

NARA BANCORP INC  
Form 10-K  
February 18, 2011  
Table of Contents

**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, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File # 000-50245**

**NARA BANCORP, INC.**

Edgar Filing: NARA BANCORP INC - Form 10-K

(Exact name of Registrant as specified in its charter)

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

**95-4849715**  
(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**

<b>Title of Class</b>	<b>Name of Exchange on Which Registered</b>
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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark 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  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

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, 2010, as reported on the NASDAQ Global Select Market, was approximately \$319,974,000.

Edgar Filing: NARA BANCORP INC - Form 10-K

Number of shares outstanding of the Registrant's Common Stock as of January 31, 2011: 37,983,027

Documents Incorporated by Reference: Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders Part III

**Table of Contents****Table of Contents**

	<b>Page</b>
<b><u>PART I</u></b>	
<b><u>Forward-Looking Information</u></b>	3
Item 1. <u>Business</u>	3
<u>General</u>	3
<u>Business Overview</u>	4
<u>Lending Activities</u>	4
<u>Investing Activities</u>	6
<u>Deposit Activities</u>	6
<u>Borrowing Activities</u>	7
<u>Market Area and Competition</u>	7
<u>Pending Center Merger</u>	7
<u>Economic Conditions, Government Policies and Legislation</u>	9
<u>Supervision and Regulation</u>	10
<u>Employees</u>	18
Item 1A. <u>Risk Factors</u>	19
Item 1B. <u>Unresolved Staff Comments</u>	27
Item 2. <u>Properties</u>	27
Item 3. <u>Legal Proceedings</u>	28
Item 4. <u>Reserved</u>	28
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
Item 6. <u>Selected Financial Data</u>	32
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	71
Item 8. <u>Financial Statements and Supplementary Data</u>	74
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	74
Item 9A. <u>Controls and Procedures</u>	74
Item 9B. <u>Other Information</u>	75
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	76
Item 11. <u>Executive Compensation</u>	76
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	76
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	76
Item 14. <u>Principal Accountant Fees and Services</u>	76
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	77

---

**Table of Contents**

**PART I**

**Forward-Looking Information**

*Some statements in this Annual Report on Form 10-K 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 regarding the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our business strategies, objectives 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 . Nara Bancorp 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 the Company, we or our on a consolidated basis) is a bank holding company headquartered in Los Angeles, California. We offer commercial banking loan and deposit products 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, in the New York City metropolitan area, and New Jersey. 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 Federal Reserve Board or 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, New York and New Jersey.

On December 9, 2010, Nara Bancorp entered into an Agreement and Plan of Merger (the Merger Agreement ) under which we have agreed, subject to the satisfaction of certain terms and conditions of the Merger Agreement, to merge Center Financial Corporation ( Center Financial ) with and into Nara Bancorp in an all stock transaction, which we refer to as the Center Merger. We cannot assure you that the Center Merger will be consummated as scheduled, or at all. See Pending Center Merger for a description of the terms of the Center Merger and Item 1.A. Risk Factors Risks Relating to the Center Merger for a description of risks relating to the Center Merger.

## **Table of Contents**

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.

We file reports with the Securities and Exchange Commission (the SEC), which include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied on official business days at the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is <http://www.sec.gov>. Our website address is <http://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 the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are electronically filed with the SEC.

## **Business Overview**

Our principal business activities are conducted through Nara Bank and consist of earning interest on loans and investment securities that are funded by customer deposits and other borrowings. Operating revenues consist of the difference between interest received, interest paid, gains and losses on the sale of financial assets and fees earned for financial services provided. Interest rates are highly sensitive to many factors that are beyond our control, such as general economic conditions, new legislation affecting the banking industry, 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.

Through our network of 23 branches and one loan production office, we offer commercial banking loan and deposit products 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 business loans, commercial real estate loans, trade finance loans, and Small Business Administration (SBA) loans. Nara Bank offers cash management services to our business customers. 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 (ATMs). We also provide debit card services to all customers and courier services to qualifying customers. Personal banking officers focus on customers to better support their banking needs. 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](http://www.narabank.com) offers internet banking services and applications in both English and Korean.

## **Lending Activities**

### ***Commercial Business Loans***

We provide commercial loans to businesses for various purposes such as for working capital, purchasing inventory, debt refinancing, business acquisitions and other business related financing needs. Commercial loans are typically classified as (1) short-term loans (or lines of credit) or (2) long-term loans (or term loans to businesses). Short term loans are often used to finance current assets such as inventory and accounts receivable and typically have terms of one year with interest paid monthly on the outstanding balance and the principal balance due at maturity. Long term loans 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 business loans are typically collateralized by the borrower's business assets and/or real estate.

## **Table of Contents**

Our commercial business 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 inventory financing) of our borrowers. The Corporate Banking Center also issues and advises on letters of credit for export and import businesses. The underwriting procedure for this type of credit is the same as for commercial business loans. We offer the following types of letters of credit to customers:

**Commercial:** An undertaking by the issuing bank to pay for a commercial transaction.

**Standby:** An undertaking by the issuing bank to pay for the non-performance of the applicant customer.

**Revocable:** Letter of credit that can be modified or cancelled by the issuing bank at any time with notice to the beneficiary (does not provide the beneficiary with a firm promise of payment).

**Irrevocable:** Letter of credit that cannot be altered or cancelled without mutual consent of all parties.

**Sight:** Letter of credit requiring payment upon presentation of conforming shipping documents.

**Usance:** Letter of credit which allows the buyer to delay payment up to a designated number of days after presentation of shipping documents.

**Import:** Letter of credit issued to assist customers in purchasing goods from overseas.

**Export:** Letter of credit issued to assist customers selling goods from overseas.

**Transferable:** Letter of credit which allows the beneficiary to transfer its drawing (payment) rights, in part of full, to another party.

**Non-transferable:** Letter of credit which does not allow the beneficiary to transfer their right, in part of full, to another.

Our trade finance services include the issuance and negotiation of letters of credit, as well as the handling of documentary collections. On the export side, we provide advice and negotiation of commercial letters of credit, and we transfer and issue back-to-back letters of credit. We also provide importers with trade finance lines of credit, which allow for the issuance of commercial letters of credit and the financing of documents received under such letters of credit, as well as documents received under documentary collections. Exporters are assisted through export lines of credit as well as through immediate financing of clean documents presented under export letters of credit.

### ***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 25-year principal amortization schedule and a balloon payment due at maturity. We offer both fixed and floating rate commercial real estate loans. It is our general policy to restrict commercial real estate loan amounts to 70% of the appraised value of the property at the date of origination.

### ***Small Business Administration Loans***

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

The Bank also extends loans partially secured by the SBA. The Bank extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing, or to purchase or construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for loans not secured by real estate and up to 25 years for real estate secured loans. SBA loans are fully amortizing 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



---

## **Table of Contents**

guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of \$5.0 million, and a maximum SBA guaranteed amount of \$3.75 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 7(a) loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA 7(a) loans that are 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 ( TD ), the CDC a 40% second TD, and the remaining 10% is funded by the borrower. Rates for the first TD Bank loans are subject to normal bank commercial rates, and the second TD CDC loans are fixed for the life of the loans based on certain indices.

All of our SBA loans are originated 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 SBA. This designation generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide.

### ***Consumer Loans***

Our consumer loans consist of home equity and signature loans, with a majority of our consumer loan portfolio currently consisting of signature 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 loans. The consumer loans totaled \$11.3 million at December 31, 2010, compared to \$16.9 million at December 31, 2009.

### **Investing Activities**

The main objectives of our investment strategy are to provide a source of on-balance sheet 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 deposit ( CD s) and federal funds sold. Our investment portfolio consists of government sponsored agency bonds, mortgage backed securities, collateralized mortgage obligations ( CMOs ), corporate bonds, municipal 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.

Our securities are classified for accounting purposes as available-for-sale. We do not maintain a held-to-maturity or trading portfolio. Securities purchased to meet investment-related objectives such as liquidity management or interest rate risk and which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. At December 31, 2010, we had \$528.3 million in securities available-for-sale. We purchased \$190.6 million, and sold \$201.8 million in investment securities during 2010.

### **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 personal and

---

## **Table of Contents**

business checking accounts, money market accounts, savings, certificates of deposit, individual retirement accounts, 24-hour ATMs, internet banking and bill-pay services.

FDIC-insured deposits are our primary source of funds. As part of our asset-liability management, we analyze our retail deposits' maturities and interest rates to monitor and manage the cost of retail funds, to the extent feasible in the context of changing market conditions, as well as to promote stability in our supply of funds. 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 (FHLB), the Federal Reserve Bank of San Francisco or our correspondent banks. In addition, we may borrow from the FHLB on a longer term basis to provide funding for certain loan or investment securities strategies, as well as asset-liability management strategies.

The FHLB functions in a reserve credit capacity for qualifying financial institutions. As a member, we are required to own capital stock in the FHLB and may apply for advances from the FHLB utilizing qualifying mortgage loans and certain securities as collateral. 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 system, we may also borrow from the Federal Reserve Bank of San Francisco. The maximum amount that we may borrow from the Federal Reserve Bank's discount window is 96% of the fair value of the securities that we pledge and up to 63% of the outstanding principal balance of the qualifying loans that we pledge. At December 31, 2010, the outstanding principal balance of qualifying loans was \$394.5 million and no borrowing were outstanding against this line.

### **Market Area and Competition**

We have 23 banking offices in areas having high concentrations of Korean Americans, of which 16 are located in the Los Angeles, Orange County, Oakland and Silicon Valley (Santa Clara County) areas of California, and 7 are located in the New York metropolitan area and New Jersey. We also have one loan production office located in Dallas. 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 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.

### **Pending Center Merger**

On December 9, 2010, we entered into a definitive agreement to merge Center Financial in an all stock transaction valued at \$285.7 million, or approximately \$7.16 per Center Financial share based on the closing.

---

**Table of Contents**

price on December 8, 2010, which is the day prior to public announcement of the transaction. As of February 17, 2011, the transaction was valued at \$314.1 million, or approximately \$7.87 per Center Financial share. The boards of directors of both companies each unanimously approved the Center Merger. While there can be no assurance as to the timing, or that the Center Merger will be completed at all, we are working to complete the Center Merger in the second half of 2011. The consummation of the Center Merger is subject to regulatory approval, the approval of the shareholders of both Nara Bancorp and Center Financial, and other closing conditions. Additional important information concerning this transaction and related matters will be contained in a joint proxy statement/prospectus that will be mailed to all of our stockholders, and to the shareholders of Center Financial, in connection with the stockholders meetings of the two companies at which stockholder approval of the merger will be requested. The proxy statement will also be available free of charge on our website, and the Registration Statement on Form S-4 that we will file with the SEC in connection with the merger, of which the proxy statement will be a part, will be available on the SEC's website at [www.sec.gov](http://www.sec.gov). Concurrently with or as soon as reasonably practicable after the consummation of the Center Merger, Nara Bank and Center Bank will be merged as well.

