NARA BANCORP INC
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2009 or

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

Commission File Number: 000-50245

NARA BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4849715**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
3731 Wilshire Boulevard, Suite 1000, Los Angeles, California	**90010**
(Address of Principal executive offices)	**(ZIP Code)**

(213) 639-1700

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

As of July 31, 2009, there were 26,256,960 outstanding shares of the issuer s Common Stock, $0.001 par value.

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Forward-Looking Information

Certain matters discussed in this report may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. Risks and uncertainties include deterioration in economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; risks of available for sale securities declining significantly in value as interest rates rise; and regulatory risks associated with the current and future regulations as well as the possibility of regulatory enforcement actions to which we are subject. For additional information concerning these factors, see Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements
NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) June 30, 2009	December 31, 2008
	(Dollars in thousands, except share data)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 35,406	$ 29,097
Interest-bearing deposit at Federal Reserve Bank	204,048	960
Federal funds sold	40,000	19,000
Total cash and cash equivalents	279,454	49,057
Securities available for sale, at fair value	745,792	406,586
Loans held for sale, at the lower of cost or fair value	13,664	9,821
Loans receivable, net of allowance for loan losses (June 30, 2009 - $50,339; December 31, 2008 - $43,419)	2,029,973	2,055,024
Federal Reserve Bank stock, at cost	4,390	2,320
Federal Home Loan Bank (FHLB) stock, at cost	19,935	19,935
Premises and equipment, net	11,580	11,987
Accrued interest receivable	10,187	8,168
Deferred tax assets, net	24,351	25,218
Customers liabilities on acceptances	6,992	10,427
Bank owned life insurance	23,462	23,349
Goodwill	2,509	2,509
Other intangible assets, net	1,330	1,627
Other assets	87,190	46,026
Total assets	$ 3,260,809	$ 2,672,054

(Continued)

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NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

LIABILITIES AND STOCKHOLDERS EQUITY

	(Unaudited) June 30, 2009	December 31, 2008
	(Dollars in thousands, except share data)	
LIABILITIES:		
Deposits:		
Non-interest bearing	$ 318,874	$ 303,656
Interest bearing:		
Money market and NOW accounts	517,020	306,478
Savings deposits	129,120	113,186
Time deposits of $100,000 or more	763,088	626,850
Other time deposits	711,693	588,433
Total deposits	2,439,795	1,938,603
Federal Home Loan Bank borrowings	350,000	350,000
Subordinated debentures	39,268	39,268
Accrued interest payable	10,921	8,549
Acceptances outstanding	6,992	10,427
Other liabilities	132,414	35,254
Total liabilities	2,979,390	2,382,101
STOCKHOLDERS EQUITY:		
Preferred stock, $0.001 par value - authorized 10,000,000 undesignated shares; issued and outstanding 67,000 shares of Fixed Rate		
Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of $67,000,000 at June 30, 2009 and December 31, 2008, respectively	67,000	67,000
Preferred stock discount	(4,202)	(4,664)
Common stock, $0.001 par value; authorized, 40,000,000 shares; issued and outstanding, 26,256,960 and 26,246,560 shares at June 30, 2009 and December 31, 2008, respectively	26	26
Common stock warrant	4,766	4,766
Capital surplus	83,064	82,077
Retained earnings	130,565	141,890
Accumulated other comprehensive income (loss), net	200	(1,142)
Total stockholders equity	281,419	289,953
Total liabilities and stockholders equity	$ 3,260,809	$ 2,672,054

See accompanying notes to condensed consolidated financial statements (unaudited)

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NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the three and six months ended June 30, 2009 and 2008

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands, except per share data)			
INTEREST INCOME:				
Interest and fees on loans	$ 32,461	$ 37,699	$ 64,133	$ 78,063
Interest on securities	5,710	3,571	10,030	7,239
Interest on federal funds sold and other investments	239	517	306	845
Total interest income	38,410	41,787	74,469	86,147
INTEREST EXPENSE:				
Interest on deposits	13,365	13,578	25,190	28,785
Interest on subordinated debentures	522	640	1,081	1,401
Interest on FHLB borrowings	3,263	3,413	6,499	7,195
Total interest expense	17,150	17,631	32,770	37,381
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	21,260	24,156	41,699	48,766
PROVISION FOR LOAN LOSSES	19,000	9,652	34,670	14,645
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,260	14,504	7,029	34,121
NON-INTEREST INCOME:				
Service fees on deposit accounts	1,698	1,723	3,467	3,544
International service fees	491	517	911	962
Loan servicing fees, net	469	514	944	1,042
Wire transfer fees	334	371	686	735
Other income and fees	366	412	726	893
Net gains on sales of SBA loans	32	530	95	1,245
Net gains on sales of other loans	510	96	897	181
Net gains on sales of securities available for sale	220	393	1,005	860
Net valuation gains (losses) on interest rate swaps	(151)	482	(267)	175
Net losses on sales of OREO	(184)		(314)	
Other than temporary impairment on securities available for sale		(1,713)		(1,713)
Total non-interest income	3,785	3,325	8,150	7,924
NON-INTEREST EXPENSE:				
Salaries and employee benefits	6,551	7,456	12,994	15,092
Occupancy	2,484	2,147	4,910	4,310
Furniture and equipment	736	707	1,431	1,416
Advertising and marketing	505	653	962	1,203
Data processing and communications	990	897	1,891	1,727
Professional fees	428	601	1,106	1,133
FDIC assessment	2,446	292	3,196	601

Credit related expense	986	182	2,474	311
Other	1,696	1,905	3,106	3,478
Total non-interest expense	16,822	14,840	32,070	29,271
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	(10,777)	2,989	(16,891)	12,774
INCOME TAX PROVISION (BENEFIT)	(4,769)	1,136	(7,703)	5,148
NET INCOME (LOSS)	$ (6,008)	$ 1,853	$ (9,188)	$ 7,626
DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK	$ (1,069)	$	$ (2,137)	$
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (7,077)	$ 1,853	$ (11,325)	$ 7,626
EARNINGS (LOSS) PER COMMON SHARE				
Basic	$ (0.27)	$ 0.07	$ (0.43)	$ 0.29
Diluted	(0.27)	0.07	(0.43)	0.29

See accompanying notes to condensed consolidated financial statements (unaudited)

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NARA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(Unaudited)

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss), net	Comprehensive Income (loss)
	(In thousands, except share data)								
BALANCE, JANUARY 1, 2008	**$**	**$**	**26,193,560**	**$ 26**	**$**	**$ 79,974**	**$ 142,491**	**$ (311)**	
Stock options exercised			4,000			34			
Stock-based compensation						998			
Cash dividends declared ($ 0.055 per common share)						(1,440)			
Comprehensive income:									
Net income							7,626		$ 7,626
Other comprehensive income (loss):									
Change in unrealized gain (loss) on securities available for sale, net of tax								(1,849)	(1,849)
Change in unrealized gain (loss) on interest-only strips, net of tax								(2)	(2)
Change in unrealized gain (loss) on interest rate swaps, net of tax								132	132
Total comprehensive income (loss)									$ 5,907
BALANCE, JUNE 30, 2008	**$**	**$**	**26,197,560**	**$ 26**	**$**	**$ 81,006**	**$ 148,677**	**$ (2,030)**	

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Comprehensive Income (loss)
	(In thousands, except share data)								
BALANCE, JANUARY 1, 2009	**$ 67,000**	**$ (4,664)**	**26,246,560**	**$ 26**	**$ 4,766**	**$ 82,077**	**$ 141,890**	**$ (1,142)**	
Issuance of additional stock pursuant to stock plan		10,400							
Tax benefit from vested restricted unit						14			
Stock-based compensation						973			
Cash dividends accrued (5%)							(1,675)		
Accretion of preferred stock discount		462					(462)		
Comprehensive income:									
Net loss							(9,188)		$ (9,188)
Other comprehensive income (loss):									
Change in unrealized gain (loss) on securities available for sale, net of tax								1,377	1,377
Change in unrealized gain (loss) on interest-only strips, net of tax								7	7
Change in unrealized gain (loss) on interest rate swaps, net of tax								(42)	(42)

Total comprehensive income (loss)										$ (7,846)
BALANCE, JUNE 30, 2009	**$ 67,000**	**$ (4,202)**	**26,256,960**	**$ 26**	**$ 4,766**	**$ 83,064**	**$ 130,565**	**$**	**200**	

See accompanying notes to consolidated financial statements.

