FORM 10-Q

CENTER FINANCIAL CORP - CLFC

Filed: October 23, 2008 (period: September 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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: 000-50050

Center Financial Corporation
(Exact name of Registrant as specified in its charter)

California **(State of Incorporation)**	**52-2380548** **(IRS Employer Identification No.)**
3435 Wilshire Boulevard, Suite 700 **Los Angeles, California** **(Address of principal executive offices)**	**90010** **(Zip Code)**

Registrant's telephone number, including area code—(213) 251-2222

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant is a "large accelerated filer", an "accelerated filer", a "non-accelerated filer", or a "smaller reporting company". See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.):

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 20, 2008 there were 16,787,530 outstanding shares of the issuer's Common Stock with no par value.

Index

PART I—FINANCIAL INFORMATION

Item 1: INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CENTER FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

	9/30/2008	12/31/2007
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	$ 41,972	$ 58,339
Federal funds sold	7,760	7,125
Money market funds and interest-bearing deposits in other banks	3,152	2,825
Cash and cash equivalents	52,884	68,289
Securities available for sale, at fair value	154,661	128,778
Securities held to maturity, at amortized cost (fair value of $9,285 as of September 30, 2008 and $10,961 as of December 31, 2007)	9,265	10,932
Federal Home Loan Bank and Pacific Coast Bankers Bank stock, at cost	14,360	15,219
Loans, net of allowance for loan losses of $21,485 as of September 30, 2008 and $20,477 as of December 31, 2007	1,724,390	1,748,143
Loans held for sale, at the lower of cost or fair value	9,381	41,492
Premises and equipment, net	14,683	13,585
Customers' liability on acceptances	3,972	3,292
Other real estate owned, net	—	380
Accrued interest receivable	7,661	8,886
Deferred income taxes, net	13,427	13,142
Investments in affordable housing partnerships	11,603	11,911
Cash surrender value of life insurance	11,893	11,583
Goodwill	1,253	1,253
Intangible assets, net	227	267
Other assets	5,507	3,511
Total	$ 2,035,167	$ 2,080,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 367,171	$ 363,465
Interest-bearing	1,252,105	1,214,209
Total deposits	1,619,276	1,577,674
Acceptances outstanding	3,972	3,292
Accrued interest payable	7,955	13,213
Other borrowed funds	207,153	299,606
Long-term subordinated debentures	18,557	18,557
Accrued expenses and other liabilities	13,323	10,868
Total liabilities	1,870,236	1,923,210
Commitments and Contingencies	—	—
Shareholders' Equity		
Serial preferred stock, no par value; authorized 10,000,000 shares; issued and outstanding, none	—	—
Common stock, no par value; authorized 40,000,000 shares; issued and outstanding, 16,787,530 shares as of September 30, 2008 and 16,366,791 shares as of December 31, 2007 (including 9,900 and 8,850 shares of unvested restricted stock)	71,926	67,006
Retained earnings	92,961	90,541
Accumulated other comprehensive income (loss), net of tax	44	(94)
Total shareholders' equity	164,931	157,453
Total	$ 2,035,167	$ 2,080,663

See accompanying notes to interim consolidated financial statements.

CENTER FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands, except per share data)			
Interest and Dividend Income:				
Interest and fees on loans	$ 30,574	$ 34,781	$ 95,553	$ 100,252
Interest on federal funds sold	24	67	90	180
Interest on taxable investment securities	2,004	1,595	5,613	4,771
Interest on tax-advantaged investment securities	51	125	151	387
Dividends on equity stock	228	151	653	506
Money market funds and interest-earning deposits	31	16	92	48
Total interest and dividend income	32,912	36,735	102,152	106,144
Interest Expense:				
Interest on deposits	10,666	14,767	36,860	39,775
Interest on borrowed funds	2,225	2,258	7,130	8,120
Interest expense on trust preferred securities	259	378	843	1,120
Total interest expense	13,150	17,403	44,833	49,015
Net interest income before provision for loan losses	19,762	19,332	57,319	57,129
Provision for loan losses	2,121	2,000	6,330	4,370
Net interest income after provision for loan losses	17,641	17,332	50,989	52,759
Noninterest Income:				
Customer service fees	1,918	1,676	5,644	5,215
Fee income from trade finance transactions	675	615	1,948	2,046
Wire transfer fees	269	206	822	643
Gain on sale of loans	59	—	1,019	618
Loan service fees	144	409	445	1,398
Other income	321	477	1,091	1,608
Total noninterest income	3,386	3,383	10,969	11,528
Noninterest Expense:				
Salaries and employee benefits	6,137	6,342	19,182	19,220
Occupancy	1,115	1,079	3,275	3,022
Furniture, fixtures, and equipment	546	575	1,538	1,539
Data processing	527	530	1,626	1,567
Legal fees	529	173	2,130	1,020
Accounting and other professional service fees	323	186	1,041	1,429
Business promotion and advertising	469	480	1,424	1,549
Stationery and supplies	140	137	429	408
Telecommunications	188	160	537	442
Postage and courier service	192	185	584	565
Security service	283	268	851	779
Loss on available for sale securities	7,279	—	7,279	—
Regulatory assessment	312	337	953	477
KEIC litigation settlement	7,700	—	7,700	—
Other operating expenses	1,229	995	3,909	3,097
Total noninterest expense	26,969	11,447	52,458	35,114
(Loss) income before income tax (benefit) provision	(5,942)	9,268	9,500	29,173
Income tax (benefit) provision	(2,783)	3,570	3,161	11,136
Net (loss) income	(3,159)	5,698	6,339	18,037
Other comprehensive income—unrealized gain on available-for-sale securities, net of income tax expense of $(1,075), $(345), $(100) and $(365)	1,484	476	138	503
Comprehensive (loss) income	$ (1,675)	$ 6,174	$ 6,477	$ 18,540
(LOSS) EARNINGS PER SHARE:				
Basic	$ (0.19)	$ 0.34	$ 0.38	$ 1.08
Diluted	$ (0.19)	$ 0.34	$ 0.38	$ 1.07
Weighted average shares outstanding—basic	16,577,318	16,720,539	16,437,778	16,689,622
Weighted average shares outstanding—diluted	16,577,318	16,785,290	16,474,486	16,785,126

See accompanying notes to interim consolidated financial statements.

CENTER FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	9/30/2008	9/30/2007
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 6,339	$ 18,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Compensation expenses related to stock options and restricted stocks	898	862
Depreciation and amortization	2,027	2,016
Amortization of deferred fees	(1,224)	(1,550)
Amortization of premium, net of accretion of discount, on securities available for sale and held to maturity	29	50
Provision for loan losses	6,330	4,370
Impairment loss on available for sale securities	7,279	—
Common stock issuance related to litigation settlement	4,000	—
Net gain on sale of premises and equipment	—	(9)
Net increase of loans held for sale	(10,713)	(25,608)
Gain on sale of loans	(1,019)	(618)
Proceeds from sale of loans	65,449	21,680
Deferred tax (benefit) provision	(6)	39
Federal Home Loan Bank stock dividend	(636)	(496)
Decrease (increase) in accrued interest receivable	1,225	(762)
Net increase in cash surrender value of life insurance policy	(310)	(299)
(Increase) decrease in other assets and servicing assets	(2,159)	1,523
(Decrease) increase in accrued interest payable	(5,258)	469
Increase (decrease) in accrued expenses and other liabilities	1,727	(1,331)
Net cash provided by operating activities	73,978	18,373
Cash flows from investing activities:		
Purchase of securities available for sale	(81,858)	(34,656)
Proceeds from principal repayment, matured, or called securities available for sale	44,996	52,240
Proceeds from sale of securities available for sale	3,537	—
Purchase of securities held to maturity	—	(1,382)
Proceeds from matured, called or principal repayment on securities held to maturity	1,660	1,586
Redemption (purchase) of Federal Home Loan Bank and other equity stock	1,495	(1,876)
Net increase in loans	(3,270)	(179,265)
Proceeds from recoveries of loans previously charged off	311	80
Purchases of premises and equipment	(2,567)	(1,492)
Proceeds from disposal of equipment	—	12
Net (decrease) increase in investments in affordable housing partnerships	(347)	186
Net cash used in investing activities	(36,043)	(164,567)
Cash flows from financing activities:		
Net increase in deposits	41,602	90,871
Net (decrease) increase in other borrowed funds	(92,453)	55,834
Proceeds from stock options exercised	22	1,225
Payment of cash dividend	(2,511)	(2,168)
Purchases of common stock	—	(171)
Net cash (used in) provided by financing activities	(53,340)	145,591
Net increase (decrease) in cash and cash equivalents	(15,405)	(603)
Cash and cash equivalents, beginning of the period	68,289	73,376
Cash and cash equivalents, end of the period	$ 52,884	$ 72,773
Supplemental disclosure of cash flow information:		
Interest paid	$ 50,091	$ 48,546
Income taxes paid	$ 5,642	$ 10,408
Supplemental schedule of noncash investing, operating, and financing activities:		
Cash dividend accrual	$ 840	$ 840
Common stock issuance related to litigation settlement	$ 4,000	$ —

See accompanying notes to interim consolidated financial statements.

1. THE BUSINESS OF CENTER FINANCIAL CORPORATION

Center Financial Corporation ("Center Financial") was incorporated in April 2000 and acquired all of the issued and outstanding shares of Center Bank (the "Bank") in October 2002. Currently, Center Financial's direct subsidiaries include the Bank and Center Capital Trust I. Center Financial exists primarily for the purpose of holding the stock of the Bank and of other subsidiaries. Center Financial, the Bank, and Center Capital Trust I are collectively referred to herein as the "Company."

The Bank is a California state-chartered and FDIC-insured financial institution, which was incorporated in 1985 and commenced operations in March 1986. The Bank changed its name from California Center Bank to Center Bank in December 2002. The Bank's headquarters are located at 3435 Wilshire Boulevard, Suite 700, Los Angeles, California 90010. The Bank provides comprehensive financial services for small to medium sized business owners, primarily in Southern California. The Bank specializes in commercial loans, which are mostly secured by real property, to multi-ethnic and small business customers. In addition, the Bank is a Preferred Lender of Small Business Administration ("SBA") loans and provides trade finance loans and other international banking products. The Bank's primary market is Southern California including Los Angeles, Orange, San Bernardino, and San Diego counties, primarily focused in areas with high concentrations of Korean-Americans. The Bank currently has 19 full-service branch offices, 16 of which are located in Los Angeles, Orange, San Bernardino, and San Diego counties. The Bank opened all California branches as de novo branches. On April 26, 2004, the Bank completed its acquisition of the Korea Exchange Bank (KEB) Chicago branch, the Bank's first out-of-state branch, with a focus on the Korean-American market in Chicago. The Bank assumed $12.9 million in FDIC insured deposits and purchased $8.0 million in loans from the KEB Chicago branch. The Bank opened two new branches in Federal Way, Washington and Diamond Bar, California in November 2007 and March 2008, respectively. The Bank also operates six Loan Production Offices in Seattle, Denver, Washington D.C., Atlanta, Dallas and Northern California.

In December 2003, the Company formed a wholly owned subsidiary, Center Capital Trust I, a Delaware statutory business trust, for the exclusive purpose of issuing and selling trust preferred securities.

Center Financial's principal source of income is currently dividends from the Bank. The expenses of Center Financial, including, but not limited to, the payments of dividends to shareholders, interest on junior subordinated debenture issued through Center Capital Trust I, investor relations, management, legal, accounting and NASDAQ listing fees, have been and will generally be paid from dividends paid to Center Financial by the Bank.

2. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Center Financial and the Bank. Center Capital Trust I is not consolidated as disclosed in Note 8.

The interim consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") for unaudited financial statements. The information furnished in these interim statements reflects all adjustments that are, in the opinion of management, necessary for the fair statement of results for the periods presented. All adjustments are of a normal and recurring nature. Results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes included in Company's annual report on Form 10-K for the year ended December 31, 2007.

Reclassifications

Reclassifications have been made to the prior year financial statements to conform to the current presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are fully described in Note 2 to the consolidated financial statements in Center Financial's Annual Report on Form 10-K for the year ended December 31, 2007 and there have been no material changes noted.

