average loans were $286.0 million, or 18%, during 2007 and $209.7 million, or 15%, during 2006. Loan growth remained concentrated in commercial real estate loans and commercial loans. However, we anticipate the future demand for commercial real estate loans may not be as strong as in the past several years due to the slowing economy and tightening credit standards. The rates of interest charged on variable rate loans are set at specified spreads to the prime lending rate and accordingly vary as the prime lending rate varies. Approximately 47% of our total loans were variable-rate loans at December 31, 2007 compared to 60% at December 31, 2006. The demand for fixed rate loans continued to be very strong in our market during 2007. Approximately 56% of new loan originations were fixed rate loans for 2007. However, we anticipate that the demand for fixed rate loans could diminish as market interest rates decline.

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With certain exceptions, we are permitted, under applicable law, to make unsecured loans to a single borrowers (including certain related persons and entities) in aggregate amounts of up to 15% of the sum of our total capital and the allowance for loan losses (as defined for regulatory purposes) and certain capital notes and debentures issued by us (if any). As of December 31, 2007, our lending limit was approximately $39.9 million per borrower for unsecured loans. For lending limit purposes, a secured loan is defined as a loan secured by collateral having a current market value of at least 100% of the amount of the loan or extension of credit at all times and satisfying certain other requirements. In addition to unsecured loans, we are permitted to make such collateral-secured loans in an additional amount up to 10% (for a total of 25%) of our total capital and the allowance for loan losses for a total limit of $66.5 million to one borrower.

Commercial Loans

Commercial loans are extended for working capital, inventory financing, especially for importers and exporters, for equipment financing and for other business purposes. Short-term business loans (payable within one year) typically provide for periodic interest payments, with principal payable at maturity. Term loans (usually 5 to 7 years) normally provide for monthly payments of both principal and interest. SBA guaranteed loans (commercial and real estate) usually have a longer maturity (7 to 25 years). The creditworthiness of the borrower is reviewed on a periodic basis, and most loans are collateralized by inventory, equipment and/or real estate. During 2007, commercial loans increased $98.6 million, or 17%, to $664.4 million at year-end 2007 from $565.8 million at year-end 2006.

Commercial Real Estate Loans

Our real estate loans consist primarily of loans secured by deeds of trust on commercial properties. It is our policy to restrict commercial real estate loan amounts to 70% of the appraised value of the property. We offer both fixed and floating rate loans. The maturities on such loans are generally up to seven years (with payments determined on the basis of principal amortization schedules of up to 25 years and a balloon payment due at maturity). Our real estate loans, consisting primarily of commercial real estate loans, increased $208.9 million, or 19%, to $1.31 billion at year-end 2007 from $1.10 billion at year-end 2006.

Consumer Loans

Most of our consumer loan portfolio consists of automobile loans, home equity lines and loans, and signature unsecured lines of credit and loans. We ceased offering auto loans in February, 2007 and ceased offering home equity loans in January 2008. Referrals from automobile dealers comprised the majority of our automobile loans. We also offered fixed-rate loans to buyers of new and previously owned automobiles who did not qualify for the automobile dealers most preferential loan rates. We anticipate that the level of consumer and other loans will decrease due to our discontinuance of auto and home equity loans in January 2008 and as we focus on loans to businesses.

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The following table shows the composition of our loan portfolio by type of loan on the dates indicated:

	December 31,									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Loan Portfolio Composition:										
Commercial loans	$ 664,385	33%	$ 565,759	33%	$ 483,231	33%	$ 441,940	36%	$ 360,250	36%
Real estate and construction loans	1,310,994	65%	1,102,072	64%	900,699	62%	717,747	59%	575,930	58%
Consumer and other loans	34,809	2%	49,201	3%	64,633	5%	64,845	5%	63,322	6%
Total loans outstanding	2,010,188	100%	1,717,032	100%	1,448,563	100%	1,224,532	100%	999,502	100%
Less: Deferred loan fees	(1,459)		(2,167)		(2,823)		(2,798)		(2,164)	
Gross Loans Receivable	2,008,729		1,714,865		1,445,740		1,221,734		997,338	
Less: Allowance for loan losses	(20,035)		(19,112)		(17,618)		(14,627)		(12,471)	
Net Loans Receivable	$ 1,988,694		$ 1,695,753		$ 1,428,122		$ 1,207,107		$ 984,867	

We provide lines of credit to business customers usually on an annual review basis. We normally do not make loan commitments in material amounts for periods in excess of one year.