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NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2009 and 2008

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (9,188)	$ 7,626
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation, amortization, net of discount accretion	1,396	1,210
Stock-based compensation expense	973	998
Provision for loan losses	34,670	14,645
Other than temporary impairment on securities		1,713
Valuation adjustment of a loan held for sale		334
Valuation adjustment of OREO	1,379	
Proceeds from sales of loans	5,718	37,694
Originations of loans held for sale	(2,383)	(30,245)
Net gains on sales of SBA and other loans	(992)	(1,426)
Net change in bank owned life insurance	(113)	(311)
Net gains on sales of securities available for sale	(1,005)	(860)
Net losses on sales of OREO	314	
Net valuation (gains) losses on interest rate swaps	267	(175)
FHLB stock dividends		(479)
Change in accrued interest receivable	(2,019)	1,014
Change in deferred tax assets	1	(3,520)
Change in other assets	(7,823)	(940)
Change in accrued interest payable	2,372	(2,538)
Change in other liabilities	308	(1,531)
Net cash provided by operating activities	23,875	23,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(19,161)	(130,774)
Proceeds from sales of commercial real estate loans		11,863
Proceeds from sales of securities available for sale	43,712	76,135
Proceeds from sales of OREO	827	
Purchase of premises and equipment	(979)	(1,745)
Purchase of securities available for sale	(381,639)	(164,465)
Purchase of Federal Reserve Bank stock	(2,070)	(40)
Purchase of Federal Home Loan Bank stock		(8,529)
Redemption of Federal Home Loan Bank stock		2,925
Proceeds from matured or called securities available for sale	66,967	52,353
Net cash received from acquisition of Provident Bank		2,555
Net cash used in investing activities	(292,343)	(159,722)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2009 and 2008

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	501,192	92,235
Payment of cash dividends	(2,341)	(1,440)
Proceeds from FHLB borrowings	10,000	246,000
Repayment of FHLB borrowings	(10,000)	(193,000)
Proceeds from stock options exercised		34
Tax benefit from performance units vested	14	
Net cash provided by financing activities	498,865	143,829
NET CHANGE IN CASH AND CASH EQUIVALENTS	230,397	7,316
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	49,057	49,147
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 279,454	$ 56,463
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 30,398	$ 39,919
Income taxes paid	$ 1,347	$ 9,842
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTMENT ACTIVITIES		
Transfer from loans receivable to other real estate owned	$ 3,356	$
Transfer from loan receivables to loans held for sale	$ 6,186	$ 12,016
Investment securities purchases pending future settlement	$ 118,630	$
Investment securities sales pending future settlement	$ (32,487)	$
Acquisition:		
Fair value of non-cash assets acquired		$ 44
Fair value of deposits assumed		$ 2,999
Goodwill acquired		$ 350
Other intangible assets acquired		$ 50

See accompanying notes to condensed consolidated financial statements (unaudited)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nara Bancorp, Inc.

Nara Bancorp, Inc. (Nara Bancorp , on a parent-only basis, and Company, we or our on a consolidated basis), incorporated under the laws of the State of Delaware in 2000, is a bank holding company, headquartered in Los Angeles, California, offering a full range of commercial banking and certain consumer financial services through its wholly owned subsidiary, Nara Bank (Nara Bank or the Bank). The Bank was organized in 1989 as a national bank and converted to a California state-chartered bank on January 3, 2005. It has branches in California, New York and New Jersey as well as Loan Production Offices in Georgia and Texas.

2. Basis of Presentation

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

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

We believe that we have made all adjustments, consisting solely of normal recurring accruals, necessary to fairly present our financial position at June 30, 2009 and the results of our operations for the six months then ended. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results for the full year.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in our 2008 Annual Report on Form 10-K.

3. Stock-Based Compensation

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

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

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

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The 2007 Plan reserves 1,300,000 shares for issuance. The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 Plan. With the exception of the shares underlying stock options and restricted stock awards, the board of directors may choose to settle the awards by paying the equivalent cash value or by delivering the appropriate number of shares.

The Company authorized 1,300,000 shares under the 2007 Plan; 1,207,800 shares were available for future grants as of June 30, 2009.

Stock option plans adopted in 1989 and 2000, under which options and restricted units were previously granted to employees, officers, and directors of the Company are no longer active and no additional equity may be granted under either plan. Options under the 1989 and 2000 Plan were granted with an exercise price equal to the fair market value on the date of grant with vesting periods from three to five years and have 10-year contractual terms. Restricted units were awarded to a participant at the fair market value of the Company s common stock on the date of award and all units will vest on the third anniversary of the grant. Compensation expense for the awards is recorded over the vesting period.

The fair value of each option granted for the six months ended June 30, 2009 is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected stock price volatility is based on the historical volatility of our stock. We use historical data to estimate the option exercise and employee terminations within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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

For the six months ended June 30, 2008, no stock options were granted.

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The following is a summary of stock option activity under the Plan for the six months ended June 30, 2009:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2009	1,053,250	$ 11.74		
Granted	40,000	8.64		
Exercised				
Forfeited	(60,000)	8.64		
Outstanding - June 30, 2009	1,033,250	$ 11.80	5.10	$ 43,000
Options exercisable - June 30, 2009	903,250	$ 11.45	4.75	$ 43,000
Unvested options expected to vest after June 30, 2009	98,345	$ 14.26	7.54	$

The aggregate intrinsic value of options exercised for the six months ended June 30, 2009 and 2008 was $0 and $16 thousand, respectively. There was no tax benefit realized for options exercised for the six months ending June 30, 2009 and 2008.

The following is a summary of restricted and performance unit activity under the Plan for the six months ended June 30, 2009:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2009	128,120	$ 16.34		
Granted	10,000	3.71		
Vested	(10,400)	11.97		
Forfeited	(7,680)	18.15		
Outstanding - June 30, 2009	120,040	$ 15.55	7.76	$ 621,807

The aggregate intrinsic value of performance units vested for the six months ended June 30, 2009 and 2008 was $28 thousand and $0, respectively. The tax benefit realized for restricted units vested for the six months ending June 30, 2009 and 2008 was $14 thousand and $0, respectively.

The amount charged against income, before income tax benefit of $159 thousand and $149 thousand, in relation to the stock-based payment arrangements was $395 thousand and $405 thousand for the three months ending June 30, 2009 and 2008, respectively. The amount charged against income, before income tax benefit of $397 thousand and $282 thousand, in relation to the stock-based payment arrangements was $973 thousand and $998 thousand for the six months ending June 30, 2009 and 2008, respectively. At June 30, 2009, unrecognized compensation expense related to non-vested stock option grants and restricted and performance units aggregated $574 thousand, and is expected to be recognized over a remaining weighted average vesting period of 1.2 years. The estimated annual stock-based compensation as of June 30, 2009 for each of the succeeding years is indicated in the table below:

	Stock Based Compensation Expense (In thousands)	
Remainder of 2009	$	282
For the year ended December 31:		
2010		241
2011		31
2012 and thereafter		20
Total	$	574

4. Dividends

On March 18, 2009, the Company announced that it has suspended its quarterly common stock dividend to preserve capital and provide the Company with increased flexibility to continue investing in its business in ways that will create value for its shareholders. As economic conditions improve, the Company will consider reinstating a common stock dividend.

5. Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Allocated ESOP shares are considered outstanding for this calculation. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the three and six months ended June 30, 2009 and 2008, stock options for approximately 1,153,000 shares and 620,000 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants to purchase 1,042,531 shares of common stock were also antidilutive for the six and three months ended June 30, 2009.

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The following table shows how we computed basic and diluted EPS for the three and six months ended June 30, 2009 and 2008.

	For the three months ended June 30, 2009			2008		
	Net loss available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Net (loss) income as reported	$ (6,008)			$ 1,853		
Less: preferred stock dividends and accretion of preferred stock discount	(1,069)					
Basic EPS - common stock	$ (7,077)	26,256,960	$ (0.27)	$ 1,853	26,195,035	$ 0.07
Effect of Dilutive Securities:						
Stock Options					255,187	
Diluted EPS - common stock	$ (7,077)	26,256,960	$ (0.27)	$ 1,853	26,450,222	$ 0.07

	For the six months ended June 30, 2009			2008		
	Net loss available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Net (loss) income as reported	$ (9,188)			$ 7,626		
Less: preferred stock dividends and accretion of preferred stock discount	(2,137)					
Basic EPS - common stock	$ (11,325)	26,253,627	$ (0.43)	$ 7,626	26,194,353	$ 0.29
Effect of Dilutive Securities:						
Stock Options					229,692	
Diluted EPS - common stock	$ (11,325)	26,253,627	$ (0.43)	$ 7,626	26,424,045	$ 0.29

6. Recent Accounting Pronouncements

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This FASB staff position concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and therefore are considered participating securities for purposes of computing earnings per share. Entities that have participating securities that are not convertible into common stock are required to use the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. This FASB staff position is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This FASB staff position became effective for the Company on January 1, 2009. The adoption of this standard has no impact on the

Company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company did not participate in a business combination during the reporting period and therefore adoption of this standard had no impact on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160), which changes the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of stockholders equity within the consolidated statement of financial condition. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The adoption of SFAS No. 160 did not have a significant impact on the Company s consolidated results of operations or financial condition.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133* . SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. SFAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this standard did not have a material effect on the Company s consolidated results of operations or financial condition.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which delays the effective date of FASB Statement No. 157, *Fair Value Measurements,* for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay was intended to allow the Board and constituents additional time to consider the effect of various implementation issues that arose from the application of Statement 157. The delay expired on January 1, 2009 and the adoption of FAS No. 157-2 did not have a significant impact on the Company s consolidated results of operations or financial condition.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1), which amends FASB Statement No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits,* to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP also includes a technical amendment to Statement 132(R) that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions of this FSP is permitted. The technical amendment to Statement 132(R) is effective upon issuance of this FSP. The Company does not have postretirement benefit plan assets as of the reporting date and therefore adoption of this standard had no impact on its consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FASB staff position amends FASB Statement No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The staff position also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FASB staff position became effective for interim reporting periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated results of operations or financial condition.

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In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FASB staff position amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than-temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The staff position expands disclosures about other-than-temporary impairment and requires that the annual disclosures in FASB Statement No. 115 and FSP FAS 115-1 and FAS 124-1 be made for interim reporting periods. This FASB staff position became effective for interim reporting periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated results of operations or financial condition.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FASB staff position provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset of liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FASB staff position became effective for interim reporting periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated results of operations or financial condition.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events.* The objective of this Statement is to establish principles and requirements for subsequent events. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: a. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events). b. The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, nonrecognized subsequent events). This Statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this standard did not have a material effect on the Company s consolidated results of operations or financial condition.

Newly Issued But Not Yet Effective Accounting Pronouncements

SFAS No. 166 and 167 In June 2009**,** the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets - An Amendment of FASB Statement No. 140,* and No. 167 - *Amendments to FASB Interpretation No. 46(R)*. These Statements change the way entities account for securitizations and special-purpose entities. Statement 166 is a revision to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. Statement 167 is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. Both new standards will require a number of new disclosures. Statement 167 will require a company to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A company will be required to disclose how its involvement with a variable interest entity affects the company s financial statements. Statement 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and a company s continuing involvement in transferred financial assets. Both Statements 166 and 167 will be effective at the start of a company s first fiscal year beginning after November 15, 2009, or January 1, 2010 for companies reporting earnings on a calendar-year basis. Adoption of these Statements is not expected to have a significant impact on the Company s financial position or results of operations.

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SFAS No. 168 In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162.* The Statement designates *FASB Accounting Standards Codification™* as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). All existing accounting standards documents are superseded as described in FASB Statement No. 168. All other accounting literature not included in the Codification is nonauthoritative. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. It also includes relevant Securities and Exchange Commission (SEC) guidance that follows the same topical structure in separate sections in the Codification. Financial statements issued for all interim and annual periods ending after September 15, 2009 will need to reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements. Accounting literature included in the Codification is referenced by Topic, Subtopic, Section, and Paragraph.

7. Securities Available for Sale

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

	At June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for Sale				
Debt securities*:				
GSE bonds	$ 119,140	$ 643	$ (912)	$ 118,871
GSE collateralized mortgage obligations	154,894	1,119	(1,807)	154,206
GSE mortgage-backed securities	456,524	3,866	(865)	459,525
Corporate note	4,451		(1,925)	2,526
Municipal bonds	5,259	15	(68)	5,206
Total debt securities	740,268	5,643	(5,577)	740,334
Mutual funds	5,462		(4)	5,458
	$ 745,730	$ 5,643	$ (5,581)	$ 745,792

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	At December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for Sale				
Debt securities*:				
GSE bonds	$ 46,901	$ 447	$ (27)	$ 47,321
GSE collateralized mortgage obligations	126,840	360	(3,279)	123,921
GSE mortgage-backed securities	225,144	2,991	(360)	227,775
Corporate note	4,444		(2,292)	2,152
Total debt securities	403,329	3,798	(5,958)	401,169
Mutual funds	5,462		(45)	5,417
	$ 408,791	$ 3,798	$ (6,003)	$ 406,586

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

As of June 30, 2009, we had $745.8 million in available-for-sale securities, compared to $406.6 million at December 31, 2008. The net unrealized gain on the available-for sale securities at June 30, 2009 was $62 thousand, compared to a net unrealized loss of $2.2 million at December 31, 2008. During the first half of 2009, we purchased $478.8 million in securities available-for-sale, sold $75.2 million in various available-for-sale agency debt and mortgage related securities, and recognized net gains on sales of $1.0 million. The sales of securities were part of our on-going interest rate risk management strategy.

At June 30, 2009, other liabilities included investment securities purchased pending future settlement of $118.6 million, compared to $21.5 million at December 31, 2008. In addition, at June 30, 2009, other assets included investment securities sold pending future settlement of $32.5 million.

Securities with a carrying value of $4.3 million were pledged to secure public deposits and for other purposes as required or permitted by law as of June 30, 2009. Securities with a carrying value of $258.8 million were pledged for California State Treasurer deposits, as of June 30, 2009.