4. RECENT ACCOUNTING PRONOUNCEMENTS

On October 10, 2008, the FASB Staff issued a FASB Staff Position ("FSP") related to SFAS No. 157, FSP 157-3*, Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active.* The provisions of FSP 157-3 are effective on issuance, or October 10, 2008. FSP 157-3 clarifies the application of SFAS No. 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The issuance of FSP 157-3 and the Company's adoption of FSP 157-3 did not have an effect on the Company's interim consolidated financial statements. Application issues addressed by the FSP include:

a. How management's internal assumptions should be considered when measuring fair value when relevant observable data do not exist

b. How observable market information in a market that is not active should be considered when measuring fair value

c. How the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company adopted SFAS No. 157 as of January 1, 2008 as disclosed in Note 6.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure financial instruments and certain warranty and insurance contracts at fair value. The SFAS No. 159 applies to all reporting entities, including not-for-profit organizations, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 on January 1, 2008. The Company chose not to elect the option to measure the fair value of eligible financial assets and liabilities.

5. STOCK-BASED COMPENSATION

The Company has a Stock Incentive Plan which was adopted by the Board of Directors in April 2006, approved by the shareholders in May 2006, and amended by the Board in June 2007 (the "2006 Plan"). The 2006 Plan provides for the granting of incentive stock options to officers and employees, and non-qualified stock options and restricted stock awards to employees (including officers) and non-employee directors. The 2006 Plan replaced the Company's former stock option plan (the "1996 Plan") which expired in February 2006, and all options under the 1996 Plan which were outstanding on April 12, 2006 were transferred to and made part of the

2006 Plan. The option prices of all options granted under the 2006 Plan (including options transferred from the 1996 Plan) must be not less than 100% of the fair market value at the date of grant. All options granted generally vest at the rate of 20% per year except that the options granted to the CEO and to the non-employee directors vest at the rate of 33 1/3% per year. All options not exercised generally expire ten years after the date of grant.

The Company accounts for stock-based compensation in accordance with SFAS No. 123R since its adoption effective January 1, 2006. The Company's pre-tax compensation expense for stock-based employees and directors' compensation was $245,000 and $898,000 ($179,000 and $673,000 after tax effect of non-qualified stock options) for the three and nine months ended September 30, 2008, respectively, as compared to $389,000 and $862,000 ($306,000 and $687,000 after tax effect of non-qualified stock options) were recognized for the three and nine months ended September 30, 2007.

The Company granted 3,000 options with a weighted average grant-date fair value of $3.08 for the nine months ended September 30, 2008. No options were granted during the three months ended September 30, 2008. The Company granted 63,000 and 670,000 options with a weighted average grant-date fair value of $4.45 and $6.93 for the three and nine months ended September 30, 2007, respectively.

The fair value of the stock options granted was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Beginning in 2006, with the adoption of SFAS No. 123R the expected life (estimated period of time outstanding) of options granted with a 10-year term was determined using the average of the vesting period and term, an accepted method under SEC's Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods*. Expected volatility was based on historical volatility for a period equal to the stock option's expected life, ending on the day of grant, and calculated on a weekly basis.

	Nine Months Ended 9/30/2008	**Nine Months Ended 9/30/2007**
Risk-free interest rate	2.05% - 6.11%	2.05% - 5.07%
Expected life	3 - 6.5 years	3 - 6.5 years
Expected volatility	28% - 36%	32% - 36%
Expected dividend yield	0.00% - 2.42%	0.00% - 1.29%

These assumptions were utilized in the calculation of the compensation expense noted above. These expenses are the result of previously granted stock options and those awarded during the nine months ended September 30, 2008 and 2007, respectively.

Table of Contents

A summary of the Company's stock option activity and related information for the three and nine months ended September 30, 2008 and 2007 is set forth in the following table:

	Shares Available For Grant	Outstanding Options: Number of Shares	Outstanding Options: Weighted Average Exercise Price
Balance at June 30, 2008	2,165,752	878,971	$ 16.68
Options granted	—	—	—
Options forfeited	24,500	(24,500)	15.42
Options exercised	—	(4,320)	5.00
Balance at September 30, 2008	2,190,252	850,151	16.78
Balance at June 30, 2007	2,148,752	908,931	$ 17.15
Options granted	(63,000)	63,000	15.24
Options forfeited	15,900	(15,900)	15.11
Options exercised	—	(12,960)	8.65
Balance at September 30, 2007	2,101,652	943,071	17.17
Balance at December 31, 2007	2,077,452	967,271	$ 17.05
Options granted	(3,000)	3,000	11.23
Options forfeited	115,800	(115,800)	19.35
Options exercised	—	(4,320)	5.00
Balance at September 30, 2008	2,190,252	850,151	16.78
Balance at December 31, 2006	2,670,290	473,593	$ 15.33
Options granted	(670,000)	670,000	18.09
Options forfeited	101,362	(101,362)	19.85
Options exercised	—	(99,160)	12.42
Balance at September 30, 2007	2,101,652	943,071	17.17

The options as of September 30, 2008 have been segregated into three ranges for additional disclosure as follows:

	Options Outstanding			Options Exercisable		
	Options Outstanding as of 9/30/2008	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Options Exercisable as of 9/30/2008	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price
Range of Exercise Prices						
$2.28 - $8.00	65,451	3.12	$ 4.98	65,451	3.12	$ 4.98
$8.01 - $20.00	580,700	8.13	16.04	191,301	7.34	15.38
$20.01 - $25.10	204,000	7.99	22.69	71,634	7.80	22.90
	850,151	7.71	16.78	328,386	6.60	14.95

Aggregate intrinsic value of options outstanding and options exercisable at September 30, 2008 were $566,000 and $548,000, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $12.77 as of September 30, 2008, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was approximately $36,000 and $83,000 for the three months ended September 30, 2008 and 2007, respectively, and $36,000 and $557,000 for the nine months ended September 30, 2008 and 2007, respectively.

As of September 30, 2008, the Company had approximately $2.4 million of unrecognized compensation costs related to non-vested options. The Company expects to recognize these costs over a weighted average period of 2.97 years.

Restricted stock activity under the 2006 Plan as of September 30, 2008, and changes during the three and nine months ended September 30, 2008 are as follows:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Restricted Stock:				
Nonvested, beginning of period	10,200	$ 15.35	8,850	$ 16.92
Granted	—	—	2,100	9.33
Vested	—	—	—	—
Cancelled and forfeited	(300)	12.83	(1,050)	15.81
Nonvested, at end of period	9,900	15.43	9,900	15.43

The Company recorded compensation cost of $8,000 and $7,000 related to the restricted stock granted under the 2006 Plan for the three months ended September 30, 2008 and 2007, respectively, and $23,000 and $10,000 for the nine months ended September 30, 2008 and 2007, respectively.

6. FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

- Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Assets

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, included certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. The Company's current portfolio does not have level 3 securities as of September 30, 2008. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

On September 16, 2008, Moody's debt rating service announced that it has downgraded and left on review for further possible downgrade 36 tranches, and placed an additional 21 tranches on review for possible downgrade, across 14 Trust Preferred (TRUP) Collateralized Debt Obligations (CDOs) of which the Company has an $11,000,000 par value held in its investment portfolio at September 30, 2008. The downgrades are prompted by the exposure of these TRUP CDOs to trust preferred securities issued by eight banks taken over by their regulators in recent months. This rating action reflects Moody's determination that that there will be no recovery on the trust preferred securities issued by these banks. In addition, Moody's assumes recoveries will be low on some of the other trust preferred securities currently deferring coupon payments in the collateral pools backing these securitizations. While historically many banks that have deferred payment on trust preferred securities have ultimately resumed payment, Moody's expects many banks deferring in the current environment are unlikely to become current again. The Company evaluated its investment security based on the downgrade and the banks that compose its underlying collateral. The Company utilized observable inputs, unobservable data and modeled the cash flows adjusted by appropriate liquidity risk adjusted discount rates in order to measure the fair value of the security. At September 30, 2008, the Company has valued the security at $3.7 million, and has written down the security by $7.3 million. This write-down has been reflected within noninterest expense for the quarter and nine months ended September 30, 2008.

Loans held for sale

Loans held for sale are measured at the lower of cost or fair value. Under SFAS No. 157, market value is intended to represent fair value. As of September 30, 2008, the Company has $9.4 million of loans held for sale. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. At September 30, 2008, the entire balance of loans held for sale was recorded at its cost.

Assets measured at fair value at September 30, 2008 are as follows:

		Fair Value Measurements at Reporting Date Using		
Description	9/30/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury	$ 500	$ 500	$ —	$ —
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	24,203	—	24,203	—
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	102,437	—	102,437	—
Corporate trust preferred securities	3,721	—	3,721	—
Mutual Funds backed by adjustable rate mortgages	4,440	—	4,440	—
Fixed rate collateralized mortgage obligations	19,360	—	19,360	—
Total available-for-sale securities	$ 154,661	$ 500	$ 154,161	$ —

Liabilities

The Company did not identify any liabilities that are required to be presented at fair value.

7. OTHER BORROWED FUNDS

The Company borrows funds from the Federal Home Loan Bank of San Francisco ("FHLB") and the Treasury, Tax, and Loan Investment Program. Other borrowed funds totaled $207.2 million and $299.6 million at September 30, 2008 and December 31, 2007, respectively. Interest expense on other borrowed funds was $7.1 million and $8.1 million for the nine months ended September 30, 2008 and 2007, respectively, reflecting average interest rates of 3.73% and 5.20%, respectively. The reduction in the borrowing rate is a result of the Federal Open Market Committee's (FOMC) interest rate reductions.

As of September 30, 2008, the Company borrowed $201.3 million from the FHLB with note terms from less than 1 year to 15 years. Notes of 10-year and 15-year terms are amortizing at predetermined schedules over the life of the notes. Of the $201.3 million outstanding, $145.0 million is composed of six fixed rate term advances, each with an option to be called by the FHLB after the lockout dates varying from 6 months to 2 years. If market interest rates are higher than the advances' stated rates at that time, the advances will be called by the FHLB and the Bank will be required to repay the FHLB. If market interest rates are lower after the lockout period, then the advances will not be called by the FHLB. If the advances are not called by the FHLB, then they will mature on the maturity date ranging from 4 years to 10 years. We may repay the advances with a prepayment penalty at any time. If the advances are called by the FHLB, there is no prepayment penalty.

The Company has pledged, under a blanket lien, all qualifying commercial and residential loans as collateral under the borrowing agreement with the FHLB, with a total carrying value of $983.6 million at September 30, 2008 as compared to $1.3 billion at December 31, 2007.

Subject to the right of the FHLB to require early repayment of the borrowings discussed above, FHLB advances outstanding, with an average interest rate of 3.90%, as of September 30, 2008, mature as follows:

	(Dollars in thousands)
2008	$ 9,083
2009	45,343
2010	361
2011	25,381
2012 and thereafter	121,096
	$ 201,264

Borrowings obtained from the Treasury Tax and Loan Investment Program mature within a month from the transaction date. Under the program, the Company receives funds from the U.S. Treasury Department in the form of open-ended notes, up to a total of $2.2 million. The Company has pledged U.S. government agencies and/or mortgage-backed securities with a total carrying value of $2.7 million at September 30, 2008, as collateral to participate in the program. The total borrowed amount under the program, outstanding at September 30, 2008 and December 31, 2007 was $889,000 and $1.1 million, respectively.

8. LONG-TERM SUBORDINATED DEBENTURES

Center Capital Trust I is a Delaware business trust formed by the Company for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the fourth quarter of 2003, Center Capital Trust I issued 18,000 Capital Trust Preferred Securities ("TRUPS"), with liquidation value of $1,000 per security, for gross proceeds of $18,000,000. The entire proceeds of the issuance were invested by

Center Capital Trust I in $18,000,000 of Junior Long-term Subordinated Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the TRUPS. The Subordinated Debentures represent the sole assets of Center Capital Trust I. The Subordinated Debentures mature on January 7, 2034, with interest based on 3-month LIBOR plus 2.85%, with repricing and payments due quarterly in arrears on January 7, April 7, July 7, and October 7 of each year commencing April 7, 2004. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any January 7th, April 7th, July 7th, and October 7th on or after April 7, 2009 at the Redemption Price. Redemption Price means 100% of the principal amount of Subordinated Debentures being redeemed plus accrued and unpaid interest on such Subordinated Debentures to the Redemption Date, or in case of redemption due to the occurrence of a Special Event, to the Special Redemption Date if such Redemption Date is on or after April 7, 2009. The TRUPS are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on January 7, 2034.