Center Financial Corporation is the holding company of Center Bank, a community bank offering a full range of financial services for diverse ethnic and small business customers. Founded in 1986 and specializing in commercial and SBA loans and trade finance products, Center Bank has grown to be one of the nation's leading financial institutions focusing on the Korean-American community, with total assets of \$2.27 billion at December 31, 2010. If the Center Merger had been completed at that date, the combined company would be the largest Korean American banking company in the United States. Headquartered in Los Angeles, Center Bank operates a total of 22 full-service branches and two loan production office. It has 16 full-service branches located in Southern California and three branches in Northern California. Center Bank also operates two branches and one loan production office in the Seattle area, one branch in Chicago and a loan production office in Denver. Center Bank is a California state-chartered institution and its deposits are insured by the FDIC.

Upon consummation of the Center Merger, each share of common stock of Center Financial issued and outstanding immediately prior to the effective time of the Center Merger (the "Effective Time") will be converted into and become exchangeable for 0.7804 of a share of common stock of Nara Bancorp, subject to the payment of cash in lieu of the issuance of fractional shares. Based on the number of shares Center Financial common stock outstanding on the date of the Merger Agreement, this will result in approximately 31.1 million Nara Bancorp shares being exchanged for approximately 39.9 million outstanding Center Financial shares, subject to adjustment in certain limited circumstances. Nara Bancorp stockholders will own 55% of the combined company and Center Financial stockholders will own 45%.

The combined entity will be led by executive management and board members from both companies. Alvin Kang, President and Chief Executive Officer of Nara Bancorp, will be Chief Executive Officer of the combined company. Ki Suh Park, Nara Bancorp's current Chairman of the Board of Directors, will serve as Chairman of the Board of the combined bank holding company, and Chang Hwi Kim, Center Financial's Compensation Committee Chair, will serve as Vice Chairman of the Board of the combined bank holding company. For the bank level Board of Directors, Kevin S. Kim, Center Financial's Audit Committee Chair, will serve as Chairman, and Scott Yoon-suk Whang, Nara Bancorp's Compensation Committee Chair, will serve as Vice Chairman. The Board of Directors of each of the combined company and bank will have equal representation, consisting of seven directors from each of Nara Bancorp and Center Financial, who include Korean-American business entrepreneurs and community leaders, banking industry and business professionals.

Nara and Center Financial are currently considering the name under which the combined company will operate. A Consolidation Committee consisting of two representatives from the pre-merger board of directors of each company will oversee the integration process. Director Chang Hwi Kim of Center Financial will serve as Chairman of the Consolidation Committee.

The Merger Agreement contains representations and warranties customary for transactions of this type. In addition, each party has agreed to various customary covenants and agreements, including, among others, (i) to

## **Table of Contents**

conduct its business in the ordinary course consistent with past practice during the interim period between the execution of the Merger Agreement and consummation of the Merger, (ii) not to engage in certain kinds of transactions during this period, (iii) to convene and hold a meeting of its stockholders to consider and vote upon the Merger, notwithstanding any acquisition proposal or intervening material event arising after signing, (iv) to recommend approval of the Merger to its stockholders and, subject to certain exceptions, not make any changes to such recommendation, (v) not solicit, initiate, or knowingly encourage any alternative proposal to acquire Center Financial or Nara Bancorp; and (vi) subject to certain exceptions, not to provide any non-public information in connection with any such proposal, or engage in any discussions or negotiations regarding or any such proposal.

The representations and warranties of each party set forth in the Merger Agreement (a) have been qualified by confidential disclosures made to the other party in connection with the Merger Agreement, (b) will not survive consummation of the Center Merger and cannot be the basis for any claims under the Merger Agreement by the other party after the Center Merger is consummated, (c) are qualified in certain circumstances by a materiality standard which may differ from what may be viewed as material by investors, (d) were made only as of the date of the Merger Agreement or such other date as is specified in the Merger Agreement and (e) may have been included in the Merger Agreement for the purpose of allocating risk between Center Financial and Nara Bancorp rather than establishing matters as facts.

The Merger Agreement also contains certain termination rights for Center Financial and Nara Bancorp and provides that, in connection with the termination of the Merger Agreement under specified circumstances, Center Financial or Nara may be required to pay the other a termination fee of \$10 million or \$2.5 million depending on the circumstances. The termination fee is only payable on some types of termination and the amount of the fee for those types of termination will further depend on certain additional facts.

We cannot assure you that the Center Merger will be consummated as scheduled, or at all. See Item 1.A. Risk Factors Risks Relating to the Center Merger for a description of risks relating to the Center Merger.

## **Economic Conditions, Government Policies and Legislation**

Our profitability, like that of most financial institutions, depends, among other things, 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 our 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 is also 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 targeted 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 and regulations are enacted or adopted 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

---

## **Table of Contents**

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 agencies. These proposals may result in changes in banking statutes and regulations 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 [Supervision and Regulation](#).

## **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](#)) and by the FRB as a member bank of the Federal Reserve System. Customer deposits are insured up to statutory limits by the FDIC and Nara Bank is therefore also subject to regulations of the FDIC. The Bank is subject to supervision and regulation 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 the California Financial Code, 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. These descriptions of statutes and regulations and their possible effects do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that may apply to us.

### ***Recent Developments***

In response to the recent economic downturn and financial industry instability, legislative and regulatory initiatives have been, and will likely continue to be, introduced and implemented, which could substantially intensify the regulation of the financial services industry. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Moreover, especially in the current economic environment, bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns.

Through its authority under the Emergency Economic Stabilization Act of 2008 (the [EESA](#)), as amended by the American Recovery and Reinvestment Act of 2009 (the [ARRA](#)), the U.S. Treasury ([Treasury](#)) implemented the Capital Purchase Program under the Treasury's Troubled Asset Relief Program (the [CPP](#)), a program designed to bolster eligible healthy institutions by injecting capital into these institutions. We participated in the CPP so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Under the terms of our participation, we received \$67 million in exchange for the issuance of shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the [Series A Preferred Stock](#)) and a warrant to purchase common stock and thereby became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the Treasury has consented. Additionally, in order to participate in the CPP, we were required to adopt certain standards for executive compensation and corporate governance.

---

**Table of Contents**

On December 29, 2009, after consultations with the DFI and FRB, the Board of Directors of Nara Bank adopted resolutions providing, among other things, that the Board submit written plans to the DFI and FRB to reduce the Bank's credit risk profile and improve credit administration; submit a capital plan and a three year strategic plan and obtain prior DFI and FRB approval of dividends; and provide prior notice to the DFI and FRB of senior executive officer and director changes. The Board established an Oversight Committee to ensure prompt compliance with the resolutions. The Board of Directors of Nara Bancorp also adopted similar resolutions for Nara Bancorp after consultations with the FRB. The resolutions adopted by Nara Bancorp also required prior FRB approval for Nara Bancorp to issue, increase or renew any debt or issue trust preferred securities or for Nara Bancorp to make payments or other distributions in connection with its trust preferred securities. Based upon the most recent FRB examination, that in part considered financial information as of June 30, 2010, the FRB found that the Board and management fully satisfied a number of the resolutions' requirements and maintained ongoing compliance with others. Among other actions, we strengthened our credit risk management and administration practices, developed improved capital and liquidity and funds management plans, and complied with the ongoing prior approval requirement for dividends and payments relating to trust preferred securities. As a result, the FRB and DFI requested the rescission of the original resolutions, and their replacement with a modified joint Nara Bank and Nara Bancorp resolution, adopted on December 8, 2010. The new resolution requires the submission of a Board governance and oversight plan, a liquidity and funds management plan relating to the identification and monitoring of volatile liabilities, an updated capital and strategic plan with budget, ongoing asset quality improvement reporting, and the prior approval of dividends and any interest payments relating to trust preferred securities.

***Bank Holding Company Regulation***

Nara Bancorp is registered as a bank holding company pursuant to the Bank Holding Company Act (BHCA) and that capacity is subject to supervision and examination by the FRB and its authority to:

Require periodic reports and such additional information as the FRB may require;

Require bank holding companies to maintain increased levels of capital (See Capital Requirements);

Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;

Restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks;

Terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB determines the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

Require the prior approval of senior executive officer or director changes;

Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and

Approve or disapprove acquisitions and mergers with banks and consider certain competitive, management, financial or other factors in granting these approvals in addition to similar California or other state banking agency approvals which may also be required.

The FRB's view is that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the FRB's regulations, or both. The

source-of-strength doctrine most directly affects bank holding companies where a bank

---

**Table of Contents**

holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take prompt corrective action. See Prompt Corrective Action below.

Subject to prior notice or FRB approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) may engage without prior FRB approval in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined by the FRB, in consultation with the Treasury, to be financial in nature or are incidental or complementary to activities that are financial in nature. In order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act (CRA), which requires banks to help meet the credit needs of the communities in which they operate. Failure to maintain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or the requirement to conform require all activities those permissible for a bank holding company. Nara Bancorp has not elected financial holding company status.

***Securities Exchange Act of 1934***

Nara Bancorp's common stock is publicly held and listed on NASDAQ, and Nara Bancorp is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the SEC promulgated hereunder and the listing requirements of NASDAQ.

***Sarbanes-Oxley Act***

Nara Bancorp is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, increased requirements for board audit committees and their members, and enhanced disclosure of controls and procedures and internal control over financial reporting.

***Dodd-Frank Act***

On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements extensive changes across the financial regulatory landscape, including provisions that, among other things, will:

Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining, and enforcing compliance with federal consumer financial laws.

Apply to most bank holding companies the same leverage and risk-based capital requirements applicable to insured depository institutions. The Bancorp's existing trust preferred securities will continue to be treated as Tier 1 capital.

Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (DIF) and increase the floor of the size of the DIF, which generally will require an increase in the level of assessments for institutions, such as the Bank, with assets in excess of \$10 billion.

Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.



---

**Table of Contents**

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

Make permanent the \$250,000 limit for federal deposit insurance and increase the cash limit of the Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Increase the authority of the FRB to examine the Bank and its non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues that those deposits may generate.

***Bank Regulation***

Nara Bank is subject to regulation, supervision, and regular examination by the DFI and the FRB, and must also comply with applicable regulations of the FDIC. Federal and state laws and regulations which are specifically applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to FRB Regulation O and Federal Reserve Act Sections 23A and 23B and FRB Regulation W, which restrict or limit loans or extensions of credit to insiders, including officers directors and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain limits and exceptions and only on terms and conditions at least as favorable as those prevailing for comparable transactions with unaffiliated parties.

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate risk exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If as a result of an examination, the DFI or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFI and the FRB, and separately the FDIC as insurer of the Bank's deposits, have authority to:

Require affirmative action to correct any conditions resulting from any violation or practice;

Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;

Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions;

---

**Table of Contents**

Enter into or issue informal or formal enforcement actions, including memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

Require prior approval of senior executive officer or director changes;

Remove officers and directors and assess civil monetary penalties; and

Take possession of, close and liquidate the Bank or appoint the FDIC as receiver under certain circumstances.