The amortized cost and estimated fair value of debt securities at June 30, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Available for sale:		
Due within one year	$	$
Due after one year through five years		
Due after five years through ten years	340	325
Due after ten years	128,510	126,278
GSE collaterized mortgage obligations	154,894	154,206
GSE mortgage-backed securities	456,524	459,525
	$ 740,268	$ 740,334

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The following table shows our investments gross unrealized losses and estimated fair value, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2009.

At June 30, 2009	**Less than 12 months**			**12 months or longer**			**Total**		
Description of Securities	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**
					(Dollars in thousands)				
GSE bonds	14	$ 55,983	$ (912)		$	$	14	$ 55,983	$ (912)
GSE collaterized mortgage obligations	14	73,159	(1,006)	7	29,775	(801)	21	102,934	(1,807)
GSE mortgage-backed securities	50	203,266	(861)	5	516	(4)	55	203,782	(865)
Corporate note				1	2,527	(1,925)	1	2,527	(1,925)
Municipal bonds	11	3,209	(68)				11	3,209	(68)
Mutual funds	1	5,458	(4)				1	5,458	(4)
	90	$ 341,075	$ (2,851)	13	$ 32,818	$ (2,730)	103	$ 373,893	$ (5,581)

We evaluate securities for other-than-temporary impairment at least quarterly, 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 the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

The corporate note consists of one bond with an amortized cost of $4.5 million and an unrealized loss of $1.9 million at June 30, 2009. The bond is scheduled to mature in May 2047, with a first call date option in May 2012. Management determined this unrealized loss did not meet the criteria other-than-temporary impairment at June 30, 2009 as the investment is rated investment grade and there are no credit quality concerns of the obligor. The market value decline is deemed to be due to the current market volatility and is not reflective of management s expectations of their ability to fully recover this investment. Interest on the corporate note has been paid as agreed and management believes this will continue in the future and the bond will be repaid in full as scheduled. For these reasons, no other-than-temporary impairment was recognized on the corporate note at June 30, 2009.

As noted above, we consider the losses on our investments in an unrealized loss position at June 30, 2009 to be temporary based on: 1) the likelihood of recovery; 2) the information relative to the extent and duration of the decline in market value; and 3) the Company does not intend to sell these securities at losses, it is more likely than not that the Company will not be required to sell these securities before anticipated recovery.

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8. Loans Receivable and Allowance for Loan Losses

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

	June 30, 2009	December 31, 2008
	(In thousands)	
Commercial loans	$ 556,793	$ 598,556
Real estate loans	1,502,048	1,472,872
Consumer and other loans	23,069	28,520
	2,081,910	2,099,948
Unamortized deferred loan fees, net of cost	(1,598)	(1,505)
Allowance for loan losses	(50,339)	(43,419)
Loans receivables, net	$ 2,029,973	$ 2,055,024

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

	Six months ended June 30,	
	2009	2008
	(In thousands)	
Balance, beginning of period	$ 43,419	$ 20,035
Provision for loan losses	34,670	14,645
Loan charge-offs	(28,084)	(6,886)
Loan recoveries	334	105
Balance, end of period	$ 50,339	$ 27,899

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

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans totaled $81.7 million and $50.3 million as of June 30, 2009 and December 31, 2008, respectively, with specific loss allowances of $13.3 million and $15.0 million, respectively.

A general loan loss allowance is provided on loans not specifically identified as impaired loans. The allowance is determined based first on a quantitative analysis using a loss migration methodology. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for the most recent 12 quarters, and that loss experience is applied to the stratified portfolio at each quarter end. In the current environment, the loss experience of the most recent four quarters is given more weight in determination of the loss experience factor to be applied to the non-impaired loan portfolio.

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

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

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

Changes in the nature and volume of the loan portfolio.

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

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

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

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

Transfer risk on cross-border lending activities.

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

The allowance for loan losses for impaired and non-impaired loans was as follows for the periods indicated:

	6/30/2009				12/31/2008			
	(Dollars in thousands)							
	Commercial Real Estate Loans	Commercial Loans	Other Loans	Total	Commercial Real Estate Loans	Commercial Loans	Other Loans	Total
Impaired loans	$ 62,529	$ 19,201	$	$ 81,730	$ 27,693	$ 22,620	$	$ 50,313
Specific allowance allocations	$ (6,273)	$ (7,032)	$	$ (13,305)	$ (5,411)	$ (9,546)	$	$ (14,957)
Loss coverage ratio	10.03%	36.62%	N/A	16.28%	19.54%	42.20%	N/A	29.73%
Non-impaired loans	$ 1,431,549	$ 526,644	$ 40,389	$ 1,998,582	$ 1,436,919	$ 563,588	$ 47,623	$ 2,048,130
General allowance allocations	$ (26,499)	$ (9,951)	$ (584)	$ (37,034)	$ (18,808)	$ (8,514)	$ (1,140)	$ (28,462)
Loss coverage ratio	1.85%	1.89%	1.45%	1.85%	1.31%	1.51%	2.39%	1.39%
Total loans	$ 1,494,078	$ 545,845	$ 40,389	$ 2,080,312	$ 1,464,612	$ 586,208	$ 47,623	$ 2,098,443
Total allowance for loan losses	$ (32,772)	$ (16,983)	$ (584)	$ (50,339)	$ (24,219)	$ (18,060)	$ (1,140)	$ (43,419)
Loss coverage ratio	2.19%	3.11%	1.45%	2.42%	1.65%	3.08%	2.39%	2.07%

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At June 30, 2009, non-accrual loans totaled $30.9 million, compared to $37.6 million at December 31, 2008. At June 30, 2009 and December 31, 2008, there were no loans past due more than 90 days and still accruing interest.

Trouble Debt Restructured (TDR) loans are defined by SFAS 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings and evaluated for impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan. At June 30, 2009, loans classified as TDR s totaled $48.1 million, of which $11.1 million was on non-accrual status and $37.0 million was on accrual status. At December 31, 2008, loans classified as TDR totaled $9.4 million, of which $6.1 million was on non-accrual status and $3.3 million was on accrual status. As of June 30, 2009 and December 31, 2008, the Company did not have any outstanding commitments to extend additional funds to these borrowers.

Under certain circumstances, the Company will provide borrowers temporary relief through a loan modification. The modifications generally consist of interest only payments for a three to six month period, whereby principal payments are deferred. At the end of the deferment period, the remaining principal balance is re-amortized based on the original maturity date. Modified loans are generally downgraded to substandard or special mention, accounting for the significant increase in loans classified as substandard to $112.6 million at June 30, 2009 from $55.6 million at December 31, 2008. At June 30, 2009 total modified loans outstanding were $46.1 million. At the end of the modification period, the loan 1) returns to the original contractual terms; 2) is further modified and accounted for as a troubled debt restructuring in accordance with SFAS 114; or 3) is disposed of through foreclosure or liquidation.

See also discussion under Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Non-Performing Assets and Allowance for Loan Losses.

9. Federal Home Loan Bank Borrowings

The Company maintains a secured credit facility with the Federal Home Loan Bank of San Francisco (FHLB SF) against which the Company may take advances. The borrowing capacity is limited to the lower of 30% of the Bank s total assets or the Bank s collateral capacity, which was $548.4 million at June 30, 2009. The terms of this credit facility require the Company to pledge with the FHLB, eligible collateral with the FHLB equal to at least 100% of outstanding advances.

At June 30, 2009 and December 31, 2008, real estate secured loans with a carrying amount of approximately $1.1 billion, were pledged as collateral for borrowings from the FHLB. At June 30, 2009 and December 31, 2008, other than FHLB stock, no securities were pledged as collateral for borrowings from the FHLB.