Holders of the TRUPS are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security at a current rate per annum of 5.64%. Interest rate defined as per annum rate of interest, resets quarterly, equal to LIBOR immediately preceding each interest payment date (January 7, April 7, July 7, and October 7 of each year) plus 2.85%. The distributions on the TRUPS are treated as interest expense in the consolidated statements of operations. The Company has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The TRUPS issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS.

On March 1, 2005, the FRB adopted a final rule that allows the continued inclusion of trust-preferred securities in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier I capital elements, net of goodwill. As of September 30, 2008, trust preferred securities comprised 10.0% of the Company's Tier I capital.

In accordance with FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, Center Capital Trust I is not reported on a consolidated basis. Therefore, the capital securities of $18,000,000 do not appear on the consolidated statements of financial condition. Instead, the long-term subordinated debentures of $18,557,000 payable by Center Financial to the Center Capital Trust I and the investment in the Center Capital Trust I's common stock of $557,000 (included in other assets) are separately reported.

9. (LOSS) EARNINGS PER SHARE

The actual number of shares outstanding at September 30, 2008 was 16,787,530. Basic earnings per share are calculated on the basis of weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Diluted earnings per share do not include all potentially dilutive shares that may result from outstanding stock options and restricted stock awards that may eventually vest. Exercise of options is not assumed if the result would be anti-dilutive such as when a loss from continuing operations is reported.

The following table sets forth the Company's (loss) earnings per share calculation for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,					
	2008			2007		
	(Dollars in thousands, except earnings per share)					
	Net loss	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts
Basic (loss) earnings per share	$ (3,159)	16,577	$ (0.19)	$ 5,698	16,721	$ 0.34
Effect of dilutive securities:						
Stock options and restricted stock	—	—	—	—	64	—
Diluted (loss) earnings per share	$ (3,159)	16,577	$ (0.19)	$ 5,698	16,785	$ 0.34

	Nine Months Ended September 30,					
	2008			2007		
	(Dollars in thousands, except earnings per share)					
	Net Income	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts
Basic earnings per share	$ 6,339	16,438	$ 0.39	$ 18,037	16,690	$ 1.08
Effect of dilutive securities:						
Stock options and restricted stock	—	36	—	—	95	(0.01)
Diluted earnings per share	$ 6,339	16,474	$ 0.38	$ 18,037	16,785	$ 1.07

The number of common shares underlying stock options and shares of restricted stock which were outstanding but not included in the calculation of diluted earnings per share because they would have had an anti-dilutive effect amounted to 779,000 and 858,000 shares for the three and nine months ended September 30, 2008, respectively, and 729,000 and 730,000 shares for the three and nine months ended September 30, 2007, respectively.

The Company's previously announced $10 million stock buyback program ended on May 24, 2008. Under the program, the Company purchased a total of 373,820 shares at an average price of $12.33 per share for a total of $4.6 million. These shares have been retired. No shares were repurchased during 2008.

10. CASH DIVIDENDS

On September 10, 2008, the Board of Directors declared a quarterly cash dividend of $0.05 per share. This cash dividend was paid on October 8, 2008 to shareholders of record as of September 24, 2008.

11. GOODWILL AND INTANGIBLES

In April 2004, the Company purchased the Chicago branch of Korea Exchange Bank and recorded goodwill of $1.3 million and a core deposit intangible of $462,000. Goodwill is evaluated for impairment on an annual basis or more frequently if there is an indication of impairment in the value of goodwill. The Company amortizes premiums on acquired deposits using the straight-line method over 5 to 9 years. Accumulated amortization was approximately $235,000 and $195,000 as of September 30, 2008 and December 31, 2007, respectively. Core deposit intangible, net of amortization, was approximately $227,000 and $267,000 at September 30, 2008 and December 31, 2007, respectively. Estimated amortization expense, for five succeeding fiscal years and thereafter, is as follows:

	(Dollars in thousands)
2008 (remaining three months)	$ 13
2009	53
2010	53
2011	53
2012	53
Thereafter	2
	$ 227

12. COMMITMENTS AND CONTINGENCIES

Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commercial letters of credit, standby letters of credit and performance bonds. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Commercial letters of credit, standby letters of credit, and performance bonds are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in making loans to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

A summary of the notional amounts of the Company's financial instruments relating to extension of credit with off-balance-sheet risk at September 30, 2008 and December 31, 2007 follows:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Loans	$ 238,804	$ 281,766
Standby letters of credit	10,116	8,200
Performance bonds	456	161
Commercial letters of credit	27,965	19,563
	$ 277,341	$ 309,690

Liabilities for losses on outstanding commitments of $289,000 and $317,000 were reported separately in other liabilities at September 30, 2008 and December 31, 2007, respectively.

Litigation

From time to time, the Company is a party to claims and legal proceedings arising in the ordinary course of business. With the exception of the potentially adverse outcome in the litigation herein described, after taking into consideration information furnished by counsel as to the current status of these claims and proceedings, management does not believe that the aggregate potential liability resulting from such proceedings would have a material adverse effect on the Company's financial condition or results of operations.

KEIC Claims—In March 2003, the Bank was served with a complaint filed by Korea Export Insurance Corporation ("KEIC") in Orange County, California Superior Court, entitled Korea Export Insurance Corporation v. Korea Data Systems (USA), Inc., et al. KEIC sought to recover alleged losses from a number of parties involved in international trade transactions that gave rise to bills of exchange financed by various Korean Banks but not ultimately paid. KEIC sought to recover damages of approximately $56 million from the Bank based on a claim that, in its capacity as a presenting bank for these bills of exchange, the Bank acted negligently in presenting and otherwise handling trade documents for collection.

Korean Bank Claims—In July 2006, the Bank was served with cross-claims from five of the nine Korean banks who are also third party defendants in the KEIC action. The Korean banks were Citibank Korea, Inc. (formerly known as KorAm Bank), Industrial Bank of Korea, Kookmin Bank, Korea Exchange Bank and Hana Bank (hereinafter the Korean Banks). The Korean Banks alleged, in both suits, various claims for breach of contract, negligence, negligent misrepresentation and breach of fiduciary duty in the handling of similar but a different set of documents against acceptance transactions that occurred in the years 2000 and 2001. The total amount of the Korean Bank claims was approximately $46.1 million plus interest and punitive damages. These claims were in addition to KEIC's claims against the Bank in the approximate amount of $56 million originally filed in March 2003.

Counterclaims by Center Bank—In June 2004, the Bank filed cross-complaints against KDS Korea, KDS America, KDS USA, and nine Korean Banks for negligence, fraudulent concealment and equitable indemnity as well as other claims.

Settlement Agreements Concerning Above Claims

On August 6, 2008 the Bank entered into a Settlement Agreement with KEIC (the "KEIC Settlement Agreement "). Pursuant to the KEIC Settlement Agreement, KEIC dismissed with prejudice its complaints against the Bank in both the Superior Court of the State of California and in federal court and to assign to Center Bank its rights and claims as against certain other defendants. In consideration of its dismissal of such claims and assignment of such rights, the Bank agreed to pay consideration of $10.5 million to KEIC, consisting of cash consideration of $6.5 million in scheduled installments over a three-year period and the issuance of 415,369 shares of the common stock of the Company valued at $4.0 million.

Pursuant to separate agreement, KEIC and nine Korean banks mutually dismissed all claims against one another arising out of or related to the KEIC Action.

The Bank also entered into a settlement agreement with Korea Data Systems (USA), Inc (“KDS-USA”) and Lap Shun (John) Hui, pursuant to which KDS USA agreed to pay the Bank a total of $2.5 million in cash payable in scheduled installments over a two-year period in consideration for Center Bank dismissing with prejudice all claims against KDS-USA.

FICB Claims

On September 18, 2007, the Company entered into a definitive agreement to acquire First Intercontinental Bank (“FICB”), a Georgia State-chartered commercial bank with assets of approximately $232 million as of June 30, 2007, for an aggregate purchase price of approximately $65.2 million. Under the agreement, the Company was to acquire all outstanding shares of FICB for consideration consisting of 60% cash and 40% in the Company’s common stock. FICB shareholders were to be given the option to elect to receive cash, stock or a combination of both. Included in the total purchase price, the Company was going to pay approximately $3.6 million related to the outstanding stock options of FICB.

On March 28, 2008, the Company received a notice from FICB asserting that FICB was entitled to, and was in fact terminating, the definitive agreement under which the Company was to have acquired FICB. On April 8, 2008, FICB filed a complaint in the U.S. District Court in Atlanta alleging that the Company breached the definitive agreement and demanded liquidated damages of $3.1 million. The Company believes that FICB is in breach of the definitive agreement and, on May 2, 2008, filed a cross complaint on FICB to recover liquidated damages of $3.1 million. Although the Company believes that it has meritorious defenses and counter claims against FICB and intends to vigorously defend this lawsuit and to prosecute the counterclaims, management cannot predict the outcome of this litigation.

13. POSTRETIREMENT SPLIT-DOLLAR ARRANGEMENT

As of January 1, 2008, pursuant to EITF Issue No. 06-4, the Company recorded the cumulative effect of a change in the accounting principles for recognizing a liability for the postretirement cost of insurance for endorsement split-dollar life insurance coverage with split-dollar arrangement for employees and non-employee directors in the amount of $1.4 million as a reduction of equity. On a monthly basis, the Company records the benefit expense of such insurance coverage. Benefit expense during the three and nine months ended September 30, 2008 amounted to approximately $21,000 and $64,000, respectively.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following is management's discussion and analysis of the major factors that influenced the Company's consolidated results of operations and financial condition as of and for the nine months ended September 30, 2008 and 2007. This analysis should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and with the unaudited consolidated financial statements and notes as set forth in this report.

FORWARD-LOOKING STATEMENTS

Certain matters discussed under this caption may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are forward looking statements. 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 the business of the Company involves inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. Risks and uncertainties include, but not limited to, possible future deteriorating economic conditions in the Company's 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 or issuers of such securities suffer financial losses; increased competition among depository institutions; successful completion of planned acquisitions and effective integration of the acquired entities; the economic and regulatory effects of the continuing war on terrorism and other events of war, including the wars in Iraq and Afghanistan; the effect of natural disasters, including earthquakes and hurricanes; and regulatory risks associated with the variety of current and future regulations to which the Company is subject. All of these risks could have a material adverse impact on the Company's financial condition, results of operations or prospects, and these risks should be considered in evaluating the Company. For additional information concerning these factors, see "Risk Factors", "Interest Rate Risk Management" and "Liquidity and Capital Resources" contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Form 10-K for the year ended December 31, 2007, as supplemented by the information contained in this report.

Critical Accounting Policies

Accounting estimates and assumptions discussed in this section are those that the Company considers to be the most critical to an understanding of the Company's financial statements because they inherently involve significant judgments and uncertainties. The financial information contained in these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. These critical accounting policies are those that involve subjective decisions and assessments and have the greatest potential impact on the Company's results of operations. Management has identified its most critical accounting policies to be those relating to the following: investment securities, loan sales, allowance for loan losses, and share-based compensation. The following is a summary of these accounting policies. In each area, the Company has identified the variables most important in the estimation process. The Company has used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from the Company's estimates and future changes in the key variables could change future valuations and impact net income.

Investment Securities

Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, investment securities generally must be classified as held-to-maturity, available-for-sale or trading. The appropriate classification is based partially on the Company's ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise, whereas with respect to available-for-sale securities, they are recorded as a separate component of shareholders' equity (accumulated comprehensive other income or loss) and do not affect earnings until realized. The fair values of the Company's investment securities are generally determined by reference to quoted market prices and reliable independent sources. The Company is obligated to assess, at each reporting date, whether there is other-than-temporary impairment (OTTI) to the Company's investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income.