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

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Commitments to extend credit	$ 224,837	$ 214,685	$ 199,968	$ 151,726	$ 150,736
Standby letters of credit	15,231	12,786	14,077	22,108	14,491
Other commercial letters of credit	18,552	27,146	25,858	29,035	31,314
	$ 258,620	$ 254,617	$ 239,903	$ 202,869	$ 196,541

Non-performing Assets

Non-performing assets consisted of non-accrual loans, accruing loans that are 90 days or more past due, restructured loans where the renegotiated terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal and other real estate owned (OREO).

Loans are placed on non-accrual status when they become 90 days or more past due, unless the loan is both well secured and in the process of collection. Loans may be placed on non-accrual status earlier if the full and timely collection of principal or interest becomes uncertain. When a loan is placed on non-accrual status, unpaid accrued interest is charged against interest income. Loans are charged off when our management determines that collection has become unlikely. OREO consists of real estate acquired by us through foreclosure or similar means, including by deed from the owner in lieu of foreclosure, that we intend to offer for sale.

Non-performing assets were $17.4 million at December 31, 2007, compared to $3.6 million at December 31, 2006. The changes in non-performing assets in 2007 was primarily due to changes in non-accrual loans, which are discussed in the following paragraph.

Non-performing loans were $16.6 million at December 31, 2007 compared to $3.3 million at December 31, 2006. The increase of $13.3 million, or 407%, in 2007 was primarily due to four large loans. One of those loans aggregating $1.6 million was placed on non-accrual status during the first quarter of 2007 and is collateralized by a gas station. Three other loans were placed on non-accrual status during the fourth quarter of 2007.

One loan for $7.5 million is collateralized by a car wash property and business whose two owners are in the process of settling an internal buy-out dispute. The borrower for another loan, which has a $3.5 million remaining balance, is in the process of either providing additional collateral or liquidating assets to reduce the loan balance. $1.5 million was charged off as a result of the discovery by the owner of a misappropriation of funds by certain employees. The third loan to an entertainment business for $726 thousand was sold in January 2008. The amount of additional interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and the interest income recognized on these loans was immaterial for 2007, 2006 and 2005. The following table illustrates the composition of our non-performing assets as of the dates indicated:

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Non-accrual loans	$ 16,592	$ 3,271	$ 5,489	$ 2,679	$ 4,855
Loans past due 90 days or more, still accruing					209
Total nonperforming loans	16,592	3,271	5,489	2,679	5,064
Other real estate owned					
Restructured loans	765	298	741	229	529
Total non-performing assets	$ 17,357	$ 3,569	$ 6,230	$ 2,908	$ 5,593

Maturity and Repricing of Loans

The following table illustrates the maturity distribution and repricing intervals of our outstanding loans outstanding as of December 31, 2007. The table also shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates.

	December 31, 2007 Loans maturing and repricing			
	Within One Year	Between One and Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial loans	$ 546,027	$ 37,746	$ 80,612	$ 664,385
Real estate and construction loans	436,816	449,569	424,609	1,310,994
Consumer and other loans	23,522	11,287		34,809
Total	$ 1,006,365	$ 498,602	$ 505,221	$ 2,010,188
Loans with fixed interest rates	$ 53,892	$ 498,602	$ 505,221	$ 1,057,715
Loans with variable interest rate	952,473			952,473
Total	$ 1,006,365	$ 498,602	$ 505,221	$ 2,010,188