At June 30, 2009 and December 31, 2008, FHLB borrowings were $350 million, had a weighted average interest rate of 3.75% and 3.70%, respectively, and had various maturities through September 2016. At June 30, 2009 and December 31, 2008, $155 million and $184 million of the advances were putable advances with various putable dates and strike prices. The cost of FHLB borrowings as of June 30, 2009 ranged between 2.32% and 4.63%. At June 30, 2009, the Company had a remaining borrowing capacity of $198.4 million.

The Company also has an unsecured line of credit with FHLB-SF with overnight terms. The maximum borrowing line cannot exceed 18% of the Bank s Tier1 capital. The line is subject to market conditions and the Bank s financial condition, and is provided at the sole discretion of the FHLB-SF.

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At June 30, 2009, the contractual maturities for FHLB borrowings were as follows:

	Contractual Maturities	Maturity/ Put Date
	(In thousands)	
Due within one year	$ 50,000	$ 205,000
Due after one year through five years	238,000	145,000
Due after five years through ten years	62,000	
	$ 350,000	$ 350,000

10. Subordinated Debentures

At June 30, 2009, five wholly-owned subsidiary grantor trusts established by Nara Bancorp had issued $38 million of pooled trust preferred securities (trust preferred securities). Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the debentures) of Nara Bancorp. The debentures are the sole assets of the trusts. The Bancorp s obligations under the subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by Nara Bancorp of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the debentures, or upon earlier redemption as provided in the indentures. Nara Bancorp has the right to redeem the debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date.

The debentures are not redeemable prior to June 8, 2011 with respect to Nara Bancorp Capital Trust I, September 15, 2009 with respect to Nara Capital Trust III, July 7, 2009 with respect to Nara Statutory Trust IV, September 17, 2009 with respect to Nara Statutory Trust V, and March 15, 2012 with respect to Nara Statutory Trust VI.

The following table is a summary of trust preferred securities and debentures at June 30, 2009:

Issuance Trust	Issuance Date	Trust Preferred Security Amount	Subordinated Debentures Amount	Rate Type	Initial Rate	Rate at 6/30/09	Maturity Date
		(Dollars in Thousands)					
Nara Bancorp Capital Trust I	3/28/2001	$ 10,000	$ 10,400	Fixed	10.18%	10.18%	6/8/2031
Nara Capital Trust III	6/5/2003	5,000	5,155	Variable	4.44%	3.78%	6/15/2033
Nara Statutory Trust IV	12/22/2003	5,000	5,155	Variable	4.02%	3.98%	1/7/2034
Nara Statutory Trust V	12/17/2003	10,000	10,310	Variable	4.12%	3.56%	12/17/2033
Nara Statutory Trust VI	3/22/2007	8,000	8,248	Variable	7.00%	2.28%	6/15/2037
TOTAL ISSUANCE		$ 38,000	$ 39,268				

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11. Derivative Financial Instruments and Hedging Activities

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

In January of 2008, the Company entered into five interest swap agreements with an aggregate notional amount of $50 million. Under these swap agreements, the Company receives a floating rate, resetting semi-annually based on the 6 Month London-Interbank Offered Rate (6 Mo. LIBOR), and pays a fixed rate of 3.57%, until January of 2010. These interest rate swap agreements are considered free-standing due to non-designation of a hedge relationship to any of its financial assets or liabilities. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, valuation gains or losses on interest rate swaps not designated as hedging instruments are recognized in earnings. At June 30, 2009, the fair value of the outstanding interest rate swaps was $(1.1 million) compared to $(857 thousand) at December 31, 2008.

The aggregate fair value of all derivative instruments that were in a liability position at June 30, 2009, was $1.1 million, for which the Company had posted $1.5 million in investment securities as collateral. The contract arrangement of these derivative instruments does not contain any credit-risk related contingent features, which would require the Company to post additional collateral as a result of any adverse change in the Company s creditworthiness in the future.

Interest rate swap information at June 30, 2009 is summarized as follows:

Current Notional Amount	Floating Rate	Fixed Rate	Maturity Date	Fair Value
		(Dollars in thousands)		
$10,000	6 Mo. LIBOR	3.57%	01/14/2010	$ (218.3)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(218.3)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(218.3)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(218.3)
10,000	6 Mo. LIBOR	3.57%	01/14/2010	(218.3)
$50,000				**$ (1,091)**

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

	Liability Derivatives at			
	June 30, 2009		December 31, 2008	
	(Dollars in Thousands)			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under Statement 133:				
Interest rate contracts	Other Liabilities	$ (1,091)	Other Liabilities	$ (857)
Total derivatives not designated as hedging instruments under Statement 133:				
Total derivatives		$ (1,091)		$ (857)

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The effect of derivative instruments on the Consolidated Statement of Income for the three and six months ended June 30, 2009 and 2008 are as follows:

	Location of Gain or (Loss) Recognized in Income on Derivatives	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
		Amount of Gain or (Loss) Recognized in Income on Derivatives		Amount of Gain or (Loss) Recognized in Income on Derivatives	
Derivatives not designated as hedging instruments under Statement 133:					
Interest rate contracts (1)	Other income	$ (185)	$ 824	$ (337)	$ 105
Total		$ (185)	$ 824	$ (337)	$ 105

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

12. Business Segments

Our management utilizes an internal reporting system to measure the performance of our various operating segments. We have identified three principal operating segments for the purposes of management reporting: banking operations, trade finance services (TFS) and small business administration (SBA) lending services. Information related to our remaining centralized functions and eliminations of inter-segment amounts has been aggregated and included in banking operations. Although all three operating segments offer financial products and services, they are managed separately based on each segment s strategic focus. The banking operations segment focuses primarily on commercial and consumer lending and deposit operations throughout our branch network. The TFS segment focuses primarily on allowing our import/export customers to handle their international transactions. Trade finance products include the issuance and collection of letters of credit, international collection and import/export financing. The SBA segment primarily provides our customers with access to the U.S. SBA guaranteed lending program through our loan production offices located in major metropolitan cities across the country. The SBA segment also makes commercial real estate and commercial business loans, which are not under the SBA guarantee program.

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

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The following tables present the operating results and other key financial measures for the individual operating segments for the three and six months ended June 30, 2009 and 2008.

Three Months Ended June 30,

(Dollars in thousands)

	Business Segment			
2009	**Banking Operations**	**TFS**	**SBA**	**Company**
Net interest income, before provision for loan losses*	$ 17,148	$ 1,080	$ 3,032	$ 21,260
Less provision for loan losses**	11,814	3,122	4,064	19,000
Non-interest income	2,433	513	839	3,785
Net revenue	7,767	(1,529)	(193)	6,045
Non-interest expense	14,207	647	1,968	16,822
Income (loss) before income taxes	$ (6,440)	$ (2,176)	$ (2,161)	$ (10,777)
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,761,812	$ 164,591	$ 334,406	$ 3,260,809

2008	**Banking Operations**	**TFS**	**SBA**	**Company**
Net interest income, before provision for loan losses	$ 19,652	$ 1,139	$ 3,365	$ 24,156
Less provision for loan losses	414	2,515	6,723	9,652
Non-interest income	1,674	536	1,115	3,325
Net revenue	20,912	(840)	(2,243)	17,829
Non-interest expense	11,680	846	2,314	14,840
Income (loss) before income taxes	$ 9,232	$ (1,686)	$ (4,557)	$ 2,989
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,025,083	$ 192,631	$ 355,870	$ 2,573,584

* The decreases in net interest income before provision for loan losses for all segments during the period are due to the decrease in net interest margin.

** The provision for loan losses for the SBA segment decreased, while the bank-wide provision for loan losses increased, due to the increase in delinquencies and impaired loans in the bank s loan portfolio.