Loan Sales

Certain Small Business Administration loans and other loans that the Company has the intent to sell prior to maturity are designated as held for sale typically at origination and recorded at the lower of cost or market value, on an aggregate basis. Upon management's decision, certain loans in the portfolio may be reclassified to the held for sale category prior to any commitment by the Company to sell the loans. Such decision is usually made to rebalance the loan portfolio and to better manage the Company's liquidity and capital resources. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the premium on sale of loans is recognized as other operating income at the time of the sale. The remaining portion of the premium relating to the portion of the loan retained is deferred and amortized over the remaining life of the loan as an adjustment to yield. Servicing assets or liabilities are recorded when loans are sold with servicing retained, based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate plus 1 to 2%. Net servicing assets, or servicing assets net of servicing liabilities, are amortized in proportion to and over the period of estimated future servicing income. Management periodically evaluates the net servicing asset for impairment, which is the carrying amount of the net servicing asset in excess of the related fair value. Impairment, if it occurs, is recognized as a write-down in the period of impairment.

Allowance for Loan Losses

The Company's allowance for loan loss methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors including commodity and finished good prices as well as acts of nature such as earthquakes, floods, fires, etc. that occur in a particular period. Qualitative factors include the general economic environment in the Company's markets and, in particular, the state of certain industries. Size and complexity of individual credits, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in its methodologies. As the Company adds new products, increases the complexity of the loan portfolio and expands the geographic coverage, the Company will enhance the methodologies to keep pace with the size and complexity of the loan portfolio. Changes in any of the above factors could have significant impact to the loan loss calculation. The Company believes that its methodologies continue to be appropriate given its size and level of complexity. Detailed information concerning the Company's loan loss methodology is contained in this Item 2 below under "Financial Condition Analysis—Allowance for Loan Losses."

Share-based Compensation

The Company adopted SFAS No. 123R, as of January 1, 2006, as discussed in Note 5 to the interim consolidated financial statements. SFAS No. 123R requires the Company to recognize compensation expense for all share-based payments made to employees (including officers) and non-employee directors and based on the fair value of the share-based payment on the date of grant. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, is recognized on a straight-line basis in the consolidated statements of operations over the remaining vesting period. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, is recognized in the consolidated statements of operations on a straight-line basis over the vesting period. In determining the fair value of stock options, the Company uses the Black-Scholes option-pricing model that employs the following assumptions:

- Expected volatility—based on the weekly historical volatility of the Company's stock price, over the expected life of the option.
- Expected term of the option—based on historical employee stock option exercise behavior, the vesting terms of the respective option and a contractual life of ten years.
- Risk-free rate—based upon the rate on a zero coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of grant.
- Dividend yield—calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.

The Company's stock price volatility and option lives involve management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

SUMMARY OF FINANCIAL DATA

Executive Overview

For the third quarter of 2008, the Company recorded a consolidated net loss of $3.2 million, or ($0.19) per diluted share compared to consolidated net income of $5.7 million or $0.34 per diluted share in the same period of 2007, a 155.4% decrease. Consolidated net income for the nine months ended September 30, 2008 decreased to $6.3 million, or $0.38 per diluted share compared to $18.0 million, or $1.07 per diluted share in the same period in 2007, a 64.1% decrease. The following were significant highlights related to the results during the three and nine months ended September 30, 2008 as compared to the corresponding periods of 2007:

- The Company entered into settlement agreements with KEIC, nine Korean Banks and KDS USA on August 6, 2008 for net expense of $7.7 million which was recorded in noninterest expense for the three and nine months ended September 30, 2008.
- The Company recorded loss on available for sale securities of $7.3 million due to an impairment of corporate trust preferred securities which was recorded in noninterest expense for the three and nine months ended September 30, 2008.
- On September 18, 2007, FOMC commenced a series of rate reductions to the Federal Funds rate, resulting in an overall reduction from 5.25% at that time to 2.00% as of April 30, 2008, a total of 325 basis points. During this time period, the Wall Street Journal ("WSJ") prime rate, to which approximately 45% of the Company's loans are indexed to, reduced from 8.25% to 5.00% where the rate stands at September 30, 2008. These rate cuts significantly impacted the Company's net interest margin.

- Net interest margin for the three and nine months ended September 30, 2008, compared to the same periods in 2007 declined by 20 basis points from 4.22% to 4.02% and by 46 basis points from 4.33% to 3.87%. The decline in net interest margin for the periods is attributable to the FOMC rate reductions which commenced in September 2007 whereas approximately 45% of the Company's loan portfolio repriced downward 325 basis points commensurate with the WSJ prime rate reductions. Funding liabilities, mostly the Company's time deposits, reprice somewhat slower and lag the decline in the variable rate loans resetting downward which is a result of the Company's asset sensitive balance sheet. The changes in repricing loan and time deposit maturities resulted in the compression in the net interest margin.

- For the three months ended September 30, 2008, as compared to the same period in 2007, the earning asset yield declined 132 basis points from 8.01% to 6.69%. The Company's average loan portfolio yield declined by 141 basis points from 8.30% to 6.89% while the investment portfolio average yield over the comparable period increased by 6 basis point from 4.91% to 4.97%. Management has lengthened the average duration of the investment portfolio in the last nine months from 3.8 years to 4.6 years. Approximately 45% of the Company's loan portfolio is indexed to the WSJ prime rate which declined by 325 basis points since September 2007.

- For the nine months ended September 30, 2008, as compared to the same period in 2007, the earning asset yield declined by 115 basis points from 8.04% to 6.89%. The Company's average loan portfolio yield declined by 128 basis points from 8.37% to 7.09% while the investment portfolio average yield over the comparable period increased by 13 basis points from 4.81% to 4.94%. Management has lengthened the average duration by six months for the investment portfolio in the last nine months which resulted in the improvement in the yield in the lower rate environment.

- For the three months ended September 30, 2008, as compared to the same period in 2007, the funding liability costs declined by 114 basis points from 3.92% to 2.78%. Cost of deposits during this time period declined by 113 basis points from 3.75% to 2.62% while other borrowed funds costs declined by 133 basis points from 4.96% to 3.63%. The Korean-American banking market remains very competitive which limited the reduction in our deposit costs.

  For the nine months ended September 30, 2008, as compared to the same period in 2007, the funding liability costs declined by 69 basis points from 3.81% to 3.12%. Costs of deposits during this time period declined by 57 basis points from 3.57% to 3.00% while other borrowed funds costs declined by 148 basis points from 5.21% to 3.73%. As mentioned above, our market is very competitive for deposits and has limited the reduction in our cost of deposits.

- The provision for loan losses was $2.1 million and $6.3 million for the three and nine months ended September 30, 2008 compared to $2.0 million and $4.4 million for the same periods in 2007. The increases were a result of an increase in net loan charge-offs, a modest increase in non-performing assets, and deterioration in the overall economy.

- The Company's efficiency ratio increased to 116.51% and 76.82% for the three and nine months ended September 30, 2008, respectively, compared to 50.39% and 51.14% for the same periods in 2007. The increase relates to the change in noninterest expense while interest income and noninterest income remained at similar levels as compared to the same period in 2007. The increase in noninterest expense for the nine months ended September 30, 2008, compared to the same period in 2007, was primarily attributable to the settlement of the KEIC litigation of $7.7 million and the loss on available for sale securities of $7.3 million in the third quarter of 2008.

  Salaries and benefits expenses decreased 3.2% to $6.1 million and decreased 0.2% to $19.2 million for the three and nine months ended September 30, 2008, respectively, compared to $6.3 million and $19.2 million for the same periods in 2007 due to management's recent efforts to reduce the number of staff.

Occupancy expenses increased by 3.3% and 8.4% to $1.1 million and $3.3 million for the three and nine months ended September 30, 2008, respectively, compared to $1.1 million and $3.0 million in the same periods in 2007. These increases were due primarily to increased rent expenses resulting from the recent addition of two new branches and depreciation expenses as a result of facility improvements made during the past year.

Legal fees increased by 206.5% and 108.9%, respectively, to $529,000 and $2.1 million, respectively, for the three and nine months ended September 30, 2008 compared to $173,000 and $1.0 million for the same periods in 2007. These increases were due to KEIC litigation which was settled during the third quarter of 2008 as well as to the utilization of a legal reserve from an insurance settlement from the previous year in 2007. Accounting and other professional fees increased by 73.7% and decreased by 27.2%, respectively, to $323,000 and $1.0 million for the three and nine months ended September 30, 2008 compared to $186,000 and $1.4 million for the same periods in 2007. The Company also charged approximately $400,000 of previously capitalized merger related costs to legal fees, and accounting and other professional fees during the first quarter of 2008 as a result of the termination of the previously announced merger with First Intercontinental Bank.

Regulatory assessments for FDIC decreased by $25,000 and increased by $476,000 for three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007. The increase was due to the increase in total deposits and the fact that an FDIC credit was fully utilized in the second quarter assessment in 2007.

For the three months ended September 30, 2008, other operating expenses increased to $1.2 million as compared to $995,000 for the same period in 2007. For the nine months ended September 30, 2008, other operating expenses increased to $3.9 million from $3.1 million for the same period in 2007. The increase for the nine months ended September 30, 2008 was mainly due to operational losses of $342,000 and court claim settlements of $236,000.

- Return on average assets and return on average equity decreased to (0.61)% and (7.59)%, respectively, for the three months ended September 30, 2008, compared to 1.16% and 14.48% during the same period in 2007. Return on average assets and return on average equity decreased to 0.40% and 5.17%, respectively, for the nine months ended September 30, 2008, compared to 1.28% and 16.02% during the same periods in 2007. Return on average assets and return on average equity decreased due to margin compression, an increase in the loan loss provision, and the increases in net noninterest expense primarily related to the litigation settlement and loss on available for sale securities during the first nine months of 2008 as compared to the same period in 2007.

The Company’s financial condition and liquidity remained strong at September 30, 2008. The following are important factors in understanding the Company’s financial condition and liquidity:

- Net loans declined $55.9 million or 3.1% to $1.73 billion at September 30, 2008 compared to $1.79 billion at December 31, 2007. The decline in net loans is comprised primarily of net decreases in construction real estate loans of $5.8 million, or 8.6%, vacant land loans of $1.6 million, or 5.0%, commercial real estate loans of $38.2 million, or 3.3%, SBA loans of $32.4 million, or 46.0%, consumer loans of $6.0 million, offset by net increase commercial loans of $26.0 million, or 8.4%, trade finance loans of $3.4 million, or 5.1%. These overall decreases were due to the loan sales and payoffs during the nine months ended September 30, 2008.

- Total deposits increased $41.6 million, or 2.6 % to $1.62 billion at September 30, 2008 compared to $1.58 billion at December 31, 2007. This increase was the result of efforts to manage the Company’s balance sheet and to improve the performance of the earning assets and funding liabilities portfolios by adding $154.9 million of brokered deposits during the nine months ended September 30, 2008. These efforts included the use of other funding liabilities such as FHLB borrowings to manage the repricing period of the interest bearing liabilities and replace time deposits greater than $100,000, which are presently more expensive than wholesale funding.

- As a result of the aforementioned decline in loans and the increase in deposits, the loan to deposit ratio decreased to 107.1% at September 30, 2008 as compared to 113.4% at December 31, 2007. The decrease in the loan to deposit ratio was due primarily to the increase in wholesale brokered deposits and core deposits for the nine months ended September 30, 2008.

- The ratio of nonaccrual loans to total loans increased to 0.48% at September 30, 2008 compared to 0.35% at December 31, 2007. The Company's ratio of allowance for loan losses to total nonperforming loans decreased to 256% at September 30, 2008, as compared to 327% at December 31, 2007 and the Company's allowance for losses to total gross loans increased to 1.22% at September 30, 2008 compared to 1.13% at December 31, 2007.

- The FDIC in June 2008 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

- The Company declared its quarterly cash dividend of $0.05 per share in September 2008, payable in October 2008.

EARNINGS PERFORMANCE ANALYSIS

As previously noted and reflected in the consolidated statements of operations, the Company recorded a net loss of $3.2 million and net income of $6.3 million during the three and nine months ended September 30, 2008, compared to net income of $5.7 million and $18.0 million during the same periods in 2007. The Company earns income from two primary sources: net interest income, which is the difference between interest income generated from the successful deployment of earning assets and interest expense created by interest-bearing liabilities; and noninterest income, which is basically fees and charges earned from customer services less the operating costs associated with providing a full range of banking services to customers.