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Concentrations

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

	December 31,									
	2007		2006		2005		2004		2003	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
	(Dollars in thousands)									
Wholesale Trade	$ 196,853	10%	$ 193,194	11%	$ 191,360	13%	$ 210,912	17%	$ 174,195	17%
Retail Trade	508,252	25%	441,434	26%	322,690	22%	219,106	18%	158,821	16%
Services	573,455	29%	483,708	28%	382,308	27%	279,613	23%	198,940	20%
Finance, Insurance, Property Management	628,683	31%	538,062	31%	481,564	33%	433,887	35%%	355,557	36%
Total	$ 1,907,243	95%	$ 1,656,398	96%	$ 1,377,922	95%	$ 1,143,518	93%	$ 887,513	89%
Gross Loans	$ 2,010,188		$ 1,717,032		$ 1,448,563		$ 1,224,532		$ 999,502	

Allowance for Loan Losses

The risk of nonpayment of loans is inherent in all commercial banking operations. We employ a concept of total quality loan management in order to minimize our credit risk. For new loans, we analyze each loan application and a majority of those loans are approved by the Management Loan Committee (MLC), which is comprised of the Chief Executive Officer, Chief Credit Officer, and Senior Credit Administrators**.** For existing loans, we maintain a systematic loan review program, which includes a quarterly loan review by the internal loan review officer and a semi-annual loan review by external loan consultants. Based on the reviews, loans are graded for their overall quality, which is measured based on: the sufficiency of credit and collateral documentation; proper lien perfection; proper approval by loan committee(s); adherence to any loan agreement covenants; compliance with internal policies and procedures, and with laws and regulations; sources of repayment; and liquidation value of the collateral and other sources of repayment. We closely monitor loans that management has determined require further supervision because of the loan size, loan structure, and/or specific circumstances of the borrower. These loans are periodically reviewed by the MLC.

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

The allowance for loan losses was $20.0 million at December 31, 2007, compared to $19.1 million at December 31, 2006. The allowance for loan losses increased $923 thousand, or 5%, during 2007, primarily due to the growth of our loan portfolio and an increase in the level of our non-accrual loans and classified loans. We recorded a provision for loan losses of $7.5 million in 2007, compared to $3.8 million in 2006 and $5.4 million in 2005. The increase in the provision for loan losses in 2007 was primarily due to a significant increase in net loans charged off and classified assets. During 2007, we charged off $7.4 million and recovered $841 thousand of loans. The allowance for loan losses was 1.00% of gross loans at December 31, 2007, compared to 1.11% at December 31, 2006. Total classified loans at December 31, 2007 were $21.4 million compared to $5.0 million at December 31, 2006.

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During December 2006, the regulatory authorities issued a new interagency policy statement on accounting for the allowance for loan and lease losses. Among other things, use of industry or regulatory benchmarks or standards, peer medians or target ratios was deemed inappropriate under the new policy statement. Instead, the policy statement pointed to use of an institution s own historical loss experience for any quantitatively derived allowance, and management s judgment on qualitative or environmental factors in determining the appropriate level of loss allowances. Accordingly, in 2007 we made certain changes in our methodology to more closely tie allocations to actual loss experience by loan types, moving away from regulatory benchmarks, which in some cases were higher than our actual loss experience. In setting qualitative and environmental factors during the year, we increased the subjective factors for economic conditions based on deterioration in the economy during 2007. We also increased the factors relating to the trends in classified loans and delinquencies due to the increases in these items during the year. Offsetting these increases, we decreased the qualitative factors related to policies and the nature and volume of loans due to improvements in our credit monitoring processes throughout 2007. In particular, we ve decreased the number of days delinquent that we use to start monitoring delinquencies, and we ve centralized our processes for monitoring delinquent loans to ensure that we have consistent processes. We ve also increased our scope for reviewing classified and criticized loans to ensure that we are identifying issues in the loan portfolio more quickly. Therefore, although the level of classified loans and charge-offs increased during 2007, the re-allocation of loss allowances based on actual loss experience from regulatory benchmarks offset the increase in loss allowances required for higher problem loans.