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Six Months Ended June 30,

(Dollars in thousands)

	Business Segment			
2009	**Banking Operations**	**TFS**	**SBA**	**Company**
Net interest income, before provision for loan losses*	$ 34,084	$ 1,874	$ 5,741	$ 41,699
Less provision for loan losses**	19,844	3,122	11,704	34,670
Non-interest income***	5,914	955	1,281	8,150
Net revenue	20,154	(293)	(4,682)	15,179
Non-interest expense	26,270	1,449	4,351	32,070
Income (loss) before income taxes	$ (6,116)	$ (1,742)	$ (9,033)	$ (16,891)
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,761,812	$ 164,591	$ 334,406	$ 3,260,809

2008	**Banking Operations**	**TFS**	**SBA**	**Company**
Net interest income, before provision for loan losses	$ 39,154	$ 2,421	$ 7,191	$ 48,766
Less provision for loan losses	1,512	2,550	10,583	14,645
Non-interest income	4,455	1,010	2,459	7,924
Net revenue	42,097	881	(933)	42,045
Non-interest expense	23,248	1,690	4,333	29,271
Income (loss) before income taxes	$ 18,849	$ (809)	$ (5,266)	$ 12,774
Goodwill	$ 2,509	$	$	$ 2,509
Total assets	$ 2,025,083	$ 192,631	$ 355,870	$ 2,573,584

* The decreases in net interest income before provision for loan losses for all segments during the period are due to the decrease in net interest margin.

** The increase in the provision for loan losses bank-wide during the period is due to the increase in delinquencies and impaired loans in the loan portfolio.

*** The decrease in non-interest income for the SBA segment during the period is due to the decrease in net gains on sales of SBA loans, as a result of reduced volumes of SBA loan originations and sales.

The SBA business segment primarily originates for sale and services SBA loans generated from our loan production offices and from branch referrals. It also originates commercial real estate loans and commercial business loans, not covered by the SBA guarantee program. Total SBA business segment assets at June 30, 2009 and 2008 included SBA loans (principally, the unguaranteed portion) of $92.4 million and $106.6 million; commercial real estate loans of $197.3 million and $219.0 million; and commercial business loans of $14.9 million and $16.7 million, respectively.

At June 30, 2009, SBA receivables consisting of SBA loans in the process of liquidation and pending reimbursement from the SBA department were $24.2 million, compared to $20.9 million at December 31, 2008. Through December 31, 2008 the Company had no denials of reimbursements. Denials could occur due to documentation deficiencies, failure to comply with SBA rules, regulations or procedures, or because of early defaults, whereby the borrowers default within 18 months of the loan and the SBA determines that the early default was due to fraud or deficiency as noted above. The Company recorded a loss provision for doubtful SBA receivables aggregating $35,000 and $365,000 for the three and six months ended June 30, 2009, based on an assessment of potential denials.

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13. Income Taxes

Our Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of California and various other state income taxes. The total amount of unrecognized tax benefits was $318 thousand at June 30, 2009 and $352 thousand at December 31, 2008 and is primarily for uncertainties related to income taxes for the California Enterprise Zone loan interest deductions taken in prior years. The total amount of tax benefits that, if recognized, would favorably impact the effective tax rate was $318 thousand and $352 thousand at June 30, 2009 and December 31, 2008, respectively. The amount of unrecognized tax benefits decreased primarily due to the payment to California Franchise Tax Board as a result of the audit adjustments for the apportionment factors on the Company s 2005 and 2006 state income tax returns. The Company is currently under audit by the California Franchise Tax Board for the 2005 and 2006 tax years. The audit is expected to close in the third quarter.

We recognize interest and penalties related to income tax matters in income tax expense. We accrued approximately $44 thousand and $47 thousand for interest and penalties at June 30, 2009 and December 31, 2008, respectively.

14. Fair Value Measurements

Statement No. 157, *Fair Value Measurements*, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Securities Available for Sale

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

Impaired Loans

The fair values of impaired loans are generally measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These are considered Level 2 inputs. For the loan s collateral for which observable market prices are not available, fair value is estimated using discount cash flow models. These are considered Level 3 inputs.

Derivatives

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

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

	June 30, 2009	Fair Value Measurements at June 30, 2009 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available for sale	$ 745,792	$	$ 745,792	$
Liabilities:				
Derivatives - Interest rate swaps	(1,091)		(1,091)	

	December 31, 2008	Fair Value Measurements at December 31, 2008 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available for sale	$ 406,586	$	$ 406,586	$
Liabilities:				
Derivatives - Interest rate swaps	(857)		(857)	

Fair value adjustments for interest rate swaps resulted in a net expense of $267 thousand for the six months ended June 30, 2009 and $549 thousand for the year ended December 31, 2008.

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

	June 30, 2009	Fair Value Measurements at June 30, 2009 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Impaired loans at fair value	$ 55,170	$	$ 43,075	$ 12,095
Other real estate owned	3,805		3,805	

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	December 31, 2008	Fair Value Measurements at December 31, 2008 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Impaired loans with specific loss allocations	$ 18,177	$	$ 2,667	$ 15,510

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans and using discounted cash flow models for other loans, had a principal balance of $68.5 million and $33.1 million, with a valuation allowance of $13.3 million and $15.0 million as of June 30, 2009 and December 31, 2008, respectively. $13.2 million of impaired loans had no valuation allowance at June 30, 2009. During the six months ending June 30, 2009 and 2008, the increase in provision for loan losses related to impaired loans was $23.7 million and $9.0 million, respectively. During the three months ending June 30, 2009 and 2008, the increase in provision for loan losses related to impaired loans was $11.3 million and $6.7 million, respectively.

At June 30, 2009, other real estates owned, which are carried at the lower of cost or fair value, were written down to fair value of $3.8 million, resulting in a valuation allowance of $1.4 million. A charge of $415 thousand and $918 thousand was included in earnings for the three and six months ended June 30, 2009, respectively.

Fair Value of Financial Instruments

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

	June 30, 2009 Carrying Amount	Estimated Fair Value
	(In thousands)	
Financial Assets:		
Cash and cash equivalents	$ 279,454	$ 279,454
Loans held for sale	13,664	13,858
Loans receivable - net	1,961,498	1,996,061
Federal Reserve Bank stock	4,390	N/A
Federal Home Loan Bank stock	19,935	N/A
Accrued interest receivable	10,187	10,187
Customers liabilities on acceptances	6,992	6,992
Financial Liabilities:		
Noninterest-bearing deposits	$ (318,874)	$ (318,874)
Saving and other interest bearing demand deposits	(646,140)	(646,140)
Time deposits	(1,474,781)	(1,486,673)
Borrowings from Federal Home Loan Bank	(350,000)	(365,913)
Subordinated debentures	(39,268)	(35,284)
Accrued interest payable	(10,921)	(10,921)
Bank s liabilities on acceptances outstanding	(6,992)	(6,992)

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	December 31, 2008 Carrying Amount	Estimated Fair Value
	(In thousands)	
Financial Assets:		
Cash and cash equivalents	$ 49,057	$ 49,057
Loans held for sale	9,821	10,098
Loans receivable - net	2,021,890	2,054,083
Federal Reserve Bank stock	2,320	N/A
Federal Home Loan Bank stock	19,935	N/A
Accrued interest receivable	8,168	8,168
Customers liabilities on acceptances	10,427	10,427
Financial Liabilities:		
Noninterest-bearing deposits	$ (303,656)	$ (303,656)
Saving and other interest bearing demand deposits	(419,664)	(419,664)
Time deposits	(1,215,283)	(1,224,114)
Federal Home Loan Bank Borrowings	(350,000)	(369,872)
Subordinated debentures	(39,268)	(32,188)
Accrued interest payable	(8,549)	(8,549)
Bank s liabilities on acceptances outstanding	(10,427)	(10,427)

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

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

15. Subsequent Events

Management has performed an evaluation of subsequent events through August 5, 2009 and no significant subsequent events were identified.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the major factors that caused changes in our consolidated results of operations and financial condition as of and for the three and six months ended June 30, 2009. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 and the unaudited consolidated financial statements and notes set forth elsewhere in this report.