[Table of Contents](#)

Net Interest Income and Net Interest Margin

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and average yields and rates by asset and liability component for the three months ended September 30, 2008 and 2007:

	Three Months Ended September 30,					
	2008			2007		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield(1)	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield(1)
Assets:						
Interest-earning assets:						
Loans (2)	$ 1,766,415	$ 30,574	6.89%	$ 1,662,816	$ 34,781	8.30%
Federal funds sold	4,387	24	2.18	4,582	67	5.80
Investments (3)(4)	185,109	2,314	4.97	152,387	1,887	4.91
Total interest-earning assets (4)	1,955,911	32,912	6.69	1,819,785	36,735	8.01
Noninterest—earning assets:						
Cash and due from banks	49,557			63,727		
Bank premises and equipment, net	14,703			13,564		
Customers' acceptances outstanding	3,750			3,241		
Accrued interest receivables	7,547			8,286		
Other assets	42,872			32,399		
Total noninterest-earning assets	118,429			121,217		
Total assets	$ 2,074,340			$ 1,941,002		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Deposits:						
Money market and NOW accounts	$ 393,830	$ 2,848	2.88%	$ 263,320	$ 2,854	4.30%
Savings	54,424	481	3.52	60,946	487	3.17
Time certificates of deposit over $100,000	688,610	6,286	3.63	763,632	10,148	5.27
Other time certificates of deposit	128,155	1,051	3.26	104,879	1,278	4.83
	1,265,019	10,666	3.35	1,192,777	14,767	4.91
Other borrowed funds	244,059	2,225	3.63	180,667	2,258	4.96
Long-term subordinated debentures	18,557	259	5.55	18,557	378	8.08
Total interest-bearing liabilities	1,527,635	13,150	3.42	1,392,001	17,403	4.96
Noninterest-bearing liabilities:						
Demand deposits	357,145			370,254		
Total funding liabilities	1,884,780		2.78%	1,762,255		3.92%
Other liabilities	23,973			22,572		
Total noninterest-bearing liabilities	381,118			392,826		
Shareholders' equity	165,587			156,175		
Total liabilities and shareholders' equity	$ 2,074,340			$ 1,941,002		
Net interest income (4)		$ 19,762			$ 19,332	
Cost of deposits			2.62%			3.75%
Net interest spread (5)			3.27%			3.05%
Net interest margin (6)			4.02%			4.22%

(1) Average rates/yields for these periods have been annualized.

(2) Loans are net of the allowance for loan losses, deferred fees, and discount on SBA loans retained. Loan fees included in interest income were approximately $328,000 for the three months ended September 30, 2008

and $561,000 for the same period in 2007. Amortized loan fees have been included in the calculation of net interest income. Nonperforming loans have been included in the table for computation purposes, but the foregone interest on such loans is excluded.

(3) Investments include securities available for sale, securities held to maturity, FHLB and Pacific Coast Bankers Bank stock and money market funds and interest-bearing deposits in other banks.

(4) Interest income on a tax equivalent basis for tax-advantaged income of $21,000 and $20,000 for the three months ended September 30, 2008 and 2007, respectively, were not included in the computation of yields.

(5) Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

(6) Represents net interest income (before provision for loan losses) as a percentage of average interest-earning assets.

Table of Contents

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and average yields and rates by asset and liability component for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,					
	2008			2007		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield(7)	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield(7)
Assets:						
Interest-earning assets:						
Loans (8)	$ 1,799,893	$ 95,553	7.09%	$ 1,601,321	$ 100,252	8.37%
Federal funds sold	4,627	90	2.60	4,214	180	5.71
Investments (9) (10)	175,976	6,509	4.94	158,883	5,712	4.81
Total interest-earning assets (10)	1,980,496	102,152	6.89	1,764,418	106,144	8.04
Noninterest—earning assets:						
Cash and due from banks	58,487			68,010		
Bank premises and equipment, net	14,407			13,512		
Customers' acceptances outstanding	4,182			3,774		
Accrued interest receivables	7,747			7,939		
Other assets	39,775			32,625		
Total noninterest-earning assets	124,598			125,860		
Total assets	$ 2,105,094			$ 1,890,278		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Deposits:						
Money market and NOW accounts	$ 350,219	$ 8,123	3.10%	$ 224,431	$ 6,556	3.91%
Savings	54,228	1,379	3.40	67,653	1,723	3.41
Time certificates of deposit over $100,000	760,854	23,781	4.18	717,074	28,075	5.23
Other time certificates of deposit	120,361	3,577	3.97	97,635	3,421	4.68
	1,285,662	36,860	3.83	1,106,793	39,775	4.80
Other borrowed funds	255,235	7,130	3.73	208,329	8,120	5.21
Long-term subordinated debentures	18,557	843	6.07	18,557	1,120	8.07
Total interest-bearing liabilities	1,559,454	44,833	3.84	1,333,679	49,015	4.91
Noninterest-bearing liabilities:						
Demand deposits	357,913			384,593		
Total funding liabilities	1,917,367		3.12%	1,718,272		3.81%
Other liabilities	24,091			21,461		
Total noninterest-bearing liabilities	382,004			406,054		
Shareholders' equity	163,636			150,545		
Total liabilities and shareholders' equity	$ 2,105,094			$ 1,890,278		
Net interest income (10)		$ 57,319			$ 57,129	
Cost of deposits			3.00%			3.57%
Net interest spread (11)			3.05%			3.13%
Net interest margin (12)			3.87%			4.33%

(7) Average rates/yields for these periods have been annualized.

(8) Loans are net of the allowance for loan losses, deferred fees, and discount on SBA loans retained. Loan fees included in interest income were approximately $1.2 million for the nine months ended September 30, 2008 and $1.6 million for the same period in 2007. Amortized loan fees have been included in the calculation of net interest income. Nonperforming loans have been included in the table for computation purposes, but the foregone interest on such loans is excluded.

(9) Investments include securities available for sale, securities held to maturity, FHLB and Pacific Coast Bankers Bank stock and money market funds and interest-bearing deposits in other banks.

(10) Interest income on a tax equivalent basis for tax-advantaged income of $67,000 and $63,000 for the nine months ended September 30, 2008 and 2007, respectively, were not included in the computation of yields.

(11) Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

(12) Represents net interest income (before provision for loan losses) as a percentage of average interest-earning assets.

The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities and the amount of change attributable to (i) changes in average daily balances (volume) and (ii) changes in interest rates (rate):

	Three Months Ended September 30, 2008 vs. 2007 Increase (Decrease) Due to Change In			Nine Months Ended September 30, 2008 vs. 2007 Increase (Decrease) Due to Change In		
	Volume	Rate[13]	Total	Volume	Rate[13]	Total
Earning assets:						
Interest income[14]:						
Loans	$ 2,068	$ (6,275)	$ (4,207)	$ 11,583	$ (16,283)	$ (4,700)
Federal funds sold[15]	(3)	(40)	(43)	16	(106)	(90)
Investments	409	18	427	629	169	798
Total earning assets	2,474	(6,297)	(3,823)	12,228	(16,220)	(3,992)
Interest expense:						
Deposits and borrowed funds:						
Money market and super NOW accounts	1,133	(1,139)	(6)	3,121	(1,554)	1,567
Savings deposits	(55)	48	(7)	(341)	(2)	(343)
Time Certificates of deposits	(676)	(3,413)	(4,089)	2,359	(6,498)	(4,139)
Other borrowings	672	(704)	(32)	1,600	(2,590)	(990)
Long-term subordinated debentures	—	(119)	(119)	—	(277)	(277)
Total interest-bearing liabilities	1,074	(5,327)	(4,253)	6,739	(10,921)	(4,182)
Net interest income before provision for loan losses	$ 1,400	$ (970)	$ 430	$ 5,489	$ (5,299)	$ 190

(13) Average rates/yields for these periods have been annualized.

(14) Loans are net of the allowance for loan losses, deferred fees, and discount on SBA loans retained. Loan fees included in interest income were approximately $328,000 and $561,000 for the three months ended September 30, 2008 and 2007, respectively, and $1.2 million and $1.6 million for the nine months ended September 30, 2008 and 2007, respectively. Amortized loan fees have been included in the calculation of net interest income. Nonperforming loans have been included in the table for computation purposes, but the foregone interest on such loans is excluded.

(15) Interest income on a tax equivalent basis for tax-advantaged income of $21,000 and $20,000 for the three months and $67,000 and $63,000 for the nine months ended September 30, 2008 and 2007, respectively, were not included in the computation of yields.

The Company's net interest income depends on the yields, volumes, and mix of its earning asset components, as well as the rates, volume, and mix associated with its funding sources. The Company's net interest margin is its net interest income expressed as a percentage of its average earning assets.

Net interest margin for the three and nine months ended September 30, 2008 compared to the same periods in 2007 declined by 20 basis points from 4.22% to 4.02% and by 46 basis points from 4.33% to 3.87%, respectively. The decline in net interest margin for the periods is attributable to the FOMC rate reductions which commenced in September 2007 whereas approximately 45% of the Company's loan portfolio repriced downward 325 basis points commensurate with the Wall Street Journal prime rate reductions. Funding liabilities, mostly the Company's time deposits, reprice somewhat slower and lags the decline in the variable rate loans resetting downward which is a result of the Company's asset sensitive balance sheet.

The changes in repricing loans and time deposit rates resulted in the compression in the net interest margin. Total interest and dividend income for the three and nine months ended September 30, 2008 was $32.9 million and $102.2 million, respectively, compared to $36.7 million and $106.1 million for the same periods in 2007. The decreases were primarily due to the rate declines in loans and funding cost having a greater impact relative to the funding cuts of new loans and related deposit volumes.

Total interest expense for the three and nine months ended September 30, 2008 decreased to $13.1 million and $44.8 million, respectively, compared to $17.4 million and $49.0 million for the same periods in 2007. These decreases were primarily due to interest-bearing deposit growth offset by the decrease in market rates set by the FOMC. Average interest bearing liabilities increased by $135.6 million and $225.8 million for the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007.

Net interest income before provision for loan losses increased by $430,000 for the three months ended September 30, 2008 compared to the same periods in 2007. Due to market rate decreases, changes in deposit mix and new loan production, the average yield on loans for the third quarter of 2008 decreased to 6.89% compared to 8.30% for the same period in 2007, a decrease of 141 basis points. The average investment portfolio for the third quarter of 2008 and 2007 was $185.1 million and $152.4 million, respectively, and the average yields on the investment portfolio were 4.97% and 4.91%, respectively.

Net interest income before provision for loan losses increased by $190,000 for the nine months ended September 30, 2008 compared to the same period in 2007. Due to market rate decreases and new production in loan portfolio, the average yield on loans for the nine months ended September 30, 2008 decreased to 7.09% compared to 8.37% for the same period in 2007, a decrease of 128 basis points. The average investment portfolio for the nine months ended September 30, 2008 and 2007 was $176.0 million and $158.9 million, respectively, and the average yields on the investment portfolio were 4.94% and 4.81%, respectively.

Net interest margin for the three and nine months ended September 30, 2008 compared to the same periods in 2007 declined by 20 basis points from 4.22% to 4.02% and by 46 basis points from 4.33% to 3.87%, respectively. The decline in net interest margin for the periods is attributable to the FOMC rate reductions which commenced in September 2007 whereas approximately 45% of the Company's loan portfolio repriced downward 325 basis points commensurate with the Wall Street Journal prime rate reductions. Funding liabilities, mostly the Company's time deposits, reprice somewhat slower and lags the decline in the variable rate loans resetting downward which is a result of the Company's asset sensitive balance sheet. The change in repricing loans and deposit maturities resulted in the compression in the net interest margin.

Provision for Loan Losses

Credit risk is inherent in the business of making loans. The Company sets aside an allowance for loan losses through charges to earnings, which are reflected monthly in the consolidated statement of operations as the provision for loan losses. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that in management's judgment is adequate to absorb losses inherent in the Company's loan portfolio.

The provision for loan losses was $2.1 million and $6.3 million for the three and nine months ended September 30, 2008 compared to $2.0 million and $4.4 million for the same periods in 2007. The increases were the result of increased loan originations, the associated loan portfolio growth, an increase in net loan charge-offs, a modest increase in non-performing assets, and deterioration in overall economy. Management believes that the $6.3 million loan loss provision was adequate for the first nine months of 2008.