Specific loss allocations for impaired loans in accordance with SFAS No. 114 were $3.1 million at December 31, 2007 compared to $1.7 million at December 31, 2006. Management and the Loan and Credit Policy Committee (LCPC) of the Bank review the adequacy of the allowance for loan losses at least quarterly. Based upon these evaluations and internal and external reviews of the overall quality of our loan portfolio, management and the LCPC believe that the allowance for loan losses was adequate as of December 31, 2007, to absorb estimated probable incurred losses inherent in the loan portfolio. However, no assurances can be given that we will not experience further losses in excess of the allowance, which may require additional provisions for loan losses.

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

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
LOANS:					
Average gross loans, including loans held for sale	$ 1,879,457	$ 1,593,453	$ 1,383,758	$ 1,113,750	$ 839,097
Total gross loans, excluding loans held for sale at end of year (net of deferred fees)	2,008,729	1,714,865	1,445,740	1,221,734	997,338
ALLOWANCE:					
Balance beginning of year	$ 19,112	$ 17,618	$ 14,627	$ 12,471	$ 8,458
Loans charged off:					
Commercial	6,568	2,553	1,980	1,465	1,756
Consumer	880	1,108	1,086	1,080	630
Real estate and construction					30
Total loans charged off	7,448	3,661	3,066	2,545	2,416
Less: recoveries:					
Commercial	646	970	403	542	386
Consumer	195	431	227	256	52
Real estate and construction				3	72
Total loan recoveries	841	1,401	630	801	510
Net loans charged off	6,607	2,260	2,436	1,744	1,906
Provision for loan losses	7,530	3,754	5,427	3,900	5,250
Allowance acquired in business acquisition					669
Balance end of period	$ 20,035	$ 19,112	$ 17,618	$ 14,627	$ 12,471
RATIOS:					
Net loan charge-offs to average total loans	0.35%	0.14%	0.18%	0.16%	0.23%
Allowance for loan losses to total loans at end of year	1.00%	1.11%	1.22%	1.20%	1.25%
Net loan charge-offs to beginning allowance	34.57%	12.83%	16.65%	13.98%	22.53%
Net loan charge-offs to provision for loan losses	87.74%	60.20%	44.89%	44.72%	36.30%

Allowance for Loan Losses Methodology

We maintain an allowance for loan losses to provide for estimated probable incurred losses that are inherent in our loan portfolio. The allowance is based on our regular quarterly assessments. Our methodologies for measuring the appropriate level of the allowance include the combination of: (1) A quantitative Historical Loss Migration Analysis (Migration Analysis) for pools of loans, and a qualitative analysis of subjective factors and (2) a Specific Allocation Method for individual loans.

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

	Allocation of Allowance for Loan Losses									
	12/31/2007		12/31/2006		12/31/2005		12/31/2004		12/31/2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Loan Type										
Real Estate	$ 12,283	65%	$ 12,740	64%	$ 11,469	62%	$ 7,961	59%	$ 5,023	58%
Commercial	7,012	33%	5,579	33%	5,061	33%	5,871	36%	6,256	36%
Consumer	643	2%	759	3%	1,057	5%	786	5%	1,232	6%
Unallocated	97	N/A	34	N/A	31	N/A	9	N/A	(40)	N/A
Total allowance	$ 20,035	100%	$ 19,112	100%	$ 17,618	100%	$ 14,627	100%	$ 12,471	100%

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

The Migration Analysis is a formula methodology based on our actual historical net charge-off experience for each loan pool and loan risk grade (Pass, Special Mention, Substandard and Doubtful).

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

To calculate our various loss allocation factors, we use a twelve-quarter rolling average of historical losses detailing charge-offs and recoveries by loan type pool balances to determine the estimated credit losses for each type of non-classified and classified loans. Also, in order to reflect the impact of recent events more heavily, the twelve-quarter rolling average has been weighted. The most recent four quarters have been assigned a 40% weighted average while the prior four quarters have been assigned a 33% weighted average and the oldest four quarters have been assigned a 27% weighted average.