GENERAL

Selected Financial Data

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

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands, except share and per share data)			
Income Statement Data:				
Interest income	$ 38,410	$ 41,787	$ 74,469	$ 86,147
Interest expense	17,150	17,631	32,770	37,381
Net interest income	21,260	24,156	41,699	48,766
Provision for loan losses	19,000	9,652	34,670	14,645
Net interest income after provision for loan losses	2,260	14,504	7,029	34,121
Non-interest income	3,785	3,325	8,150	7,924
Non-interest expense	16,822	14,840	32,070	29,271
Income (loss) before income tax provision (benefit)	(10,777)	2,989	(16,891)	12,774
Income tax provision (benefit)	(4,769)	1,136	(7,703)	5,148
Net income (loss)	$ (6,008)	$ 1,853	$ (9,188)	$ 7,626
Dividends and discount accretion on preferred stock	$ (1,069)	$	$ (2,137)	$
Net income (loss) available to common stockholders	$ (7,077)	$ 1,853	$ (11,325)	$ 7,626
Per Share Data:				
Earnings (loss) per common share - basic	$ (0.27)	$ 0.07	$ (0.43)	$ 0.29
Earnings (loss) per common share - diluted	$ (0.27)	$ 0.07	$ (0.43)	$ 0.29
Book value (period end, excluding preferred stock and warrants)	$ 8.14	$ 8.69	$ 8.14	$ 8.69
Common shares outstanding	26,256,960	26,197,560	26,256,960	26,197,560
Weighted average shares - basic	26,256,960	26,195,035	26,253,627	26,194,353
Weighted average shares - diluted	26,256,960	26,450,222	26,253,627	26,424,045
Statement of Financial Condition Data - at Period End:				
Assets	$ 3,260,809	$ 2,573,584	$ 3,260,809	$ 2,573,584
Securities available for sale	745,792	291,343	745,792	291,343
Gross loans, net of deferred loan fees and costs (excludes loans held for sale)	2,080,312	2,120,706	2,080,312	2,120,706
Deposits	2,439,795	1,928,580	2,439,795	1,928,580
Federal Home Loan Bank borrowings	350,000	350,000	350,000	350,000
Subordinated debentures	39,268	39,268	39,268	39,268
Stockholders equity	281,419	227,679	281,419	227,679

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	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Average Balance Sheet Data:				
Assets	$ 3,007,256	$ 2,545,239	$ 2,852,961	$ 2,512,140
Securities available for sale and held to maturity	530,322	283,782	477,424	288,033
Gross loans, including loans held for sale	2,092,809	2,096,825	2,100,206	2,076,180
Deposits	2,274,661	1,874,979	2,118,335	1,823,025
Stockholders equity	290,959	232,865	291,094	230,232
Selected Performance Ratios:				
Return on average assets (1) (7)	-0.80%	0.29%	-0.64%	0.61%
Return on average stockholders equity (1) (7)	-8.26%	3.18%	-6.31%	6.62%
Non-interest expense to average assets (1)	2.24%	2.33%	2.25%	2.33%
Efficiency ratio (2)	67.17%	54.00%	64.33%	51.63%
Net interest margin (3)	2.94%	3.97%	3.04%	4.06%
Regulatory Capital Ratios (4)				
Leverage capital ratio (5)	10.50%	10.35%	10.50%	10.35%
Tier 1 risk-based capital ratio	13.37%	11.53%	13.37%	11.53%
Total risk-based capital ratio	14.63%	12.76%	14.63%	12.76%
Tangible common equity ratio (8)	6.45%	8.68%	6.45%	8.68%
Asset Quality Ratios:				
Allowance for loan losses to gross loans, excluding loans held for sale	2.42%	1.32%	2.42%	1.32%
Allowance for loan losses to non-performing loans	163.17%	110.61%	163.17%	110.61%
Total non-performing loans to gross loans	1.48%	1.19%	1.48%	1.19%
Total non-performing assets to total assets (6)	2.20%	1.03%	2.20%	1.03%

(1) Annualized.
(2) Efficiency ratio is defined as non-interest expense divided by the sum of net interest income and non-interest income.
(3) Net interest margin is calculated by dividing annualized net interest income by average total interest-earning assets.
(4) The required ratios for a well-capitalized institution are 5% leverage capital, 6% tier I risk-based capital and 10% total risk-based capital.
(5) Calculations are based on average quarterly asset balances.
(6) Non-performing assets include non-accrual loans, loans past due 90 or more and still accruing interest, other real estate owned, and restructured loans.
(7) Based on net income (loss) before effect of dividends and discount accretion on preferred stock
(8) Excludes TARP preferred stock and stock warrants of $67 million

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Results of Operations

Overview

During the first half of 2009, we experienced strong growth in assets, primarily cash and cash equivalents and securities, supported by growth in deposits. Our total assets grew by $588.8 million, or 22.0%, to $3.3 billion at June 30, 2009 from $2.7 billion at December 31, 2008. Our deposits grew $501.2 million.

Net income (loss)

Our net loss available to common stockholders for the three months ended June 30, 2009 was ($7.1 million), or ($0.27) per diluted share, compared to net income of $1.9 million, or $0.07 per diluted share, for the same period of 2008, representing a decrease of $8.9 million, or 482%. The decrease in earnings is primarily due to the increases in provision for loan losses, non-interest expenses, and a decrease in net interest income, partially offset by an income tax benefit.

Our net loss available to common stockholders for the six months ended June 30, 2009 was ($11.3 million), or ($0.43) per diluted share, compared to net income of $7.6 million, or $0.29 per diluted share, for the same period of 2008, representing a decrease of $18.9 million, or 248%. The decline in earnings during the period was also due to the same reasons mentioned above.

The annualized return (loss) on average assets was (0.80%) for the second quarter of 2009, compared to 0.29% for the same period of 2008. The annualized return (loss) on average equity was (8.26%) for the second quarter of 2009, compared to 3.18% for the same period of 2008. The efficiency ratio was 67.17% for the second quarter of 2009, compared to 54.00% for the same period of 2008.

The annualized return (loss) on average assets was (0.64%) for the first half of 2009, compared to 0.61% for the same period of 2008. The annualized return (loss) on average equity was (6.31%) for the first half of 2009, compared to 6.62% for the same period of 2008. The efficiency ratio was 64.33% for the first half of 2009, compared to 51.63% for the same period of 2008.

Net Interest Income and Net Interest Margin

Net Interest Income and Expense

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

Net interest income before provision for loan losses was $21.3 million for the three months ended June 30, 2009, a decrease of $2.9 million, or 12.0%, compared to $24.2 million for the same period of 2008. The decrease is primarily due to the decline in net interest margin. The decline in the net interest margin was caused by a decrease in the prime rate and a significant shift in asset allocation from higher-yielding loan receivables to lower-yielding liquid assets and investment securities during the quarter. During the second quarter of 2009, we experienced a significant growth in our deposits, which were subsequently invested in those liquid assets and securities.

Net interest income before provision for loan losses was $41.7 million for the six months ended June 30, 2009, a decrease of $7.1 million, or 14.5%, compared to $48.8 million for the same period of 2008. The decrease is primarily due to a decline in net interest margin. The decline in net interest margin during this period was also due to the same reasons mentioned above.