Under the Federal Deposit Insurance Act ( FDIC Act ) and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Additionally, Nara Bank may form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries. Further, California banks may conduct certain financial activities in a subsidiary to the same extent that national banks may conduct such activities, provided the bank is and remains well capitalized, well managed and in satisfactory compliance with the CRA. Nara Bank currently does not conduct activities in subsidiaries.

***Capital Requirements***

The federal banking agencies have adopted risk-based capital guidelines for bank holding companies and banks that are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. Under these capital guidelines, banking organizations are required to maintain certain minimum capital ratios, which are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. In general, the dollar amounts of assets and certain off-balance sheet items are risk-adjusted and assigned to various risk categories. Qualifying capital is classified depending on the type of capital as follows:

Tier 1 capital consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. In determining bank holding company compliance with holding company level capital requirements, qualifying Tier 1 capital may consist of trust-preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier 1 capital.

Tier 2 capital includes, among other things, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, qualifying term subordinated debt, preferred stock that does not qualify as Tier 1 capital, a limited amount of allowance for loan and lease losses.

Tier 3 capital consists of qualifying unsecured subordinated debt.

Under the capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. At December 31, 2010, the respective capital ratios of Nara Bancorp and Nara Bank exceeded the minimum percentage requirements to be deemed well-capitalized as provided in the schedule in Note 14 of Notes to Consolidated Financial Statements.

Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. The federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future and have required many banks



---

**Table of Contents**

and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed well capitalized and may therefore be subject to restrictions on taking brokered deposits.

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, became mandatory for large or core international banks outside the U.S. in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more) and emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks. In September 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its calibrated capital standards for major banking institutions, referred to as Basel III. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 capital, and total capital ratios, as well as maintaining a capital conservation buffer. The Tier 1 common equity and Tier 1 capital ratio requirements will be phased-in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Tier 1 common equity will be phased-in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased-in incrementally between January 1, 2016 and January 1, 2019. The Basel Committee also announced that a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer.

Nara Bancorp and Nara Bank are required by the U.S. bank regulatory agencies to also maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. As of December 31, 2010, Nara Bancorp and Nara Bank's leverage capital ratios were 12.6% and 12.3%, respectively, exceeding regulatory minimums.

***Prompt Corrective Action***

The federal banking agencies have issued regulations pursuant to the FDI Act defining five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A bank that may otherwise meet the minimum requirements to be classified as well-capitalized, adequately capitalized, or undercapitalized may be treated instead 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. Under the prompt corrective action regulations, the subsidiary bank will be required to submit to its federal regulator a capital restoration plan and to comply with the plan. Each parent company that controls the subsidiary bank will be required to provide assurances of compliance by the bank with the capital restoration plan. However, the aggregate liability of such parent companies will not exceed the lesser of (i) 5% of the bank's total assets at the time it became undercapitalized and (ii) the amount necessary to bring the bank into compliance with the plan. Failure to restore capital under a capital restoration plan can result in the bank's being placed into receivership if it becomes critically undercapitalized. A bank subject to prompt corrective action also may affect its parent bank holding company in other ways. These include possible restrictions or prohibitions on dividends to the parent bank holding company by the bank; subordinated debt payments to the parent; and other transactions between the bank and the holding company. In addition, the regulators may impose restrictions on the ability of the holding company itself to pay

---

**Table of Contents**

dividends; require divestiture of holding company affiliates that pose a significant risk to the bank; or require divestiture of the undercapitalized subsidiary bank. At each successive lower-capital category, an insured bank may be subject at the agencies' discretion to impose more restrictions under the agencies' prompt corrective action regulations, including restrictions on the bank's activities.

***Deposit Insurance***

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions, up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund (the "DIF") and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits. The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount to \$250,000. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the Dodd-Frank Act that provides temporary unlimited deposit insurance coverage for non-interest bearing accounts from December 31, 2010, through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Since 2008, there have been higher levels of bank failures which has dramatically increased resolution costs of the FDIC and depleted the DIF. In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions and may continue to do so in the future. As of December 31, 2010, the Bank's assessment rate averaged 5 cents per \$100 in assessable deposits. On November 12, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse affect on our earnings. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.0026% of insured deposits in fiscal 2010. These assessments will continue until the FICO bonds mature in 2017.

The FDIC implemented two temporary programs under the Temporary Liquidity Guaranty Program ("TLGP"): the Transaction Account Guarantee Program ("TAGP") (to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through December 31, 2010) and the Debt Guarantee Program (to guarantee certain unsecured debt of financial institutions and their holding companies through the earlier of the maturity date of the debt or June 30, 2012). Nara Bank was a participant in the TAGP which expired on December 31, 2010. Nara Bank was also a participant of the Debt Guarantee Program which expired on October 31, 2009, but only issued senior unsecured debt in the form of interbank certificate of deposits during that Program. Such interbank CDs were all closed in 2009. On October 20, 2009, the FDIC established a limited, six-month emergency guarantee facility whereby, certain participating entities, including the Bank, can apply to the FDIC for permission to issue FDIC-guaranteed debt during the period starting October 31, 2009 through April 30, 2010. The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP.

The FDIC has redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act and revised deposit insurance assessment rate schedules in light of the changes to the assessment base. The proposed rate schedule and other revisions to the assessment rules, which were adopted by the FDIC Board of Directors on February 7, 2011, would become effective April 1, 2011 and would be used to calculate the June 30, 2011.

---

**Table of Contents**

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DFI.

***Restrictions on Dividends and Other Capital Distributions***

Both California and federal law limit 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. Under federal law and the regulations of the FRB, the Bank may not, without FRB approval, pay dividends exceeding the Bank's net income for its current year and two preceding fiscal years, less the sum of dividends paid during such periods and any transfers required by the FRB or required to be made for the retirement of preferred stock. In addition to the foregoing specific statutory and regulatory limitations, as a matter of general bank regulatory policy the FRB discourages the payment of dividends on common stock by bank holding companies and by banks that are members of the Federal Reserve System in amounts exceeding the paying entity's net income available to common stockholders for the preceding four quarters. Dividends by Nara Bank are also subject to the prior written approval of the FRB and the DFI pursuant to the resolution adopted by the Board of Directors on December 8, 2010.

It is the FRB's policy that bank holding companies generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the FRB's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Nara Bancorp is also restricted as to declaration and the payment of dividends without the prior written approval of the FRB by the resolution recently adopted by the Board of Directors.

Under the terms of the CPP, for so long as any preferred stock issued by Nara Bancorp under the CPP remains outstanding, Nara Bancorp is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the Treasury's consent until the third anniversary of the Treasury's investment or until the Treasury has transferred all of the preferred stock it purchased from Nara Bancorp under the CPP to third parties. The terms of our Series A Preferred Stock and Junior Subordinated Securities also limit our ability to pay dividends on our common stock. If we are not current in our payment of dividends on our Series A Preferred Stock or in our payment of interest on our Junior Subordinated Securities, we may not pay dividends on our common stock.

***Operations and Consumer Compliance Laws***

The Bank must comply with numerous federal anti-money laundering and consumer protection statutes and implementing regulations, including but not limited to the Truth in Savings Act, Electronic Funds Transfer Act, Expedite Funds Availability Act, the USA PATRIOT Act of 2001, the Bank Secrecy Act, the CRA, the Equal Credit Opportunity Act, the Truth in Lending Act, the National Flood Insurance Act and various other federal and state privacy protection laws. Noncompliance with these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. Nara Bancorp and the Bank are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

**Table of Contents**

These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

**Employees**

As of December 31, 2010, we had 376 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.

---

**Table of Contents**

**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, our business, financial condition and results of operations may 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 controls and disclosure controls and procedures, we may not be able to accurately report our financial results or prevent fraud.* Effective internal controls and disclosure controls and procedures are necessary for us to provide reliable financial reports and disclosures to stockholders, to prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports and disclosures or prevent fraud, our business may be adversely affected and our reputation and operating results would be harmed. Any failure to develop or maintain effective internal controls and disclosure controls and procedures or difficulties encountered in their implementation may also result in regulatory enforcement action against us, adversely affect our operating results or cause us to fail to meet our reporting obligations.

*Economic conditions in California, New York or South Korea may adversely affect our loan portfolio and reduce the demand for our services.* We focus our business primarily in Korean-American communities in California, the greater New York City metropolitan area and New Jersey. Adverse economic conditions in our market areas have had a material adverse impact on the quality of our business. A continued economic slowdown in California, New York, or South Korea may have any or all of the following consequences, any of which may reduce our net income and adversely affect our financial condition:

loan delinquencies may increase,

problem assets and foreclosures may increase,

the level and duration of deposits may decline,

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 estimated probable incurred losses, it will hurt our business. We try to limit the risk that borrowers will fail to repay loans by carefully underwriting our loans, but losses nevertheless occur in the ordinary course of lending operations. We create allowances for estimated loan losses through provisions that are recorded as reductions in income in our accounting records. We base these allowances on estimates of the following:

historical experience with our loans,

evaluation of current economic conditions and other factors,

reviews of the quality, mix and size of the overall loan portfolio,



reviews of delinquencies and

the quality of the collateral underlying our loans.

If our allowance estimates are inadequate, we may incur losses, our financial condition may be materially and adversely affected and we may be required to raise additional capital to enhance our capital position. In

---

**Table of Contents**

addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance. These agencies may require us to establish additional allowances based on their judgment of the information available at the time of their examinations. No assurance can be given that we will not sustain loan losses in excess of present or future levels of the allowance for loan losses.

***We have a high level of loans secured by real estate collateral. A further downturn in the real estate market may seriously impair our loan portfolio.*** As of December 31, 2010, approximately 74% of our loan portfolio consisted of loans secured by various types of real estate. There has been a general slowdown in the economy and in declines in value in the commercial real estate market in Southern California, along with high levels of unemployment. Continued deterioration in the real estate market generally and in commercial real estate values in particular, along with high levels of unemployment, may result in additional loan charge-offs and provisions for loan losses, which may have an adverse effect on our net income and capital levels.

***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 net interests income 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. The interest rate risk inherent in our lending, investing, and deposit taking activities is a significant market risk to us and our business. There can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates.

***If we lose key employees, our business may suffer.*** Our future success depends on the continued employment of existing senior management personnel. If we lose key employees temporarily or permanently, it may hurt our business. We may be particularly hurt if our key employees became employed by our competitors in the Korean American banking industry. In addition, the America Recovery and Reinvestment Act of 2009 places certain restrictions on executive compensation that may impact our ability to attract, retain and motivate senior management personnel.

***Environmental laws may force us to pay for environmental problems.*** The cost of cleaning up or paying damages and penalties associated with environmental problems may 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 may force us to clean up the properties at our expense. The cost of cleaning up a property may exceed the value of the property. We may 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 may result in material loss to us. A significant percentage of our loans are and will be secured by real estate. Many of our borrowers may 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 may 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 increases in the future, it may adversely affect our operating results and financial

---

## Table of Contents

condition. 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 or lower earning assets generating interest income and an increase in credit related expenses, including provisions for loan losses.