While management believes that the allowance for loan losses of 1.22% of total loans at September 30, 2008 was adequate, future additions to the allowance will be subject to continuing evaluation of the estimated, inherent and other known risks in the loan portfolio. The procedures for monitoring the adequacy of the allowance, and detailed information on the allowance, are included below in "Allowance for Loan Losses."

Noninterest Income

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)				(Dollars in thousands)			
Customer service fees	$ 1,918	56.65%	$ 1,676	49.54%	$ 5,644	51.45%	$ 5,215	45.24%
Fee income from trade finance transactions	675	19.94	615	18.18	1,948	17.76	2,046	17.75
Wire transfer fees	269	7.94	206	6.09	822	7.49	643	5.58
Gain on sale of loans	59	1.74	—	—	1,019	9.29	618	5.36
Loan service fees	144	4.25	409	12.09	445	4.06	1,398	12.13
Other income	321	9.48	477	14.10	1,091	9.95	1,608	13.84
Total noninterest income	$ 3,386	100.00%	$ 3,383	100.00%	$ 10,969	100.00%	$ 11,528	100.00%
As a percentage of average earning assets		0.69%		0.74%		0.74%		0.87%

For the three and nine months ended September 30, 2008, noninterest income was $3.4 million and $11.0 million compared to $3.4 million and $11.5 million for the same periods in 2007. For the three and nine months ended September 30, 2008, noninterest income, as a percentage of average earning assets, decreased to 0.69% and 0.74% from 0.74% and 0.87% for the same periods in 2007. The decreases in the amount was related to the reduction of loan service fees and other miscellaneous income offset by the increase in customer service fees and gain on sale of loans for the three and nine months ended September 30, 2008 as compared to the same periods in 2007. The primary sources of recurring noninterest income continued to be customer service fees and fee income from trade finance transactions.

Customer service fees for the three and nine months ended September 30, 2008 increased by $242,000 or 14.4% and $429,000 or 8.2%, respectively, as compared to the same periods in 2007. These increases were due primarily to a nominal increase in customer accounts.

Fee income from trade finance transactions for the three months ended September 30, 2008 increased by $60,000, or 9.7% and decreased by $98,000 or 4.8% for the nine months ended September 30, 2008, as compared to the same periods in 2007.

The Company recorded $59,000 and no gain on sale of loans for the three months ended September 30, 2008 and 2007, respectively, and $1.0 million and $618,000 for the nine months ended September 30, 2008 and 2007, respectively. For the three and nine months ended September 30, 2008, the Company sold SBA loans of

$4.3 million and $42.1 million as compared to $7.7 million during the same periods in 2007, respectively. The Company also sold non-SBA real estate loans of $21.4 million during the nine months ended September 30, 2008. There were no non-SBA loan sales in 2007.

Loan service fees for the three and nine months ended September 30, 2008 decreased by $265,000 or 64.8% and $953,000 or 68.2%, respectively, as compared to the same periods in 2007. The decrease resulted mainly from the reduction in loan related activities that generate service fees compared to 2007 primarily due to a slower economy.

Noninterest Expense

The following table sets forth the components of noninterest expense for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)				(Dollars in thousands)			
Salaries and employee benefits	$ 6,137	22.76%	$ 6,342	55.41%	$ 19,182	36.57%	$ 19,220	54.74%
Occupancy	1,115	4.13	1,079	9.43	3,275	6.24	3,022	8.61
Furniture, fixtures, and equipment	546	2.02	575	5.03	1,538	2.93	1,539	4.38
Data processing	527	1.95	530	4.63	1,626	3.10	1,567	4.46
Legal fees	529	1.96	173	1.51	2,130	4.06	1,020	2.90
Accounting and other professional fees	323	1.20	186	1.62	1,041	1.98	1,429	4.07
Business promotion and advertising	469	1.74	480	4.20	1,424	2.71	1,549	4.41
Stationery and supplies	140	0.52	137	1.20	429	0.82	408	1.16
Telecommunications	188	0.70	160	1.39	537	1.02	442	1.26
Postage and courier service	192	0.71	185	1.61	584	1.11	565	1.61
Security service	283	1.05	268	2.34	851	1.62	779	2.22
Loss on available for sale securities	7,279	26.99	—	0.00	7,279	13.88	—	0.00
Regulatory assessment	312	1.16	337	2.94	953	1.82	477	1.36
KEIC litigation settlement	7,700	28.55	—	0.00	7,700	14.68	—	0.00
Other operating expenses	1,229	4.56	995	8.69	3,909	7.46	3,097	8.82
Total noninterest expenses	$ 26,969	100.00%	$ 11,447	100.00%	$ 52,458	100.00%	$ 35,114	100.00%
As a percentage of average earning assets		5.49%		2.50%		3.54%		2.66%
Efficiency ratio		116.51%		50.39%		76.82%		51.14%

For the three and nine months ended September 30, 2008, noninterest expense increased by 135.5% and 49.2% to $27.0 million and $52.5 million, compared to $11.4 million and $35.1 million, respectively, for the same periods in 2007. The increases in noninterest expense for the third quarter of 2008 compared to the same period in 2007 was primarily attributable to the increases in occupancy, legal fees, accounting and other professional service fees and other operating expenses offset by the decrease in salaries and employee benefits expense. The increases in noninterest expense for the nine months ended September 30, 2008 compared to the same period in 2007 was primarily attributable to the KEIC litigation settlement expense of $7.7 million and other than temporary impairment loss on available for sale securities of $7.3 million. Noninterest expense as a percentage of average earning assets was 5.49% and 2.50% for the three and nine months ended September 30, 2008, respectively, compared to 3.54% and 2.66% for the same periods in 2007.

The Company's efficiency ratio increased to 116.51% and 76.82% for the three and nine months ended September 30, 2008, respectively, compared to 50.39% and 51.14% for the same periods in 2007. The increase mainly relates to the settlement expense of KEIC litigation and other than temporary impairment loss on available for sale securities that occurred during the third quarter of 2008.

Salaries and benefits expenses decreased 3.2% to $6.1 million and decreased 0.2% to $19.2 million for the three and nine months ended September 30, 2008, respectively, compared to $6.3 million and $19.2 million for the same periods in 2007, due to the management's recent efforts to reduce the number of staff.

Occupancy expenses increased by 3.3% and 8.4% to $1.1 million and $3.3 million for the three and nine months ended September 30, 2008, respectively, compared to $1.1 million and $3.0 million in the same periods in 2007. These increases were due primarily to increased rent expenses resulting from the recent addition of two new branches and depreciation expenses as a result of facility improvements made during the past year.

Legal fees increased by 206.5% and 108.6%, respectively, to $529,000 and $2.1 million, respectively, for the three and nine months ended September 30, 2008 compared to $173,000 and $1.0 million for the same periods in 2007. These increases were due to KEIC litigation which was settled during the third quarter of 2008 as well as to the utilization of a legal reserve from an insurance settlement from the previous year in 2007.

Accounting and other professional fees increased by 73.7% and decreased by 27.2%, respectively, to $323,000 and $1.0 million for the three and nine months ended September 30, 2008 compared to $186,000 and $1.4 million for the same periods in 2007. The Company also charged approximately $400,000 of previously capitalized merger related costs to legal fees, and accounting and other professional fees during the first quarter of 2008 as a result of the termination of the previously announced merger with First Intercontinental Bank.

Regulatory assessments for FDIC increased by $476,000 to $953,000 for nine months ended September 30, 2008, compared to the same period in 2007. The increase was due to the increase in total deposits and the fact that an FDIC credit for prior contributions was fully utilized in the second quarter assessment in 2007.

Impairment loss on available for sale securities of $7.3 million was recorded during the third quarter of 2008 due to other than temporary impairment in the corporate pooled TRUPs securities.

During the third quarter of 2008, the Company entered into agreements with various parties to settle the KEIC litigation and recorded a net settlement expense of $7.7 million.

For the three months ended September 30, 2008, other operating expenses increased to $1.2 million as compared to $995,000 for the same period in 2007. For the nine months ended September 30, 2008, other operating expenses increased to $3.9 million from $3.1 million for the same period in 2007. The increases for the nine months ended September 30, 2008 were mainly due to the increase in operational losses of $342,000 and court claim settlements of $236,000.

Provision for Income Taxes

Income tax expense is the sum of two components, current tax expense and deferred tax expense. Current tax expense is the result of applying the current tax rate to current taxable income. The deferred portion is intended to reflect income, on which taxes are paid, that differs from financial statement pre-tax income because some items of income and expense are recognized in different years for income tax purposes than in the financial statements.

For the three months ended September 30, 2008, the income tax benefit was $2.8 million compared to income tax provision of $3.6 million for the same period in 2007. For the nine months ended September 30, 2008 and 2007, the provision for income taxes was $3.2 million and $11.1 million, representing effective tax rates of 33.3% and 38.2%, respectively. The primary reasons for the difference from the federal statutory tax rate of 35% are the inclusion of state taxes and reductions related to tax favored investments in low-income housing, municipal obligations, dividend exclusions, treatment of SFAS 123R amortization, increase in cash surrender value of bank owned life insurance, and California enterprise zone interest deductions and hiring credits. The permanent tax differences were not affected accordingly by KEIC litigation expense and OTTI loss that contributed to pretax loss and has resulted in the effective tax rate being greater for three and nine months in 2008 as compared to the same periods in 2007. The permanent tax differences were not affected accordingly by KEIC litigation expense and OTTI loss that contributed to lower pretax income and has resulted in the effective tax rate being lower for the nine months ended September 30, 2008 as compared to the same period in 2007. The Company reduced taxes utilizing the tax credits from investments in the low-income housing projects in the amount of $584,000 for the nine months ended September 30, 2008 compared to $472,000 for the same period in 2007. The Company recorded a true-up adjustment of $300,000 in the tax provision for the difference between the tax provision and the tax return for 2007 during the third quarter of 2008.

Deferred income tax assets or liabilities reflect the estimated future tax effects attributable to differences as to when certain items of income or expense are reported in the financial statements versus when they are reported in the tax return. The Company's deferred tax assets were $13.4 million as of September 30, 2008, and $13.1 million as of December 31, 2007. As of September 30, 2008, the Company's deferred tax assets were primarily due to the allowance for loan losses and impairment losses on U.S. Government sponsored enterprise preferred stock.

In accordance with FIN 48, it is management's policy to separately disclose any penalties or interest arising from the application of federal or state income taxes. There were no penalties or interest assessed for the nine months ended September 30, 2008.

Generally, the Company is subject to federal income tax audit examination for years beginning in 2004 and thereafter and years beginning in 2003 for state income tax purposes. Presently, the Company's 2005 tax return is undergoing a federal income tax audit. The Company does not anticipate any material changes as a result of the examination. In addition, the Company does not have any unrecognized tax benefits subject to significant increase or decrease as a result of uncertainty.

FINANCIAL CONDITION ANALYSIS

The major components of the Company's earning asset base are its interest-earning short-term investments, investment securities portfolio and loan portfolio. The detailed composition and growth characteristics of these three portfolios are significant to any analysis of the financial condition of the Company, and the loan portfolio analysis will be discussed in a later section of this Form 10-Q.

The Company invests its excess available funds from daily operations primarily in overnight Fed Funds and Money Market Funds. Money Market Funds are composed of mostly government funds and high quality short-term commercial paper. The Company can redeem the funds at any time. As of September 30, 2008 and December 31, 2007, the amounts invested in Federal Funds were $7.8 million and $7.1 million, respectively. The average yield earned on these funds was 2.60% for the nine months ended September 30, 2008 compared to 5.71% for the same period in 2007.