Additionally, in order to systematically quantify the credit risk impact of trends and changes within the loan portfolio, we make qualitative adjustments to the Migration Analysis within established parameters. Our parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive/decrease (Major, Moderate, and Minor), three negative/increase (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type pool. Generally, the factors are considered to have no significant impact (neutral) to our historical migration ratios. However, if information exists to warrant adjustment to the Migration Analysis, we make the changes in accordance with the established parameters supported by narrative and/or statistical analysis. Our Credit Risk Matrix and the seven possible scenarios enable us to qualitatively adjust the Loss Migration Ratio by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following 9 factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses.

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

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

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Changes in the nature and volume of the loan portfolio.

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

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

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

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

Transfer risk on cross-border lending activities.

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

We also establish specific loss allowances for loans where we have identified significant conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuations: 1) the present value of future cash flows discounted at the loan s effective interest rate; 2) the loan s observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent.

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

For commercial, real estate and certain consumer loans, we base the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan s effective interest rate or on the fair value of the loan s collateral if the loan is collateral dependent. We evaluate most consumer loans for impairment on a collective basis, because these loans are smaller balance and homogeneous. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses.

Investment Security Portfolio

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

Our available-for-sale securities totaled $258.8 million at December 31, 2007, compared to $162.9 million at December 31, 2006. We had no securities in the held-to-maturity category at December 31, 2007, compared to $1.0 million of such securities at December 31, 2006. During 2007, $16.6 million in mortgage related securities were paid down, $38.3 million in securities were sold, and $158.4 million were purchased. All of the securities involved in these transactions were classified as available- for- sale. Securities with an amortized cost of $4.9 million were pledged to the Federal Reserve Board as required or permitted by law at December 31, 2007.

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We also pledged $17.1 million in securities with the Federal Home Loan Bank of San Francisco as borrowing collateral, and $180.4 million in securities with the California State Treasurer s Office as deposit (certificate of time deposits) collateral. Our investment portfolio consists of government sponsored agency bonds, mortgage backed securities, CMOs, mutual funds, and corporate debt securities.

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

Investment Portfolio Balance and Market Value

	December 31,					
	2007			2006		
	Amortized Cost	Estimated Market Value	Unrealized/ Unrecognized Gain (Loss)	Amortized Cost	Estimated Market Value	Unrealized/ Unrecognized Gain (Loss)
	(Dollars in thousands)					
Available-for-sale:						
U.S. Government agency	$ 37,120	$ 37,098	$ (22)	$ 82,389	$ 81,042	$ (1,347)
CMOs	108,576	107,926	(650)	39,564	38,748	(816)
MBS	102,044	102,600	556	37,956	37,241	(715)
Asset backed securities	1,815	1,815		1,928	1,928	
U.S. Corporate debt securities	4,429	3,912	(517)			
Mutual funds	5,462	5,422	(40)	4,000	3,892	(108)
Total available-for-sale	$ 259,446	$ 258,773	$ (673)	$ 165,837	$ 162,851	$ (2,986)
Held to Maturity:						
Corporate debt securities	$	$	$	$ 1,000	$ 1,002	$ 2
Total held-to-maturity	$	$	$	$ 1,000	$ 1,002	$ 2
Total Investment Securities	$ 259,446	$ 258,773	$ (673)	$ 166,837	$ 163,853	$ (2,984)

The following table summarizes the maturity of securities based on carrying value and their related weighted average yield at December 31, 2007:

Investment Portfolio Maturities and Weighted Average Yields

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale										
U.S. Government agency	$ 16,997	4.04%	$ 20,123	4.23%	$	%	$	%	$ 37,120	4.14%
CMOs					214	3.90%	108,362	5.53%	108,576	5.53%
MBS			2,933	3.86%	2,504	4.51%	96,607	5.68%	102,044	5.60%
Asset backed securities							1,815	6.74%	1,815	6.74%
U.S. Corporate debt securities							4,429	6.69%	4,429	6.69%
Mutual funds							5,462	4.25%	5,462	4.25%
Total available- for-sale	$ 16,997	4.04%	$ 23,056	4.18%	$ 2,718	4.46%	$ 216,675	5.60%	$ 259,446	5.36%

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The following table shows our investments with gross unrealized losses and their estimated fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007.