***We may experience adverse effects from acquisitions.*** We have acquired other banking companies and bank offices in the past and consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of other companies, including in connection with our pending merger transaction with Center Financial Corporation described elsewhere in this Report, we may incur material unexpected costs and disruption of our business. Risks involved in acquisitions of other companies include:

the risk of failure adequately to evaluate the asset quality of the acquired company;

difficulty in assimilating the operations, technology and personnel of the acquired company;

diversion of management's attention from other important business activities;

difficulty in maintaining good relations with the loan and deposit customers of the acquired company;

inability to maintain uniform standards, controls, procedures and policies;

potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and

amortization of expenses related to acquired intangible assets that have finite lives.

***Liquidity risks may impair our ability to fund operations and jeopardize our financial condition.*** Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans, and other sources may have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities may be impaired by factors that affect us specifically or the financial services industry in general. Factors that may detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow may also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

***The level of our problem assets, occurrence of operating losses or a failure to comply with requirements of the agencies which regulate us may result in regulatory actions against us which may adversely affect our business and the market price of our common stock.*** The DFI, the FDIC and the FRB each have authority to take actions to require that we comply with applicable regulatory capital requirements, cease engaging in what they perceive to be unsafe or unsound practices or make other changes in our business. Among others, the corrective measures that such regulatory authorities may take include requiring us to enter into informal or formal agreements regarding our operations, the issuance of cease and desist orders to refrain from engaging in unsafe and unsound practices, removal of officers and directors and the assessment of civil monetary penalties. See Item 1. Business Supervision and Regulation for a further description of such regulatory powers. Beginning in the latter part of 2008, we experienced increases in the level of our problem assets, which have resulted in increases in our net loan charge-offs and provisions for loan and lease losses and caused operating losses. We implemented an action plan to address the adverse developments and noted that in the second half of 2010, the Bank's charge-off trends moderated. Based upon the most recent safety and soundness examination, based in part on financial information as of June 30, 2010, the Bank was requested by the FRB and DFI to submit ongoing quarterly progress reports on its efforts to improve asset quality. Additionally, the Bank was instructed to updated plans for the maintenance of its capital and improvement of its earnings and has committed, through a resolution adopted by its Board of Directors, that it will not declare or pay dividends without written prior



---

**Table of Contents**

approval of the FRB and DFI. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview. Failure by the Bank to comply with the plans that have been submitted, or with revised plans if the initial plans are not accepted by the FRB and DFI, or with the other provisions of the resolution adopted by the Bank's Board of Directors may result in more formal regulatory action with respect to the Bank. Regulatory action may also be taken with respect to the Nara Bancorp.

***Increased deposit insurance costs may adversely affect our results of operations.*** Due to the greatly increased rate of bank failures experienced in the current period of financial stress, as well as the extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's Deposit Insurance Fund has been substantially depleted and the FDIC has incurred substantially increased operating costs. For these reasons, the FDIC has significantly increased the rates of deposit insurance premiums that it charges insured banks, including Nara Bank, which has increased our costs of operation. Additional increases in the deposit insurance premium rates of the FDIC or other increases in costs related to deposit insurance may be imposed, which may result in further increases in Nara Bank's operating costs.

***Changes in accounting standards may affect how we record and report our financial condition and results of operations.*** Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

***We are subject to operational risks relating to our technology and information systems.*** The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities.

***Our business reputation is important and any damage to it may have a material adverse effect on our business.*** Our reputation is very important for our business, as we rely on our relationships with our current, former and potential clients and stockholders, and in the communities we serve. Any damage to our reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, or our conduct of our business or otherwise may have a material adverse effect on our business.

***As we expand outside our California markets, we may encounter additional risks that may adversely affect us.*** Currently, the substantial majority of our offices are located in California, but we also have seven offices in New York and New Jersey. Over time, we may seek to establish offices to serve Korean-American communities in other parts of the United States. In the course of these expansion activities, we may encounter significant risks including increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to manage these risks, our operations may be adversely affected.

***Adverse conditions in South Korea may adversely affect our business.*** A substantial number of our customers have economic and cultural ties to South Korea and, as a result, we are likely to feel the effects of adverse economic and political conditions in South Korea. If economic conditions in South Korea deteriorate, we may, among other things, be exposed to economic and transfer risk, and may experience an outflow of deposits by our customers with connections to South Korea. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the

---

**Table of Contents**

recoverability of investments in or loans made to such entities. Adverse economic conditions in South Korea may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

***Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans.*** In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment and adherence to professional standards. If the appraisal does not reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to a decline in property value after the date of the original appraisal or defective preparation of the appraisal, we may not realize an amount equal to the indebtedness secured by the property and as a result, we may suffer losses.

***Legislative and regulatory actions taken to address the recent stresses in the banking industry may significantly affect our financial condition, results of operations, liquidity and stock price.*** Economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and legislative bodies placing increased scrutiny on the banking industry. The U.S. government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. In addition to the CPP, in which we participated by selling \$67 million of our Series A Preferred Stock and a warrant to purchase up to 1,042,531 shares (which has been subsequently reduced to 521,266 shares) of our common stock (the Warrant ) to the Treasury, the U.S. government has taken steps that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of bank and other debt issuances, and increasing the levels of insurance on bank deposits. The U.S. government's probable eventual withdrawal of support to the liquidity of financial markets may have an adverse impact on the operations of Nara Bancorp. Our participation in the CPP subjects us to additional restrictions, oversight and costs that may have an adverse impact on our business, financial condition and results of operations and the price of our common stock.

Congress, through the EESA AND ARRA, has imposed a number of restrictions and limitations on the operations of banks and other financial services companies participating in the federal programs. In addition, new proposals for legislation continue to be introduced in Congress that may further substantially increase regulation of the financial services industry and impose restrictions on the operations and general ability of commercial banks and other companies in the industry to conduct business consistent with historical practices relating to, among others, interest rates, lending practices and compensation practices. Compliance with such current and potential regulation may significantly increase our costs, impede the efficiency of our internal business processes, make it more difficult to attract and retain key employees, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

***Changes in governmental regulation may impair our operations or restrict our growth.*** Federal and state bank regulatory agencies regulate many aspects of our operations. These areas include:

the capital that must be maintained,

the dividend that may be paid,

the kinds of activities that we may be engaged in,

the compensation that may be paid,

the kinds and amounts of investments that can be made,

the locations of our 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.

---

## **Table of Contents**

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 federal bank regulatory authorities have made 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 affect our business. Nara Bank is subject to regulation and examination by the DFI and the FRB and Nara Bancorp is subject to the rules and regulations of the FRB. In addition to governmental supervision and regulation, Nara Bank and Nara Bancorp are subject to changes in other federal and state laws, including changes in tax laws, which may materially affect the banking industry. If we fail to comply with federal and state bank regulations, the regulators may limit our activities or growth, fine us or force the bank into receivership. 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.

***Implementation of the various provisions of the Dodd-Frank Act may increase our operating costs or otherwise have a material effect on our business, financial condition or results of operations.*** On July 21, 2010 President Obama signed the Dodd-Frank Act financial reform legislation. This landmark legislation includes, among other things: (i) the creation of a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; (ii) the elimination of the Office of Thrift Supervision and the transfer of oversight of federally chartered thrift institutions and their holding companies to the Office of the Comptroller of the Currency and the Federal Reserve; (iii) the creation of a Consumer Financial Protection Agency authorized to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and non-bank finance companies; (iv) the establishment of new capital and prudential standards for banks and bank holding companies, including the elimination of the ability to treat trust preferred securities as Tier 1 capital; (v) the termination of investments by the Treasury under the TARP; (vi) enhanced regulation of financial markets, including the derivatives, securitization and mortgage origination markets; (vii) the elimination of certain proprietary trading and private equity investment activities by banks; (viii) the elimination of barriers to de novo interstate branching by banks; (ix) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to \$250,000; (x) the authorization of interest-bearing transaction accounts and (xi) changes in the calculation of FDIC deposit insurance assessments and an increase in the minimum designated reserve ratio for the DIF.

Certain provisions of the legislation are not immediately effective or are subject to required studies and implementing regulations. Further, community banks with less than \$10 billion in assets (less than \$15 billion with respect to trust preferred securities) are exempt from certain provisions of the legislation. We cannot predict how this significant new legislation may be interpreted and enforced nor how implementing regulations and supervisory policies may affect us. There can be no assurance that these or future reforms will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business, financial condition and results of operations.

***Our stock price may become more volatile, which may result in substantial losses for our stockholders.*** The market price of our common stock may be subject to wider 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;





**Table of Contents**

changes in interest rates;

changes in key personnel;

changes in economic conditions that affect the Bank's performance; and

changes in legislation or regulations that affect the Bank.

*We have suspended declaration and payment of dividends on our common stock. Our ability to declare and pay dividends in the future, as well as the ability of the Bank to make dividend payments to us, will be subject to regulatory, statutory and other restrictions.* In March, 2009, we announced the suspension of our prior policy of paying quarterly dividends in order to preserve capital. In addition, Nara Bancorp has agreed with the FRB and the Bank has agreed with the DFI and FRB that neither will declare or pay dividends without the prior written regulatory approval. Further, under Federal Reserve Board policy, bank holding companies are expected to inform and consult with the Federal Reserve Supervisory Staff prior to declaring and paying a dividend that exceeds the holding company's earnings for the period in which the dividend is being paid. Our ability to declare and pay dividends on our outstanding common stock and preferred stock is also subject to further limitations under applicable federal and state law and regulations. See Item 1. Business Supervision and Regulation.

*Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share, and the Warrant as well as other potential issuances of equity securities may be dilutive to holders of our common stock.* The dividends declared and the accretion on discount on our outstanding preferred stock will reduce the net income available to common stockholders and our earnings per common share. Our outstanding preferred stock would also receive preferential treatment in the event of our liquidation, dissolution, or winding up. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the Warrant is exercised. The 521,266 shares of common stock underlying the Warrant represent approximately 1.4% of the shares of our common stock outstanding as of December 31, 2010 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Treasury Department has agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction. In addition, to the extent options to purchase common stock under our stock option plans are exercised, holders of our common stock will incur dilution of their ownership interest in Nara Bancorp. We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. If we sell additional equity or convertible debt securities, these sales may result in increased dilution to our stockholders

*A continued decline in the value of our common stock may result in future impairment of our intangible assets.* We assess the carrying value of intangible assets, including goodwill, at least annually in order to determine whether such assets are impaired. In reviewing the carrying value of intangible assets, we look to the market value of our common stock, compared to the book value. We further assess the recoverability of such intangible assets by evaluating the fair value of the related business unit. If recoverability is deemed impaired, a write down of such intangible assets would be required.

**Risks Relating to the Center Merger**

*Consummation of the Center Merger will cause an immediate reduction in our stockholders' voting interests in us.* In the Center Merger, each of Center Financial's common shares issued and outstanding immediately prior to the effective time of the Center Merger will be converted into and become exchangeable for 0.7804 of a share of our common stock, subject to the payment of cash lieu of the issuance of fractional shares. If the Center Merger is consummated, based on the number of our common shares outstanding on the date hereof, our stockholders will own approximately 55% of the combined company's outstanding common stock and Center Financial stockholders will own approximately 45% of the combined company's outstanding

---

**Table of Contents**

common stock. Consequently, our stockholders may have less influence over the management and policies of the combined company following the Center Merger than they currently exercise over our management and policies.