Interest income for the second quarter of 2009 was $38.4 million, which represented a decrease of $3.4 million, or 8.1%, compared to $41.8 million for the same quarter of 2008. The decrease was the result of a $6.4 million decrease in interest income due to a decrease in the average yield earned on average interest-earning assets (rate change), offset by a $3.0 million increase in interest income due to an increase in the volume of those average interest-earning assets (volume change).

Interest income for the first half of 2009 was $74.5 million, which represented a decrease of $11.7 million, or 13.6%, compared to $86.1 million for the same period of 2008. The decrease was the result of a $17.4 million decrease in interest income due to a decrease in the average yield earned on average interest-earning assets (rate change), offset by a $5.7 million increase in interest income due to an increase in the volume of those average interest-earning assets (volume change).

Interest expense for the second quarter of 2009 was $17.2 million, a decrease of $481 thousand, or 2.7%, compared to interest expense of $17.6 million for the same quarter of 2008. The decrease was primarily the result of a $3.5 million decrease in interest expense due to a decrease in the average rates paid on interest-bearing liabilities (rate change), offset by $3.0 million increase in interest expense due to an increase in the volume of average interest-bearing liabilities (volume change).

Interest expense for the first half of 2009 was $32.8 million, a decrease of $4.6 million, or 12.3%, compared to interest expense of $37.4 million for the same period of 2008. The decrease was primarily the result of a $9.6 million decrease in interest expense due to a decrease in the average rates paid on interest-bearing liabilities (rate change), offset by $5.0 million increase in interest expense due to an increase in the volume of average interest-bearing liabilities (volume change).

Net Interest Margin

During the three months ended June 30, 2009, our net interest margin decreased 103 basis points to 2.94% from 3.97% for the same quarter of last year. The weighted average yield on the loan portfolio for the second quarter 2009 decreased 99 basis points to 6.20% from 7.19% for the same quarter of last year. The decrease was the result of the prime rate-based portion of the loan portfolio repricing downward as market interest rates continued to decline due to reductions in interest rates by the Federal Reserve throughout 2008. The prime rate declined 175 basis points since the second quarter 2008. The decrease in net interest margin was also attributable to a shift in asset allocation from loans into lower yielding investment securities and other short-term investments, such as overnight federal funds sold or interest-earning cash reserve on deposit at the FRB interest-earning account. The change in asset mix was part of a plan to improve our liquidity and strengthen the balance sheet.

The weighted average yield on our investment securities for the second quarter 2009 decreased 72 basis points to 4.31% from 5.03% for the same quarter 2008. The decrease was mainly attributable to a lower yield on our variable rate GSE CMO portfolio, which monthly resetting coupons are indexed to one month LIBOR plus a spread. A simple average rate of one month LIBOR decreased by more than 200 basis points to 0.37% for the second quarter 2009, compared to 2.59% for the same quarter 2008.

The weighted average cost of deposits for second quarter 2009 decreased 55 basis points to 2.35% from 2.90% for the same quarter last year. The cost of time deposits decreased 92 basis points to 2.76% from 3.68%, accounting for a substantial portion of the decrease.

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Following are selected weighted average data on a spot rate basis at June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Weighted average loan portfolio yield (excluding discounts)	6.13%	6.87%
Weighted average securities available-for-sale portfolio yield	4.60%	4.88%
Weighted average cost of time deposits	2.76%	3.45%
Weighted average cost of deposits	2.27%	2.75%
Weighted average cost of total interest-bearing deposits	2.62%	3.36%

Prepayment penalty income for second quarter 2009 and 2008 was $145 thousand and $580 thousand, respectively. Non-accrual interest income reversed was $169 thousand and $292 thousand for the second quarter ended June 30, 2009 and 2008, respectively. Excluding the effects of both non-accrual loan interest income and prepayment penalty income, the net interest margin for second quarter 2009 and 2008 was 2.94% and 3.92%, respectively.

Prepayment penalty income will vary with the level of loans paid off. Generally as interest rates decline, the level of pay-offs increase as fixed rate borrowers refinance their loans, which generate higher levels of prepayment penalty income. However, the deteriorating economic environment in recent years has slowed sales of properties and businesses causing lower loan pay-offs. It is difficult to determine the trend in prepayment penalty income given these two competing factors.

During the six months ended June 30, 2009, the net interest margin decreased 102 basis points to 3.04% from 4.06% for the same period of last year. The weighted average yield on the loan portfolio for the six months ended June 30, 2009 decreased 141 basis points to 6.11% from 7.52% for the same period of last year. The decrease was due to the reasons explained previously in the quarterly analysis. The weighted average yield on investment securities for the six months ended June 30, 2009 decreased 83 basis points to 4.20% from 5.03% for the same period in 2008.

The weighted average cost of deposits for the six months ended June 30, 2009 decreased 78 basis points to 2.38% from 3.16% for the same period last year. The cost of time deposits decreased 133 basis points to 2.78% from 4.11%, accounting for a substantial portion of the decrease.

Prepayment penalty income for the six months ended June 30, 2009 and 2008 was $292 thousand and $801 thousand, respectively. Non-accrual interest income reversed was $560 thousand and $133 thousand for the six months ended June 30, 2009 and 2008, respectively. Excluding the effects of both non-accrual loan interest income and prepayment penalty income, the net interest margin for the six months ended June 30, 2009 and 2008 was 3.06% and 4.00%, respectively.

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

	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate *	Average Balance	Interest Income/ Expense	Average Yield/ Rate *
	(Dollars in thousands)					
INTEREST EARNINGS ASSETS:						
Loans [1] [2]	$ 2,092,809	$ 32,461	6.20%	$ 2,096,825	$ 37,699	7.19%
Securities available for sale [3]	530,322	5,710	4.31%	283,782	3,571	5.03%
FRB and FHLB stock and other investments	266,179	212	0.32%	25,311	371	5.86%
Federal funds sold	5,934	27	1.82%	27,552	146	2.12%
Total interest earning assets	$ 2,895,244	$ 38,410	5.31%	$ 2,433,470	$ 41,787	6.87%
INTEREST BEARING LIABILITITES:						
Deposits:						
Demand, interest-bearing	$ 416,561	$ 2,417	2.32%	$ 263,094	$ 1,819	2.77%
Savings	117,948	1,008	3.42%	143,161	1,340	3.74%
Time deposits:						
$100,000 or more	679,064	4,109	2.42%	769,301	7,046	3.66%
Other	763,999	5,831	3.05%	362,194	3,373	3.73%
Total time deposits	1,443,063	9,940	2.76%	1,131,495	10,419	3.68%
Total interest bearing deposits	1,977,572	13,365	2.70%	1,537,750	13,578	3.53%
FHLB advances	350,000	3,263	3.73%	365,379	3,413	3.74%
Other borrowings	37,764	522	5.53%	38,214	640	6.70%
Total interest bearing liabilities	2,365,336	$ 17,150	2.90%	1,941,343	$ 17,631	3.63%
Non-interest bearing demand deposits	297,089			337,229		
Total funding liabilities / cost of funds	$ 2,662,425		2.58%	$ 2,278,572		3.10%
Net interest income/net interest spread		$ 21,260	2.41%		$ 24,156	3.24%
Net interest margin			2.94%			3.97%
Net interest margin, excluding effect of non-accrual loan income(expense) [4]			2.96%			4.02%
Net interest margin, excluding effect of non-accrual loan income(expense) and prepayment fee income [4] [5]			2.94%			3.92%
Cost of deposits:						