	Unrealized Loss For Less than 12 months		Unrealized Loss For 12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(Dollars in thousands)					
Description of Securities						
U.S. Government agency	$	$	$ 25,365	$ (27)	$ 25,365	$ (27)
CMOs	54,521	(467)	10,983	(524)	65,504	(991)
MBS	17,908	(70)	14,738	(333)	32,646	(403)
U.S. Corporate debt securities	3,912	(517)			3,912	(517)
Mutual funds			5,422	(40)	5,422	(40)
	$ 76,341	$ (1,054)	$ 56,508	$ (924)	$ 132,849	$ (1,978)

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 length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, we may consider whether the securities are issued by the federal government or its agencies, whether downgrades of the ratings of the securities by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

During the year ended December 31, 2007, we sold $38.3 million in agency securities at gross gains of $42 thousand and gross losses of $15 thousand. The sales were part of our balance sheet restructuring and for interest rate risk and liquidity management purposes. We have the intent and ability to hold those investments in an unrealized loss position at December 31, 2007 until maturity or full recovery of their market value.

Deposits

Deposits are our primary source to fund loans and investment activities. We offer a wide variety of deposit account products to commercial and consumer customers. Total deposits increased $121.1 million, or 7%, to $1.83 billion at December 31, 2007 compared to $1.71 billion at December 31, 2006.

The increase in deposits during 2007 was primarily attributable to an increase in time deposits with balances of $100,000 or more (Jumbo CDs). Total jumbo CDs increased $131.3 million, or 17%, to $900.0 million at December 31, 2007 compared to $768.7 million at December 31, 2006. The increase was primarily due to an increase in wholesale deposits, particularly the brokered deposits. Total Jumbo CDs represented 49% of the total deposits at year-end 2007, compared to 45% of the total deposit at year-end 2006. At December 31, 2007, the weighted average cost of total time deposits was 5.22% and the weighted average cost of Jumbo CDs and non-jumbo CDs was 5.27% and 4.94%, respectively. Interest-bearing demand deposits also increased $76.0 million, or 41% to $260.2 million at December 31, 2007, compared to $184.2 million at December 31, 2006. This increase was primarily due to higher interest rates offered on new money market accounts throughout the year 2007.

Deposit growth continued to be a challenge as we experienced heightened market competition for deposits throughout 2007. We rely on brokered deposits as a supplemental source of funding. Brokered deposits increased 124% to $121.8 million at December 31, 2007, compared to $54.3 million at December 31, 2006. The weighted

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average cost of brokered deposit was 5.20% during 2007, compared to 4.59% during 2006. The deposits from the State of California also are another source of funds and such deposits increased 33% or $40 million to $160.0 million at December 31, 2007, compared to $120.0 million at December 31, 2006. The weighted average cost of State of California deposits was 3.96% during 2007, compared to 5.16% during 2006.

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

	December 31,					
	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Demand, non-interest bearing	$ 364,518	20%	$ 407,519	24%	$ 371,943	24%
Demand, interest bearing	260,224	14%	184,199	11%	185,550	12%
Savings	143,020	8%	141,611	8%	120,948	8%
Time deposit of $100,000 or more	899,980	49%	768,727	45%	714,636	47%
Other time deposits	165,604	9%	210,179	12%	133,409	9%
Total Deposits	$ 1,833,346	100%	$ 1,712,235	100%	$ 1,526,486	100%

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

	December 31,					
	2007		2006		2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)					
Three months or less	$ 515,854	48%	$ 309,135	32%	$ 295,048	35%
Over three months through six months	340,511	32%	414,263	42%	265,629	31%
Over six months through twelve months	104,513	10%	183,234	19%	251,972	