***Consummation of the Center Merger could result in dilution to our existing stockholders under certain circumstances.*** The merger exchange ratio was fixed on December 9, 2010, the date of the signing of the Merger Agreement, and is not subject to adjustment based on changes in the trading price of our or Center Financial's common stock before the closing of the Center Merger. It is possible that the conversion of Center Financial common shares into our common shares may result in the issuance of our common shares at an implied price that is less than our net asset value per share at the time of such conversion, which would result in dilution to the net asset value per share of our common stock.

***We may be not be able to realize the anticipated benefits of the Center Merger, including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits.*** The realization of the benefits anticipated as a result of the Center Merger, including cost savings and synergies, will depend in part on the integration of Center Financial's operations with our operations. There can be no assurance that Center Financial's operations can be integrated successfully into our operations in a timely fashion, or at all. The dedication of management resources to such integration may divert attention from our day-to-day business and there can be no assurance that there will not be substantial costs associated with the transition process or that there will not be other material adverse effects as a result of these integration efforts. Such effects, including, but not limited to, incurring unexpected costs or delays in connection with such integration, may have a material adverse effect on our financial results.

***The fairness opinion obtained by us from our financial advisor will not reflect changes in circumstances between signing the Merger Agreement and completion of the Center Merger. In connection with our board of directors' consideration and approval of the Center Merger, the directors received an opinion from our financial advisor, Keefe, Bruyette & Woods, Inc. that the exchange ratio provided for in the Merger Agreement is fair from a financial point of view.*** We have not obtained an updated opinion as of the date of this Annual Report from our financial advisor and we do not anticipate obtaining an updated opinion prior to closing of the Center Merger. Changes in our operations and prospects, general market and economic conditions and other factors that may be beyond our control, and on which our financial advisor's opinion was based, may significantly alter the value of Center Financial or the prices of shares of our common stock or Center Financial common stock by the time the Center Merger is completed. The opinion does not speak as of the time the Center Merger will be completed or as of any date other than the date of the opinion. Because we do not currently anticipate asking our financial advisor to update its opinion, the opinion will not address the fairness of the exchange ratio from a financial point of view at the time the Center Merger is completed.

***Required regulatory approvals may not be received, may take longer to receive than expected or may impose conditions that are not anticipated or cannot be met.*** Before the transactions contemplated in the Merger Agreement, including both the holding company merger and the bank merger may be completed, various approvals must be obtained from the bank regulatory authorities. Although Nara Bancorp and Central Financial have each reported profits in recent quarters, both companies have had significant quarterly losses within the past two years and have been subjects of informal regulatory action, consisting of memoranda of understanding with bank regulatory authorities in the case of Center Financial and the adoption of board of directors resolutions at the request of bank regulatory authorities in the case of Nara Bancorp, directed toward reducing nonperforming assets, resolving perceived weaknesses in lending and specified other banking operations and, in Center Financial's case, attaining and maintaining specified, higher than normal, regulatory capital ratios. To obtain regulatory approval of the Center Merger, we must provide adequate information to the regulatory authorities to demonstrate to them that we have satisfactorily addressed these regulatory issues. We anticipate that this may result in a longer than normal regulatory approval process and therefore do not expect to be able to complete the Center Merger before mid- to late 2011. In addition, for these or other reasons, the relevant bank regulatory authorities may impose conditions on the completion of the merger transactions or require changes to the terms of the Merger Agreement. Such conditions or changes may have the effect of delaying completion of the

---

**Table of Contents**

transactions contemplated in the Merger Agreement or imposing additional costs on or limiting the growth of the combined company, or may include requirements for changes in the business of the combined company, any of which effects may have a material adverse effect on the combined company following consummation of the Center Merger.

*We will be subject to business uncertainties and contractual restrictions while the Center Merger is pending.* Uncertainty about the effect of the Center Merger on employees and customers may have an adverse effect on both Nara Bancorp and Center Financial. These uncertainties may impair our ability to attract or motivate key personnel until the Center Merger is completed and may cause customers and others that deal with us to seek to change existing business relationships with either of us. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, the combined company's business following the Center Merger may be negatively affected. In addition, the Merger Agreement restricts each of us from making acquisitions and taking other specified actions until the Center Merger occurs, without the consent of the other. These restrictions may prevent each company from pursuing attractive business opportunities that may arise prior to the completion of the Center Merger.

*If the Center Merger does not close, we will not benefit from the expenses incurred in pursuing it.* If the Center Merger is not completed, we will have incurred substantial expenses for which no ultimate benefit will have been received. We have incurred out-of-pocket expenses in connection with the Center Merger for investment banking, legal and accounting fees and financial printing and other related charges, much of which will be incurred even if the Center Merger is not completed.

*Termination of the Merger Agreement may negatively affect us.* If the Merger Agreement is terminated, we may suffer various adverse consequences, including:

our business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the Center Merger, without realizing any of the anticipated benefits of completing the Center Merger; and

the market price of our common stock might decline to the extent that the market price prior to termination reflects a market assumption that the Center Merger will be completed.

*Under certain circumstances, we or Center Financial would be obligated to pay the other a termination fee upon termination of the Merger Agreement.* The Merger Agreement provides in certain circumstances for the payment by us or Center Financial of a termination fee to the other in the amount of \$10 million or \$2.5 million, depending on the circumstances. See *Pending Center Merger* for a description of the terms of the Center Merger. Payment of a termination fee by us, if required under the circumstances, may adversely affect our financial condition and liquidity.

**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 23 branch offices and one loan production office. 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 our operations.

As of December 31, 2010, premises and equipment, net of accumulated depreciation and amortization, totaled \$10.9 million. Total occupancy expense, including furniture and equipment expense for the year ended December 31, 2010, was \$13.3 million. Total lease expense for the year ended December 31, 2010 was \$6.6 million.

**Table of Contents**

**Item 3. LEGAL PROCEEDINGS**

The Company is a nominal defendant in *Thomas Chung v. Nara Bancorp, Inc., et al*, a shareholder derivative lawsuit which purports to be brought on the Company's behalf by Mr. Thomas Chung, a former chairman of the Company's board of directors (the *Chung Lawsuit*) and which was filed on May 20, 2008 in the Superior Court of California, County of Los Angeles. The *Chung Lawsuit* alleges that the members of the Company's board of directors as composed on the date the lawsuit was filed, as well as the Company's board of directors as it was composed in March 2005 (collectively, the *Boards*) breached their fiduciary duties to the Company's shareholders and mismanaged corporate assets.

The *Chung Lawsuit* further alleges that the 2005 restatement of the Company's 2002 Consolidated Financial Statements was not required and was undertaken by the Board as composed in 2005 in bad faith. Mr. Chung further alleges that the restatement resulted in a decline of \$54 million in the value of the Company's outstanding stock, and that the Board as composed in 2008 breached its fiduciary duties by failing to pursue the claims alleged in the *Chung Lawsuit*. The letter between Mr. Chung and Mr. Benjamin Hong, the restatement of the Company's 2002 Consolidated Financial Statements and certain related matters are further described in the Form 8-K/A filed by the Company with the SEC on March 31, 2005.

The complaint seeks damages exceeding \$54 million from the *Boards*, together with reimbursement from all defendants of Mr. Chung's legal costs incurred in pursuing the *Chung Lawsuit*. If any damages are recovered in the purported shareholder derivative lawsuit, such damages, but not any awards of legal costs to Mr. Chung would be payable to Nara Bancorp.

Nara Bancorp was granted a motion for summary judgment on October 20, 2010. Mr. Chung filed an appeal with the California Court of Appeal, Second Appellate District on December 28, 2010 seeking reversal of the trial court's decision. Nara Bancorp believes that the *Chung Lawsuit* is without merit.

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. RESERVED**

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the Nasdaq Global Select Market under the symbol NARA .

We had approximately 3,186 beneficial owners and 491 registered holders of our common stock as of February 9, 2011. The following table sets forth, the range of high and low sales prices for, and quarterly dividend paid on our common stock for the calendar quarters indicated.

<b>Quarters ended:</b>	<b>High Sales Price</b>	<b>Low Sales Price</b>	<b>Dividends</b>
December 31, 2010	\$ 9.86	\$ 6.98	
September 30, 2010	\$ 8.43	\$ 5.96	
June 30, 2010	\$ 10.24	\$ 7.34	
March 31, 2010	\$ 11.78	\$ 8.33	
December 31, 2009	\$ 12.23	\$ 6.21	
September 30, 2009	\$ 9.16	\$ 4.49	
June 30, 2009	\$ 5.50	\$ 2.80	
March 31, 2009	\$ 9.95	\$ 2.05	

The closing price for our common stock on the Nasdaq Global Select Market on February 9, 2011 was \$9.78 per share.

In March 2009, we announced our decision to suspend our prior policy of paying quarterly cash dividends in order to preserve capital. Future dividends are subject to the discretion of our Board of Directors after its consideration of a number of factors, including our future earnings, financial condition, bank regulatory capital requirements, cash needs and general business conditions. In addition, Nara Bancorp agreed as a condition of its issuance of the Series A Preferred Stock to the Treasury under the CPP that it would not pay cash dividends on its common stock at a quarterly rate greater than \$0.0275 per share, or redeem, purchase or acquire any of its common stock or other equity securities, without the prior approval of the Treasury Department while the Series A Preferred Stock remains outstanding.

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. In addition, the payment of dividends by Nara Bancorp is subject to review and possible limitation by the FRB under its authority as regulator of bank holding companies. In general, the FRB discourages the payment of dividends on common stock in amounts exceeding a holding company's net income available to common stockholders for the four quarters preceding a dividend payment. If we defer interest on the subordinated debentures issued in connection with our trust preferred securities, Nara Bancorp would also be prohibited from paying any dividends on our common stock or preferred stock until Nara Bancorp is current on its interest payments.

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 compliance with its minimum capital requirements, additional limitations under federal and California law and regulations and policies of the FRB. The board of directors of Nara Bancorp and the Bank adopted a revised joint Board resolution (the Revised Resolution) at the request of the FRB and DFI on December 8, 2010. The Revised Resolution continues to prohibit us from declaring or paying dividends without the prior written approval of the FRB and the DFI.

**Table of Contents**

The applicable statutory and regulatory limitations on the declaration and payment of dividends are further described in Item 1. Business Supervision and Regulation.

We did not repurchase any of our securities during 2010 and do not currently have any publicly announced repurchase plan. Our ability to repurchase common stock is subject to prior approval of the FRB and the U.S. Treasury Department pursuant to the agreements we entered into in connection with our participation in the Treasury Department's Capital Purchase Program.