Table of Contents

Investment Portfolio

The following table summarizes the amortized cost, fair value and distribution of the Company's investment securities as of the dates indicated:

	As of September 30, 2008		As of December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Available for Sale:				
U.S. Treasury	$ 499	$ 500	$ 500	$ 504
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	23,997	24,203	35,998	36,315
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	102,822	102,437	55,165	55,272
U.S. Government sponsored enterprise preferred stock	—	—	3,537	3,537
Corporate trust preferred securities	3,721	3,721	11,000	10,230
Mutual Funds backed by adjustable rate mortgages	4,500	4,440	4,500	4,499
Fixed rate collateralized mortgage obligations	19,048	19,360	17,041	17,228
Corporate debt securities	—	—	1,199	1,193
Total available for sale	$ 154,587	$ 154,661	$ 128,940	$ 128,778
Held to Maturity:				
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ 3,954	$ 3,934	$ 5,327	$ 5,303
Municipal securities	5,311	5,351	5,605	5,658
Total held to maturity	$ 9,265	$ 9,285	$ 10,932	$ 10,961
Total investment securities	$ 163,852	$ 163,946	$ 139,872	$ 139,739

As of September 30, 2008, investment securities totaled $163.9 million or 8.0% of total assets, compared to $139.7 million or 6.7% of total assets as of December 31, 2007. The increase in the investment portfolio was part of the Company's strategy to mitigate interest rate risk, provide collateral for increased public funds, and to further liquidity management purposes.

As of September 30, 2008, available-for-sale securities totaled $154.7 million, compared to $128.8 million as of December 31, 2007. Available-for-sale securities as a percentage of total assets increased to 7.6% as of September 30, 2008 compared to 6.2% at December 31, 2007. Held-to-maturity securities decreased to $9.3 million as of September 30, 2008, compared to $10.9 million as of December 31, 2007. The composition of available-for-sale and held-to-maturity securities was 94.2% and 5.8% as of September 30, 2008, compared to 92.2% and 7.8% as of December 31, 2007, respectively. For the three and nine months ended September 30, 2008, the yield on the average investment portfolio was 4.97% and 4.94%, respectively, as compared to 4.91% and 4.81% for the same periods in 2007.

The following table summarizes, as of September 30, 2008, the maturity characteristics of the investment portfolio, by investment category. Expected remaining maturities may differ from remaining contractual maturities because obligors may have the right to prepay certain obligations with or without penalties.

Investment Maturities and Repricing Schedule

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(Dollars in thousands)					
Available for Sale (Fair Value):										
U.S. Governmental agencies securities and U.S Government sponsored enterprise securities	$ 2,521	3.99%	$ 19,209	4.86%	$ 2,973	4.25%	$ —	— %	$ 24,703	4.70%
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	204	4.44	425	4.14	16,319	4.87	85,488	4.82	102,436	4.82
Corporate trust preferred securities	—	—	—	—	—	—	3,721	4.61	3,721	4.61
Mutual Funds backed by adjustable rate mortgages	4,440	4.21	—	—	—	—	—	—	4,440	4.21
Fixed rate collateralized mortgage obligations	—	—	—	—	1,409	4.71	17,952	5.52	19,361	5.46
Total available for sale	$ 7,165	4.14	$ 19,634	4.84	$ 20,701	4.77	$ 107,161	4.93	$ 154,661	4.86
Held to Maturity (Amortized Cost):										
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ —	— %	$ —	— %	$ —	— %	$ 3,955	4.80%	$ 3,955	4.80%
Municipal securities	300	4.05	1,951	3.93	2,247	3.71	812	3.89	5,310	3.84
Total held to maturity	$ 300	4.05	$ 1,951	3.93	$ 2,247	3.71	$ 4,767	4.64	$ 9,265	4.25
Total investment securities	$ 7,465	4.14%	$ 21,585	4.76%	$ 22,948	4.67%	$ 111,928	4.92%	$ 163,926	4.83%

The following table shows the Company's investments with gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2008.

	As of September 30, 2008					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars in thousands)					
U.S. Governmental and U.S Government sponsored enterprise agencies securities	$ 6,922	$ (76)	$ —	$ —	$ 6,922	$ (76)
U.S. Governmental agencies and U.S. Government sponsored enterprise mortgage-backed securities	61,856	(540)	8,058	(146)	69,914	(686)
Municipal securities and corporate debt securities	1,016	(22)	—	—	1,016	(22)
Total	$ 69,794	$ (638)	$ 8,058	$ (146)	$ 77,852	$ (784)

As of September 30, 2008, the Company had a total fair value of $77.9 million of securities, with unrealized losses of $784,000. Management believes these unrealized losses are due to a temporary condition, primarily changes in interest rates, and do not reflect a deterioration of the credit quality of the issuer. The investment portfolio is monitored quarterly for credit deterioration. The Company did not hold any FNMA or Freddie Mac preferred stock at September 30, 2008. The corporate trust preferred securities were written down by $7.3 million. The book value of the corporate trust preferred securities was adjusted to $3.7 million. The market value of securities that have been in a continuous loss position for 12 months or more totaled $8.1 million, with unrealized losses of $146,000.

All individual securities that have been in a continuous unrealized loss position at September 30, 2008 had investment grade ratings upon purchase. The issuers of these securities have not, to our knowledge, established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status at September 30, 2008. These securities have decreased in value since their purchase dates as market interest rates have changed. However, the Company has the ability, and management intends, to hold these securities until their fair values recover to cost.

Loan Portfolio

The following table sets forth the composition of the Company's loan portfolio, including loans held for sale, as of the dates indicated:

	September 30, 2008		December 31, 2007	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Real Estate:				
Construction	$ 62,296	3.54%	$ 68,143	3.76%
Vacant land for future development	31,110	1.77	32,738	1.81
Commercial [16]	1,126,176	64.06	1,164,366	64.23
Commercial [17]	336,929	19.17	310,962	17.16
Trade Finance [18]	70,395	4.00	66,964	3.69
SBA [19]	38,069	2.17	70,517	3.89
Other	72	0.00	26	0.00
Consumer	92,981	5.29	98,943	5.46
Total Gross Loans	1,758,028	100.00%	1,812,659	100.00%
Less:				
Allowance for Loan Losses	21,485		20,477	
Deferred Loan Fees	1,488		1,847	
Discount on SBA Loans Retained	1,284		700	
Total Net Loans and Loans Held for Sale	$ 1,733,771		$ 1,789,635	

(16) Real estate commercial loans are loans secured by deeds of trust on real estate.

(17) Includes advances on trust receipts, clean advances, cash advances, acceptances discounted, and documentary negotiable advances under commitments.

(18) Balance includes SBA loans held for sale of $9.4 million and $41.5 million, at the lower of cost or fair value, at September 30, 2008 and December 31, 2007, respectively.

(19) Consists of transactions in process and overdrafts.

The Company's gross loans decreased by $54.6 million, or 3.0%, during the nine months ended September 30, 2008. Net loans declined $55.9 million or 3.1% to $1.73 billion at September 30, 2008 compared to $1.79 billion at December 31, 2007. The decline in net loans is comprised primarily of net decreases in construction real estate loans of $5.8 million, or 8.6%, vacant land loans of $1.6 million, or 5.0%, commercial real estate loans of $38.2 million, or 3.3%, SBA loans of $32.4 million, or 46.0%, consumer loans of $6.0 million, offset by net increase commercial loans of $26.0 million, or 8.4%, trade finance loans of $3.4 million, or 5.1%. These overall decreases were due to the loan sales and payoffs during the nine months ended September 30, 2008.

The reduction in net loans is comprised primarily of net decreases in real estate loans of $45.7 million, or 3.6%, SBA loans of $32.4 million, or (46.0)%, and consumer loans of $6.0 million, or (6.0)% offset by the increase in commercial loans of $26.0 million, or 8.4% and trade finance loans of $3.4 million, or 5.1%. These decreases were due to the loan sales and payoffs during the nine months ended September 30, 2008. Management's decision to sell loans in the second and third quarters of 2008 was intended to improve liquidity and to rebalance the loan portfolio.

As of September 30, 2008, commercial real estate remained the largest component of the Company's total loan portfolio with loans totaling $1.1 billion, representing 64.1% of total loans, compared to $1.2 billion or 64.2% of total loans at December 31, 2007.

Commercial business loans increased to $336.9 million as of September 30, 2008, compared to $311.0 million at December 31, 2007. The increase resulted from management's efforts to continue focusing on the Company's commercial business loan products to meet the needs of the Company's customer base.

Trade finance loans increased by $3.4 million, or 5.1%, to $70.4 million as of September 30, 2008 from $67.0 million at December 31, 2007. This increase in trade finance loans was mainly due to increased loan activity in commercial lines related to letter of credit for correspondent banks.

During the three months ended September 30, 2008, the Company sold SBA loans of $4.3 million while retaining the obligation to service the loans for a servicing fee and to maintain customer relations compared to no sales during the same period in 2007. As of September 30, 2008, the Company was servicing $136.2 million of sold SBA loans, compared to $117.5 million of sold SBA loans as of December 31, 2007. The Company's SBA portfolio decreased to $38.1 million at September 30, 2008, a decrease of $32.4 million, or 46.0%, compared to December 31, 2007. Management's decision to sell loans in the second and third quarters of 2008 was intended to improve liquidity and to rebalance the loan portfolio.

The Company has determined it has no reportable foreign credit risk.

Nonperforming Assets

Nonperforming assets are comprised of loans on nonaccrual status, loans 90 days or more past due but not on nonaccrual status, loans restructured where the terms of repayment have been renegotiated, resulting in a reduction and/or deferral of interest or principal, and Other Real Estate Owned ("OREO"). Management generally places loans on nonaccrual status when they become 90 days or more past due, unless they are fully secured and in process of collection. Loans may be restructured at the discretion of management when a borrower has experienced some change in financial status causing an inability to meet the original repayment terms, but the Company nonetheless believes the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of real property acquired through foreclosure or similar means that management intends to offer for sale.

The following table provides information with respect to the components of the Company's nonperforming assets as of the dates indicated:

	September 30, 2008	December 31, 2007	September 30, 2007
		(Dollars in thousands)	
Nonaccrual loans:			
Real estate:			
Construction	$ 2,152	$ —	$ —
Commercial	—	—	—
Commercial	1,557	1,775	1,428
Consumer	307	457	445
Trade Finance	2,301	—	199
SBA	2,061	4,033	4,535
Total nonperforming loans	8,378	6,265	6,607
Other real estate owned	—	380	—
Total nonperforming assets	$ 8,378	$ 6,645	$ 6,607
Guaranteed portion of nonperforming loans with SBA guarantee	$ 2,485	$ 2,740	2,418
Total nonperforming assets, net of SBA guarantee	$ 5,893	$ 3,905	$ 4,189
Nonperforming loans as a percent of total gross loans	0.48%	0.35%	0.38%
Nonperforming assets as a percent of total loans and other real estate owned	0.48%	0.37%	0.38%
Allowance for loan losses to nonperforming loans	256%	327%	297%

Management's classification of a loan as nonaccrual or restructured is an indication that there is reasonable doubt as to the full collectibility of principal and/or interest on the loan. At this point, the Company stops recognizing interest income on the loan and reverses any uncollected interest that had been accrued but unpaid. If the loan deteriorates further due to a borrower's bankruptcy or similar financial problems, unsuccessful collection efforts or a loss classification, the remaining balance of the loan is then charged off. These loans may or may not be collateralized, but collection efforts are continuously pursued.

Total nonperforming loans increased to $8.4 million as of September 30, 2008 from $6.3 million as of December 31, 2007 and $6.6 million as of September 30, 2007, respectively. The increase from December 31, 2007 to September 30, 2008 was the result of additions from the Company's construction real estate loans of $2.2 million, and trade finance of $2.3 million, primarily offset by a decline in nonperforming SBA loans of $2.0 million.

Nonperforming trade finance loans include one loan relationship with an impairment reserve recorded for $399,000 at September 30, 2008. This loan is also guaranteed by SBA under the Export Working Capital Program (EWCP) through which SBA provided a 75% guarantee on loans underwritten through the program. The guarantee was approximately $1.2 million.

The Company evaluates loan impairment according to the provisions of SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. Under SFAS No. 114, loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate or, alternatively, at the loan's observable market price or the fair value of the collateral if the loan is collateralized, less costs to sell.