**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	533,250	\$ 9.73	1,196,000
Equity compensation plans not approved by security holders		\$	
<b>Total</b>	<b>533,250</b>	<b>\$ 9.73</b>	<b>1,196,000</b>

**Table of Contents****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 Small Cap 600 Index, (iii) a published index comprised of banks and thrifts selected by SNL Financial LLC, and (iv) the cumulative total return of the S&P 500 Index. 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 Nara Bancorp under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we may specifically incorporate this graph by reference.*

**COMPARATIVE CUMULATIVE TOTAL RETURN****AMONG NARA BANCORP, NASDAQ MARKET INDEX, S&P SMALLCAP 600 INDEX,****SNL BANK & THRIFT INDEX AND, S&P 500 INDEX**

ASSUMES \$100 INVESTED ON DEC. 31, 2005

ASSUMES DIVIDENDS REINVESTED

FISCAL YEAR ENDING DEC. 31, 2010

Index	Period Ending					
	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Nara Bancorp, Inc.	100.00	118.35	66.51	56.56	65.25	56.70
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
S&P 600 Index	100.00	115.12	114.78	79.11	99.34	125.49
SNL Bank and Thrift	100.00	116.85	89.10	51.24	50.55	56.44
S&P 500	100.00	115.79	122.16	76.96	97.33	111.99



**Table of Contents****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, 2010. 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.

	<b>For The Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands, except share and per share data)</b>				
<b>Income Statement Data:</b>					
Interest income	\$ 150,436	\$ 158,045	\$ 166,928	\$ 175,773	\$ 155,831
Interest expense	42,052	65,699	70,707	78,568	61,216
Net interest income	108,384	92,346	96,221	97,205	94,615
Provision for loan losses	84,630	61,023	48,825	7,530	3,754
Net interest income after provision for loan losses	23,754	31,323	47,396	89,675	90,861
Noninterest income	24,481	18,468	13,993	22,573	19,269
Noninterest expense	63,374	61,713	57,009	56,450	53,927
Income before income tax provision (benefit)	(15,139)	(11,922)	4,380	55,798	56,203
Income tax provision (benefit)	(7,900)	(6,199)	1,625	22,599	22,397
Net income (loss)	\$ (7,239)	\$ (5,723)	\$ 2,755	\$ 33,199	\$ 33,806
Dividends and discount accretion on preferred stock	(4,291)	(4,276)	(474)		
Net income (loss) available to common stockholders	\$ (11,530)	\$ (9,999)	\$ 2,281	\$ 33,199	\$ 33,806
<b>Per Common Share Data:</b>					
Earnings (loss) basic	\$ (0.30)	\$ (0.35)	\$ 0.09	\$ 1.27	\$ 1.31
Earnings (loss) diluted	(0.30)	(0.35)	0.09	1.25	1.28
Book value (period end, excluding preferred stock and warrants)	7.69	7.99	8.49	8.48	7.15
Cash dividends declared per common share			0.11	0.11	0.11
Number of common shares outstanding (period end)	37,983,027	37,824,007	26,246,560	26,193,560	26,107,560
<b>Balance Sheet Data At Period End:</b>					
Assets	\$ 2,963,296	\$ 3,227,957	\$ 2,672,054	\$ 2,423,410	\$ 2,046,985
Securities available for sale and held to maturity	528,262	782,690	406,586	258,773	163,851
Gross loans, net of unearned loan fees (excludes loans held for sale and guaranteed portion of delinquent SBA loans)	2,134,061	2,208,943	2,098,443	2,008,729	1,714,865
Deposits	2,176,114	2,434,190	1,938,603	1,833,346	1,712,235
Federal Home Loan Bank borrowings	350,000	350,000	350,000	297,000	76,000
Subordinated debentures	39,268	39,268	39,268	39,268	39,268
Stockholders' equity	358,563	367,975	289,953	222,180	186,627
<b>Average Balance Sheet Data:</b>					
Assets	\$ 3,007,294	\$ 3,038,969	\$ 2,544,667	\$ 2,216,514	\$ 1,934,913
Securities available for sale and held to maturity	516,460	619,594	298,886	199,293	185,587
Gross loans, including loans held for sale	2,173,840	2,124,615	2,089,803	1,879,457	1,593,453
Deposits	2,213,940	2,291,346	1,855,629	1,772,230	1,645,527
Stockholders' equity	364,159	304,770	238,800	204,863	166,206
<b>Selected Performance Ratios:</b>					
Return on average assets <sup>(1)</sup>	-0.24%	-0.19%	0.11%	1.50%	1.75%
Return on average stockholders' equity <sup>(2)</sup>	-1.99%	-1.88%	1.15%	16.21%	20.34%
Average stockholders' equity to average assets	12.11%	10.03%	9.38%	9.24%	8.59%
Dividend payout ratio (Dividends per share/earnings per share)	0.00%	0.00%	122.22%	8.66%	8.40%
Net interest spread <sup>(3)</sup>	3.34%	2.64%	3.22%	3.41%	3.96%
Net interest margin <sup>(4)</sup>	3.75%	3.15%	3.96%	4.60%	5.14%

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

Yield on interest-earning assets <sup>(5)</sup>	5.21%	5.39%	6.87%	8.32%	8.47%
Cost of interest-bearing liabilities <sup>(6)</sup>	1.86%	2.75%	3.65%	4.91%	4.51%
Efficiency ratio <sup>(7)</sup>	47.70%	55.69%	51.73%	47.13%	47.35%

**Table of Contents**

	2010	For The Year Ended December 31,			2006
		2009	2008	2007	
		(Dollars in thousands)			
<b>Regulatory Capital Ratios:</b>					
Bancorp: Leverage	12.61%	12.36%	12.61%	10.77%	11.19%
Tier I risk-based	16.42%	16.73%	14.32%	11.84%	12.17%
Total risk-based	17.69%	17.99%	15.58%	12.78%	13.22%
Bank: Leverage	12.27%	11.77%	12.43%	10.36%	10.55%
Tier I risk-based	16.00%	16.02%	14.10%	11.41%	11.49%
Total risk-based	17.27%	17.29%	15.34%	12.34%	12.54%
<b>Asset Quality Data:</b>					
Nonaccrual loans	\$ 43,803	\$ 51,674	\$ 37,580	\$ 16,592	\$ 3,271
Loans 90 days or more past due and still accruing					
Total nonperforming loans	43,803	51,674	37,580	16,592	3,271
Other real estate owned	1,581	2,044	2,969		
Restructured loans (accruing)	35,103	64,341	3,256	765	298
Total nonperforming assets	\$ 80,487	\$ 118,059	\$ 43,805	\$ 17,357	\$ 3,569
<b>Asset Quality Ratios (8):</b>					
Nonperforming loans to gross loans	2.05%	2.34%	1.79%	0.83%	0.19%
Nonperforming assets to total assets	2.72%	3.66%	1.64%	0.72%	0.17%
Allowance for loan losses to gross loans	2.92%	2.69%	2.07%	1.00%	1.11%
Allowance for loan losses to nonperforming loans	142%	115%	116%	121%	584%
Net charge-offs to average gross loans	3.76%	2.12%	1.22%	0.35%	0.14%

- (1) Net income (loss) divided by the average assets
- (2) Net income (loss) 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 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
- (8) Excluding guaranteed portion of delinquent SBA loans.

**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 contains 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 consumer deposit products through our wholly owned subsidiary, Nara Bank, a California state-chartered bank. Nara Bank primarily focuses its business in Korean-American communities in California, in the New York City metropolitan area, and New Jersey. We offer our banking services through our network of 23 banking offices in California, the New York metropolitan area and New Jersey and one loan production office located in Dallas, Texas, 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 business loans, commercial real estate loans, trade finance and SBA loans. We have discontinued origination of consumer loans, but continue to service such loans in our portfolio.

---

**Table of Contents**

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-American communities in California, the New York City metropolitan area and New Jersey and our results are affected by economic conditions in these areas and in South Korea. A further decline in economic and business conditions in our market areas and in South Korea may 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.

On December 9, 2010, we entered into a definitive agreement to merge with Center Financial in an all stock transaction valued at \$285.7 million, or approximately \$7.16 per Center Financial share based on the closing price on December 8, 2010. As of February 17, 2011, the transaction was valued at \$314.1 million, or approximately \$7.87 per Center Financial share. The boards of directors of both companies each unanimously approved the Center Merger. While there can be no assurance as to the exact timing, or that the Center Merger will be completed at all, we are working to complete the Center Merger in the second half of 2011. The consummation of the Center Merger is subject to regulatory approval, the approval of the shareholders of both Nara Bancorp and Center Financial, and other customary closing conditions.

Upon consummation of the Center Merger, each share of common stock of Center Financial issued and outstanding immediately prior to the effective time of the Center Merger (the "Effective Time") will be converted into and become exchangeable for 0.7804 of a share of common stock of Nara Bancorp, subject to the payment of cash in lieu of the issuance of fractional shares. Based on the number of shares Center Financial common stock outstanding on the date of the Merger Agreement and not including the effect of outstanding in-the-money options, this will result in approximately 31.1 million Nara Bancorp shares being exchanged for approximately 39.9 million outstanding Center Financial shares, subject to adjustment in certain limited circumstances. Nara Bancorp shareholders will own 55% of the combined company and Center Financial shareholders will own 45%.

We cannot assure you that the Center Merger will be consummated as scheduled, or at all. See "Risk Factors - Risks Relating to the Center Merger" for a description of risks relating to the Center Merger.

The board of directors of Nara Bancorp and the Bank adopted a revised joint Board resolution (the "Revised Resolution") at the request of the FRB and DFI on December 8, 2010. The Revised Resolution replaces the joint Resolution previously adopted at the request of the FRB and DFI on December 29, 2009 and requires us to update and submit capital, strategic, earnings improvement, and liquidity and funds management plans to the FRB and DFI. We have submitted all required plans, which cover: strategic planning; earnings improvement; governance and board oversight; liquidity and funds management; and, capital in accordance with the Revised Resolution's timing requirements. The Revised Resolution continues to prohibit us from declaring or paying dividends without the prior written approval of the FRB and the DFI.

The plans that have been submitted pursuant to the Revised Resolution are currently being reviewed by the FRB and DFI. Failure to comply with those plans or revised plan if the initial plans are not accepted by the FRB and DFI or to comply with the other provisions of the Revised Resolution could result in more formal regulatory

---

**Table of Contents**

action being taken with respect to the Bank or Nara Bancorp. In addition, the adoption of the Revised Resolution does not preclude any other regulatory action being taken with respect to the Bank or Nara Bancorp.

**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 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.

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 other qualitative factors, including the current economic environment as described under Financial Condition Allowance for Loan Losses below.

We evaluate securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer; the length of time and the extent to which the fair value has been less than cost, and our intention to sell, or it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. We do not believe that we had any investment securities available for sale with unrealized losses that would be deemed to be other-than-temporarily impaired as of December 31, 2010. Investment securities are discussed in more detail under Financial Condition Investment Securities Portfolios below.

Certain 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 fair value, on an aggregate basis. A valuation allowance is established if the aggregate fair value of such loans is lower than their cost, and 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 relative fair value of the servicing asset. Impairment, if it occurs, is recognized as a write down or charge-off in the period of impairment.

## **Table of Contents**

The provision for income taxes is based on income reported for financial statement purposes, and differs from the amount of taxes currently payable, since certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes. Taxes are discussed in more detail in Note 9 to our Consolidated Financial Statements presented elsewhere herein. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance in the context of our tax position. We account for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and taxable income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary.

## **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 of San Francisco 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, such as replacing higher yielding loans with a like amount of lower yielding investment securities. Changes in the level of nonaccrual loans and changes in volume and interest rates can also affect net interest income. Volume changes are caused by differences in the level of interest-earning assets and interest-bearing liabilities. Interest rate changes result from differences in yields earned on assets and rates paid on liabilities.

The other significant source of our income is 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. Our non-interest income can be reduced by net losses on sales of other real estate owned and charges for other than temporary impairment on investment securities and derivative instruments.

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

### ***Net Income***

Our net income (loss) available to common stockholders was (\$11.5 million) for 2010 compared to (\$10.0 million) for 2009 and \$2.3 million for 2008. Our earnings (loss) per common share based on fully diluted shares

**Table of Contents**

were (\$0.30), (\$0.35) and \$0.09 for 2010, 2009 and 2008, respectively. The return on average assets was -0.24%, -0.19% and 0.11% and the return on average stockholders' equity was -1.99%, -1.88% and 1.15% for these same periods.

The decline in earnings for 2010 was primarily due to increases in loan loss provisions and non-interest expense, partially offset by increases in net interest margin and non-interest income. During 2009, net income decreased as compared with 2008 primarily due to increases in loan loss provisions, non-interest expense and dividends and discount accretion on preferred stock and decrease in net interest income due to compression in our net interest margin, partially offset by an increase in non-interest income and income tax benefits.

**Operations Summary**

(Dollars in thousands)	Year Ended December 31,						
	2010	Increase (Decrease)		2009	Increase (Decrease)		2008
	Amount	Amount	%	Amount	Amount	%	Amount
Interest income	\$ 150,436	(\$ 7,609)	(5)%	\$ 158,045	(\$ 8,883)	(5)%	\$ 166,928
Interest expense	42,052	(23,647)	(36)%	65,699	(5,008)	(7)%	70,707
Net interest income	108,384	16,038	17%	92,346	(3,875)	(4)%	96,221
Provision for loan losses	84,630	23,607	39%	61,023	12,198	25%	48,825
Non-interest income	24,481	6,013	33%	18,468	4,475	32%	13,993
Non-interest expense	63,374	1,661	3%	61,713	4,704	8%	57,009
Income before income tax provision	(15,139)	(3,217)	(27)%	(11,922)	(16,302)	(372)%	4,380
Income tax provision	(7,900)	(1,701)	(27)%	(6,199)	(7,824)	(481)%	1,625
<b>Net income</b>	<b>\$ (7,239)</b>	<b>(\$ 1,516)</b>	<b>(26)%</b>	<b>\$ (5,723)</b>	<b>(\$ 8,478)</b>	<b>(308)%</b>	<b>\$ 2,755</b>

**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 assets, the average rate paid on each category of interest-bearing liabilities, and the resulting net interest spread and net interest margin for each year in the three-year period ended December 31, 2010.

**Table of Contents****Average Balance Sheet and Analysis of Net Interest Income**

	Year Ended December 31,								
	2010	2009			2008			2008	
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
	Balance	Income/	Yield/	Balance	Income/	Yield/	Balance	Income/	Yield/
		Expense	Rate		Expense	Rate		Expense	Rate
	(Dollars in thousands)								
<b>INTEREST-EARNING ASSETS:</b>									
Loans <sup>(1)(2)(3)</sup>	\$ 2,173,840	\$ 134,390	6.18%	\$ 2,124,615	\$ 131,416	6.19%	\$ 2,089,803	\$ 151,172	7.23%
Securities <sup>(3)</sup>	516,460	15,141	2.93%	619,594	25,742	4.15%	298,886	14,416	4.82%
Other investments	192,459	856	0.44%	171,270	680	0.40%	23,498	1,010	4.30%
Federal funds sold	6,082	49	0.81%	14,806	207	1.40%	16,816	330	1.96%
<b>Total interest-earning assets</b>	<b>2,888,841</b>	<b>150,436</b>	<b>5.21%</b>	<b>2,930,285</b>	<b>158,045</b>	<b>5.39%</b>	<b>2,429,003</b>	<b>166,928</b>	<b>6.87%</b>
<b>Non-interest earning assets:</b>									
Cash and due from bank	29,844			71,025			33,376		
Premises and equipment, net	11,082			11,585			11,674		
Accrued interest receivable	9,560			10,246			8,781		
Intangible assets	3,312			3,857			4,587		
Other assets	64,655			11,971			57,246		
<b>Total non-interest earning assets</b>	<b>118,453</b>			<b>108,684</b>			<b>115,664</b>		
<b>Total assets</b>	<b>\$ 3,007,294</b>			<b>\$ 3,038,969</b>			<b>\$ 2,544,667</b>		
<b>INTEREST-BEARING LIABILITIES:</b>									
<b>Deposits:</b>									
Demand, interest-bearing	\$ 608,051	6,374	1.05%	\$ 467,764	8,948	1.91%	\$ 280,055	8,264	2.95%
Savings	135,008	3,274	2.43%	125,877	3,948	3.14%	133,791	4,920	3.68%
Time certificates	1,118,383	18,234	1.63%	1,397,419	37,740	2.70%	1,113,667	40,896	3.67%
FHLB advances	353,384	12,099	3.42%	356,528	13,041	3.66%	372,142	13,932	3.74%
Other borrowings	42,895	2,071	4.83%	37,883	2,022	5.34%	37,683	2,695	7.15%
<b>Total interest-bearing liabilities</b>	<b>2,257,721</b>	<b>42,052</b>	<b>1.86%</b>	<b>2,385,471</b>	<b>65,699</b>	<b>2.75%</b>	<b>1,937,338</b>	<b>70,707</b>	<b>3.65%</b>
<b>Non-interest bearing liabilities and equity</b>									
Demand deposits	352,498			300,286			328,116		
Other liabilities	32,916			48,442			40,413		
Stockholders equity	364,159			304,770			238,800		
<b>Total liabilities and stockholders equity</b>	<b>\$ 3,007,294</b>			<b>\$ 3,038,969</b>			<b>\$ 2,544,667</b>		
<b>NET INTEREST INCOME AND YIELD:</b>									
Net interest income		\$ 108,384			\$ 92,346			\$ 96,221	
Net interest margin			3.75%			3.15%			3.96%
Net interest margin, excluding non-accrual interest			3.80%			3.20%			3.99%
Net interest margin, excluding non-accrual interest and loan prepayment fee income			3.78%			3.18%			3.92%
Net interest spread <sup>(4)</sup>			3.34%			2.64%			3.22%
Net interest spread <sup>(5)</sup>			3.60%			2.94%			3.75%
Cost of funds <sup>(6)</sup>			1.61%			2.45%			3.12%



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

- (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. See the table below for detail. The average balance of loans is net of deferred loan fees.

Year ended December 31,	Loan Fees	Deferred (Fees) cost	Loan prepayment fee income	Non-accrual Loan Income(expense)
	(In thousands)			
2010	\$ 1,855	\$ (2,261)	\$ 525	\$ (1,415)
2009	\$ 1,311	\$ (2,343)	\$ 632	\$ (1,470)
2008	\$ 1,556	\$ (1,505)	\$ 1,668	\$ (689)

**Table of Contents**

- (2) Average balances of loans are net of deferred loan fees and costs and include non-accrual loans and loans held for sale, but excludes the guaranteed portion of delinquent SBA loans.
- (3) Interest income and yields are not presented on a tax-equivalent basis.
- (4) Interest on interest-earning assets minus interest on interest-bearing liabilities
- (5) Interest on interest-earning assets minus interest on interest-bearing liabilities and non-interest bearing deposits
- (6) Interest on interest-bearing liabilities and non-interest bearing deposits

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,					
	2010 compared to 2009			2009 compared to 2008		
	Net Increase (Decrease)	Change due to Rate	Volume	Net Increase (Decrease)	Change due to Rate	Volume
			(In thousands)			
<b>INTEREST INCOME:</b>						
Interest and fees on loans	\$ 2,974	\$ (69)	\$ 3,043	\$ (19,756)	\$ (22,237)	\$ 2,481
Interest on other investments	176	87	89	(330)	(1,644)	1,314
Interest on securities	(10,601)	(6,772)	(3,829)	11,326	(2,244)	13,570
Interest on federal funds sold	(158)	(66)	(92)	(123)	(87)	(36)
<b>TOTAL INTEREST INCOME</b>	<b>\$ (7,609)</b>	<b>\$ (6,820)</b>	<b>\$ (789)</b>	<b>\$ (8,883)</b>	<b>\$ (26,212)</b>	<b>\$ 17,329</b>
<b>INTEREST EXPENSE:</b>						
Interest on demand deposits	\$ (2,574)	\$ (4,774)	\$ 2,200	\$ 684	\$ (3,577)	\$ 4,261
Interest on savings	(674)	(945)	271	(972)	(693)	(279)
Interest on time certificates of deposit	(19,506)	(12,971)	(6,535)	(3,156)	(12,224)	9,068
Interest on FHLB	(942)	(828)	(114)	(891)	(315)	(576)
Interest on other borrowings	49	(204)	253	(673)	(687)	14
<b>TOTAL INTEREST EXPENSE</b>	<b>\$ (23,647)</b>	<b>\$ (19,722)</b>	<b>\$ (3,925)</b>	<b>\$ (5,008)</b>	<b>\$ (17,496)</b>	<b>\$ 12,488</b>
<b>NET INTEREST INCOME</b>	<b>\$ 16,038</b>	<b>\$ 12,902</b>	<b>\$ 3,136</b>	<b>\$ (3,875)</b>	<b>\$ (8,716)</b>	<b>\$ 4,841</b>

**Net Interest Income and Net Interest Margin**

Net interest income was \$108.4 million for 2010, compared to \$92.3 million for 2009 and \$96.2 million for 2008. The net interest margin was 3.75% for 2010 compared to 3.15% for 2009 and 3.96% for 2008. Interest income reversed for non-accrual loans (net of income recognized) was \$1.4 million for 2010, compared to \$1.5 million for 2009 and \$689 thousand for 2008. Excluding this effect, the net interest margin for 2010, 2009 and 2008 was 3.80%, 3.20% and 3.99%, respectively.

*Comparison of 2010 with 2009*

Net interest income increased \$16.0 million, or 17%, during 2010. The increase in net interest income was due to the increase in the net interest margin. The cost of deposits decreased during 2010 due to the decrease in the rates paid on certificates of deposit upon renewal and on money market accounts as a result of the decline in market interest rates. There was no change to the prime rate during 2010.

*Comparison of 2009 with 2008*

Net interest income decreased \$3.9 million, or 4%, during 2009. The decline in net interest income was due to the decline in the net interest margin, as well as a significant shift in asset allocation from loans receivable to



## **Table of Contents**

liquid assets and investment securities with lower yields. The net interest margin was lower during 2009 primarily due to the lag effect of deposit pricing. There was no change to the prime rate during 2009.

### ***Interest Income***

Interest income was \$150.4 million for 2010, compared to \$158.0 million for 2009 and \$166.9 million for 2008. The yield on average interest-earning assets was 5.21% for 2010, compared to 5.39% for 2009 and 6.87% for 2008.

#### ***Comparison of 2010 with 2009***

The decrease in interest income of \$7.6 million, or 5%, for 2010 compared to 2009 was primarily due to a decrease in the average yield on average interest-earning assets, particularly in investment securities. The yield on average investment securities was 2.93% for 2010, compared to 4.15% for 2009. The decrease in the average yield on investment securities was due to sale of investment securities totaling \$201.8 million with an average yield of 4.89%, which was replaced by new investment securities purchased in 2010, which had lower yields than the weighted average yield of the portfolio as a result of decreases in market interest rates.

The average yield on loans for 2010 was 6.18%, compared to 6.19% for 2009. Average loans increased \$49.2 million to \$2.2 billion for 2010 from \$2.1 billion for 2009.

#### ***Comparison of 2009 with 2008***

The decrease in interest income of \$8.9 million, or 5%, for 2009 compared to 2008 was primarily due to a decline in the prime rate in late 2008 to which our adjustable rate loans are tied, partially offset by a 21% growth in average interest-earning assets, mostly investment securities. Average interest earning assets increased \$501 million to \$2.9 billion for 2009, compared to \$2.4 billion for 2008. The increase in average investment securities accounted for 64% of the increase in average interest earning assets.

The average yield on loans decreased 104 basis points to 6.19% for 2009, compared to 7.23% for 2008. Average loans increased \$34.8 million to \$2.1 billion for 2009 from \$2.09 billion for 2008. Interest income on securities increased \$11.3 million, or 79%, to \$25.7 million for 2009 from \$14.4 million for 2008, primarily due to the growth in the securities portfolio. The average yield on investment securities for 2009 decreased to 4.15% from 4.82% for 2008, due to new investment securities purchased in 2009, which had lower yields than the weighted average yield of the portfolio. The investment securities purchased during 2009 amounted to \$768 million with an average yield of 3.80%.

### ***Interest Expense***

#### ***Deposits***

Interest expense on deposits was \$27.9 million for 2010 compared to \$50.6 million for 2009 and \$54.1 million for 2008. The average cost of total deposits was 1.26% for 2010 compared to 2.21% for 2009 and 2.91% for 2008. The average cost of interest-bearing deposits was 1.50% for 2010 compared to 2.54% for 2009 and 3.54% for 2008.

#### ***Comparison of 2010 with 2009***

The decrease in interest expense on total deposits of \$22.8 million, or 45%, for 2010 compared to 2009 was primarily due to the decrease in the rates paid on certificates of deposits upon renewal and on money market accounts as a result of the decline in market interest rates.

---

**Table of Contents***Comparison of 2009 with 2008*

The decrease in interest expense on total deposits of \$3.5 million, or 6%, for 2009 compared to 2008 was due to the decrease in rates paid on deposits as we lowered the rates several times in 2009, partially offset by an increase in average interest-bearing deposits. Average interest-bearing deposits increased \$463.5 million, or 30% during 2009 while average non-interest bearing deposits decreased \$27.8 million, or 8%, during the same period.

***Borrowings***

Borrowings include borrowings from the FHLB, the FRB, 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 was \$396.3 million in 2010, compared to \$394.4 million in 2009 and \$409.8 million in 2008. Interest expense on FHLB borrowings was \$12.1 million for 2010, compared to \$13.0 million for 2009 and \$13.9 million for 2008. The average cost of those borrowings was 3.42% for 2010, compared to 3.66% for 2009 and 3.74% for 2008. Interest expense on subordinated debentures was \$1.9 million for 2010, compared to \$2.0 million for 2009 and \$2.7 million for 2008.

The average cost of subordinated debentures, was 4.71% for 2010, compared to 5.34% for 2009 and 7.15% for 2008. The fluctuation in the average cost of other borrowings was due to changes in the 3-month LIBOR, to which all but one of our issues of subordinated debentures are tied. For 2010, the 3-month LIBOR average was 0.34% compared to 0.69% and 2.93% for 2009 and 2008, respectively.

***Provision for Loan Losses***

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

*Comparison of 2010 with 2009*

The provision for loan losses was \$84.6 million for 2010, an increase of \$23.6 million, or 39%, from \$61.0 million for 2009. The increase is primarily due to an additional \$26.3 million of charge-offs taken on over \$60 million of problem loans that were transferred to loans held for sale at June 30, 2010 and sold in a bulk sale in the third quarter 2010. Net charge-offs increased to \$81.7 million for 2010, compared to \$45.0 million for 2009. The increase in net charge-offs was mostly due to an increase in partial charge-offs on impaired loans resulting primarily from declines in collateral values on collateral dependent loans as well as the charge-offs associated with the loans transferred to loans held for sale. Total classified loans decreased to \$136.0 million at December 31, 2010, compared to \$157.2 million at December 31, 2009, primarily due to \$115 million of problem loans sold during the year in which the majority were classified as well as the charge-off of classified loans, offset by \$131.0 million in additional classified credits during the year.

*Comparison of 2009 with 2008*

The provision for loan losses was \$61.0 million for 2009, an increase of \$12.2 million, or 25%, from \$48.8 million for 2008. The increase is primarily due to higher net charge-offs, an increase in loss migration factors

**Table of Contents**

based on continued deterioration in the portfolio and increasing Watch List loans, as well as changes in qualitative factors that may adversely affect the loan portfolio. Net charge-offs increased to \$45.0 million for 2009, compared to \$25.4 million for 2008. The increase in net charge-offs was mostly due to an increase in partial charge-offs on impaired loans resulting primarily from declines in collateral values on collateral dependent loans. Total classified loans increased significantly to \$157.2 million at December 31, 2009, compared to \$65.5 million at December 31, 2008, partially due to the increase in Troubled Debt Restructured loans.

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 \$24.5 million for 2010, compared to \$18.5 million for 2009 and \$14.0 million for 2008.

***Comparison of 2010 with 2009***

Service charges on deposit accounts decreased \$320 thousand, or 5%, to \$6.5 million for 2010 from \$6.8 million for 2009. The decrease was primarily due to overdraft, or non-sufficient funds ( NSF ) charges assessed on deposit customers, which decreased \$299 thousand, or 6%, to \$4.8 million for 2010 from \$5.1 million for 2009 as the volume of accounts incurring on NSF charge declined. Net gains on sales of SBA loans increased \$706 thousand, or 102%, to \$1.4 million in 2010 from \$694 thousand in 2009. Total SBA loan originations during 2010 increased \$43.4 million, or 386% to \$54.6 million compared to \$11.2 million for 2009 due to the recovery of the SBA secondary market. Sales of SBA loans for 2010 was \$27.4 million compared to \$11.0 million for 2009. The increase in net gains on sales of SBA loans was also due to the increase in premium paid. The average premium increased to 9.38% for 2010 compared to 6.14% for 2009. Other loans sold in 2010 and 2009 were \$77.2 million and \$13.7 million, respectively. Net gains on sales of other loans increased \$3.6 million, or 500%, to \$4.4 million for 2010 from \$728 thousand for 2009. The increase in net gains on sales of other loans was due to the sale of problem assets of \$61.1 million, which had been written down to estimated market value at June 30, 2010, but which resulted in a net gain of \$3.7 million during third quarter of 2010.

Net gains on sales of securities available-for-sale increased \$2.0 million, or 45%, to \$6.4 million for 2010 from \$4.4 million for 2009. A total of \$201.8 million in available-for-sale investment securities were sold during 2010 as part of the rebalancing of duration and mix of the investment securities portfolio. Net losses on sales of other real estate owned ( OREO ) increased \$285 thousand, or 89%, to (\$605 thousand) for 2010 from (\$320 thousand) for 2009. We sold 13 properties during 2010 compared to 11 properties in 2009.

***Comparison of 2009 with 2008***

Service charges on deposit accounts decreased \$595 thousand, or 8%, to \$6.8 million for 2009 from \$7.4 million for 2008. The decrease was primarily due to NSF charges, which decreased \$421 thousand, or 8%, to \$5.1 million for 2009 from \$5.5 million for 2008 due to lower volume of NSF charges. Net gains on sales of SBA loans decreased \$906 thousand, or 57%, to \$694 thousand in 2009 from \$1.6 million in 2008. The origination of SBA loans declined significantly starting in the second quarter of 2008 due to the tightening of our underwriting standards and decreases in business sales transactions due to the slowdown in the economy. Total SBA loan originations during 2009 were \$11.2 million compared to \$49.2 million for 2008. Sales of SBA loans during 2009 also decreased to \$11.0 million compared to \$42.3 million for 2008. The decrease in net gains on sales of SBA loans was partially offset by the increase in premium paid. The average premium increased to 6.14% for 2009 compared to 4.97% for 2008. Other loans sold in 2009 and 2008 were \$13.7 million and \$11.7 million, respectively. Net gains on sales of other loans increased \$547 thousand, or 302%, to \$728 thousand for 2009 from \$181 thousand for 2008.

Net gains on sales of securities available-for-sale increased \$3.6 million, or 415%, to \$4.4 million for 2009 from \$860 thousand for 2008. A total of \$235.3 million in available-for-sale investment securities were sold

**Table of Contents**

during 2009 as part of a rebalancing of duration and mix of our investment securities portfolio. Net losses on sales of other real estate owned ( OREO ) decreased \$683 thousand, or 68%, to (\$320 thousand) for 2009 from (\$1.0 million) for 2008. During 2009, valuation of the underlying properties upon foreclosure was closer to actual value realized upon sale of the properties. We sold eleven properties during 2009 compared to three in 2008. During the second quarter of 2008, we recognized an other than temporary impairment ( OTTI ) charge of (\$1.7 million) on a non-agency asset backed security with a book value of \$1.7 million. The impairment charge was due to a down grade of the security by one of the rating agencies. The security has been written down in full. We have no other non-agency asset-backed securities in the investment portfolio. This write-down adversely affected non-interest income for 2008.

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

(Dollars in thousands)	2010	Increase (Decrease)		Year Ended December 31,		Increase (Decrease)		2008
		Amount	%	2009	Amount	%		
<b>Non-interest Income:</b>								
Service charges on deposit accounts	\$ 6,464	\$ (320)	(5)%	\$ 6,784	\$ (595)	(8)%	\$ 7,379	
International service fees	2,369	363	18	2,006	(44)	(2)	2,050	
Loan servicing fees, net	1,836	(30)	(2)	1,866	(191)	(9)	2,057	
Wire transfer fees	1,192	(140)	(11)	1,332	(224)	(14)	1,556	
Net gains on sales of SBA loans	1,400	706	102	694	(906)	(57)	1,600	
Net gains on sales of other loans	4,368	3,640	500	728	547	302	181	
Net gains on sales of securities available for sale	6,396	1,969	45	4,427	3,567	415	860	
Net (loss) on sale of OREO	(605)	(285)	(89)	(320)	683	68	(1,003)	
Net valuation losses on interest rate swaps	(857)	(411)	(92)	(446)	103	19	(549)	
Other than temporary impairment								