The following table provides information on impaired loans:

	As of and for the nine months ended September 30, 2008	As of and for the twelve months ended December 31, 2007
	(Dollars in thousands)	
Impaired loans with specific reserves	$ 3,316	$ 2,127
Impaired loans without specific reserves	2,992	1,150
Total impaired loans	6,308	3,277
Specific reserve on impaired loans	(506)	(100)
Net recorded investment in impaired loans	$ 5,802	$ 3,177
Average total recorded investment in impaired loans	$ 8,285	$ 8,181
Interest income recognized on impaired loans on a cash basis	$ 209	$ 1,361

At September 30, 2008, the Company assessed its loan portfolio and through its analysis, the Company determined that eight loan relationships totaling $6.3 million of which five loans require an impairment reserve on the basis of recent financial performance of the borrowers and projected cash short fall in the event collateral is liquidated to satisfy the debt obligation. Three of the impaired loans were SBA loans totaling $1.0 million. Three of the impaired loans are trade finance loans totaling $1.6 million with impairment reserves of $420,000. The nonperforming trade finance loan relationship of $1.6 million mentioned above is impaired and has a 75% SBA guarantee through the EWCP.

The Company evaluates the loan impairment on all loans identified as impaired based on the present value of expected future cash flows discounted at the loans' effective interest rate, observable market price, or the fair value of the collateral if the repayment of the loan is dependent solely on the underlying collateral.

The Company determined that specific impairment reserves of $506,000 and $100,000 were required at September 30, 2008 and December 31, 2007, respectively.

Allowance for Loan Losses

The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and to quantifiable external factors including commodity and finished good prices as well as acts of nature (earthquakes, floods, fires, etc.) that occur in a particular period. Qualitative factors include the general economic environment in the Company's markets and, in particular, the state of certain industries. Size and complexity of individual credits, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in its methodologies. As the Company adds new products, increases the complexity of the loan portfolio, and expands the geographic coverage, the Company will enhance the methodologies to keep pace with the size and complexity of the loan portfolio. Changes in any of the above factors could have significant impact to the loan loss calculation. The Company believes that its methodologies continue to be appropriate given its size and level of complexity.

The allowance for loan losses reflects management's judgment of the level of allowance adequate to provide for probable losses inherent in the loan portfolio as of the date of the consolidated statements of financial condition. On a quarterly basis, the Company assesses the overall adequacy of the allowance for loan losses, utilizing a disciplined and systematic approach which includes the application of a specific allowance for identified problem loans, a formula allowance for identified graded loans and an allocated allowance for large groups of smaller balance homogeneous loans.

Allowance for Specifically Identified Problem Loans. A specific allowance is established for impaired loans in accordance with SFAS 114. 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. The specific allowance is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Formula Allowance for Identified Graded Loans. Non-homogeneous loans such as commercial real estate, construction, commercial business, trade finance and SBA loans that are not subject to the allowance for specifically identified loans discussed above are reviewed and subject to a formula allowance. The formula allowance is calculated by applying loss factors to outstanding Pass, Special Mention, Substandard and Doubtful loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment because probable loan losses are not identified with a specific loan. In determining the formula allowance, the Company relies on a mathematical calculation that incorporates a twelve-quarter rolling average of historical losses. In order to reflect the impact of recent events, the twelve-quarter rolling average has been weighted. Loans risk rated Pass, Special Mention and Substandard for the most recent three quarters are adjusted to an annual basis as follows:

- the most recent quarter is weighted 4/1;
- the second most recent is weighted 4/2; and
- the third most recent is weighted 4/3.

The formula allowance may be further adjusted to account for the following qualitative factors:

- 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 trend of the volume and severity of past due and classified loans, and trends in the volume of non-accrual loans and troubled debt restructurings, and other loan modifications;
- changes in the quality of the Company's loan review system and the degree of oversight by the directors;
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in the Company's loan portfolio.

Allowance for Large Groups of Smaller Balance Homogeneous Loans. The portion of the allowance allocated to large groups of smaller balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. Large groups of smaller balance homogeneous loans consist primarily of consumer loans to individuals. The allowance for groups of performing loans is based on historical losses over a three-year period. In determining the level of allowance for delinquent groups of loans, the Company classifies groups of homogeneous loans based on the number of days delinquent and other qualitative factors and trends.

The process of assessing the adequacy of the allowance for loan losses involves judgmental discretion, and eventual losses may differ from even the most recent estimates. To assist management in monitoring the allowance for loan losses, the Company's independent loan review consultants review the allowance as an integral part of their examination process.

The following table sets forth the composition of the allowance for loan losses as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Specific (Impaired loans)	$ 506	$ 100
Formula (non-homogeneous)	20,494	19,867
Homogeneous	485	510
Total allowance for loan losses	$ 21,485	$ 20,477

The table below summarizes the activity in the Company's allowance for loan losses for the periods indicated:

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007	Nine Months Ended September 30, 2007
	(Dollars in thousands)		
Balances			
Average total loans outstanding during the period [20]	$ 1,821,449	$ 1,656,842	$ 1,619,267
Total loans outstanding at end of period [20]	$ 1,755,137	$ 1,810,112	$ 1,737,890
Allowance for Loan Losses:			
Balance at beginning of period	$ 20,477	$ 17,412	$ 17,412
Charge-offs:			
Real estate			
Construction	201	—	—
Commercial	319	—	—
Commercial	3,347	2,725	2,032
Consumer	617	218	127
Trade finance	725	—	—
SBA	424	609	84
Total charge-offs	5,633	3,552	2,243
Recoveries			
Real estate	—	—	—
Construction	—	—	—
Commercial	—	—	—
Commercial	109	34	19
Consumer	78	72	54
Trade finance	10	—	—
SBA	114	17	7
Total recoveries	311	123	80
Net loan charge-offs	5,322	3,429	2,163
Provision for loan losses	6,330	6,494	4,370
Balance at end of period	$ 21,485	$ 20,477	$ 19,619
Ratios:			
Net loan charge-offs to average loans	0.30%	0.21%	0.13%
Provision for loan losses to average total loans	0.36	0.39	0.27
Allowance for loan losses to gross loans at end of period	1.22	1.13	1.13
Allowance for loan losses to total nonperforming loans	256	327	297
Net loan charge-offs to allowance for loan losses at end of period	24.77	16.75	11.03
Net loan charge-offs to provision for loan losses	84.08	52.80	49.50

(20) Total loans are net of deferred loan fees and discount on SBA loans sold.

Based on a quarterly migration analysis which evaluates loan portfolio credit quality, the allowance for loan losses grew to $21.5 million as of September 30, 2008 compared to $20.5 million at December 31, 2007. The Company recorded a provision of $2.1 million and $6.3 million for the three and nine months ended September 30, 2008 compared to $2.0 million and $4.4 million for the same periods in 2007, respectively. For the nine months ended September 30, 2008, the Company charged off $5.6 million and recovered $311,000 resulting in net loan charge-offs of $5.3 million, compared to net loan charge-offs of $2.2 million for the same period in 2007. The increase in net loan charge-offs was primarily due to one large commercial loan charge-off of $937,000 in the second quarter of 2008 and a downturn in the economy affecting the Company's small business customers.

Net loan charge-offs as a percentage by loan classification for the nine months ended September 30, 2008 were comprised of commercial loans for 45%, Bank-to-Business (B2B) loans 15%, trade finance 13%, consumer loans 9%, commercial real estate 6%, construction real estate 4% and SBA loans 8%. Net loan charge-offs by business category is as follows: fabric wholesale represented 40%, retail stores 20%, restaurants 13%, other small businesses 13%, grocery markets 10%, and dry cleaners 4%. Approximately 17% of the net charge-offs for the nine months ended September 30, 2008 were outside of the Southern California market.

The Company is operating in a challenging and uncertain economic environment, including generally uncertain national and local conditions. Financial institutions continue to be affected by the softening of the real estate market and constrained financial markets. While the Company has very limited direct exposure to the residential real estate market and has no subprime residential loans or securities backed by such loans, the Company's commercial real estate portfolio as well as its commercial and business loans may be adversely impacted by these trends. As a result of continued declines in real estate values in general, home sales volumes and financial stress on borrowers, the uncertain economic environment, including job losses, interest rate resets on adjustable rate mortgage loans and other factors which could have adverse effects on the Company's borrowers, the Company has adjusted its allowance for loan losses resulting in 1.22% at September 30, 2008 and 1.13% at December 31, 2007, respectively, of gross loans.

Management believes the level of the allowance as of September 30, 2008 is adequate to absorb the estimated losses from any known or inherent risks in the loan portfolio and the loan growth during the period. However, no assurance can be given that economic conditions which adversely affect the Company's service areas or other circumstances may not require increased provisions for loan losses in the future.

The ratio of the allowance for loan losses to total nonperforming loans decreased to 256% as of September 30, 2008 compared to 327% as of December 31, 2007. Management is committed to maintaining the allowance for loan losses at a level that is considered commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. Commercial real estate is the principal collateral for the Company's loans.

Deposits

An important balance sheet component affecting the Company's net interest margin is its deposit base. The Company's average interest bearing deposit cost decreased to 3.83% for the nine months ended September 30, 2008, compared to 4.80% for the same period in 2007. This decrease is primarily due to the decreases in short term rates set by the FOMC, which caused the average rates paid on deposits and other liabilities to decrease.

The Company's use of wholesale funding sources can mitigate, to some extent, the effect of rate sensitive customers who demand higher interest rates because of local market competition. As of September 30, 2008, the Company held wholesale brokered deposits in the amount of $225.2 million at a cost of 2.78% as compared to $70.3 million at a cost of 4.77% at December 31, 2007. The Company also held time certificates of deposit with public units in the amount of $115.0 million at a cost of 1.99% as of September 30, 2008 and $75.0 million at a cost of 4.33% as of December 31, 2007.

Deposits consist of the following:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Demand deposits (noninterest-bearing)	$ 367,171	$ 363,465
Money market accounts and NOW	425,156	244,233
Savings	54,520	54,838
	846,847	662,536
Time deposits		
Less than $100,000	132,074	112,614
$100,000 or more	640,355	802,524
Total	$ 1,619,276	$ 1,577,674

Total deposits increased by $41.6 million or 2.6% to $1.62 billion at September 30, 2008 compared to $1.58 billion at December 31, 2007. This increase was the result of efforts to manage the Company's balance sheet and to improve the performance of the earning assets and funding liabilities portfolios by adding $154.9 million of wholesale brokered deposits for the nine months ended September 30, 2008. These efforts included the use of other funding liabilities such as FHLB borrowings to manage the repricing period of the interest bearing liabilities and replace time deposits over $100,000 which are presently more expensive than wholesale funding.

The following table summarizes the composition of deposits as a percentage of total deposits as of the dates indicated:

	September 30, 2008	December 31, 2007
Demand deposits (noninterest-bearing)	22.68%	23.04%
Money market accounts and NOW	26.26	15.48
Savings	3.37	3.48
Time deposits less than $100,000	8.16	7.14
Time deposits of $100,000 or more	39.53	50.86
Total	100.00%	100.00%

During the first nine months of 2008, non-interest bearing demand deposits increased by $3.7 million, or 1.0%, and represented 22.7% of total deposits at September 30, 2008 compared to 23.0% at December 31, 2007. MMDA and NOW increased by $180.9 million, or 74.1%, rising to 26.3% of total deposits at September 30, 2008 from 15.5% at December 31, 2007. Savings account balances slightly decreased by $318,000, or 0.6%, to 3.4% of total deposits at September 30, 2008 from 3.5% at December 31, 2007. Time deposits less than $100,000, which are classified as core deposits, increased by $19.5 million, or 17.3%, while time deposits of $100,000 or more, decreased by $162.2 million, or 20.2%. Management is currently focusing on increasing core deposits. Time deposits of $100,000 or more, wholesale brokered deposits and FHLB borrowings are considered non-core funding.

Time deposits by maturity dates are as follows at September 30, 2008:

	$100,000 or Greater	Less Than $100,000	Total
	(Dollars in thousands)		
2008	$ 269,989	$ 46,398	$ 316,387
2009	343,849	84,991	428,840
2010	22,601	596	23,197
2011	596	65	661
2012 and thereafter	3,320	24	3,344
Total	$ 640,355	$ 132,074	$ 772,429

Information concerning the average balance and average rates paid on deposits by deposit type for the three and nine months ended September 30, 2008 and 2007 is contained in the tables above in the section titled "Net Interest Income and Net Interest Margin."

Other Borrowed Funds

The Company regularly uses FHLB advances and short-term borrowings, which consist of notes issued to the U.S. Treasury to manage Treasury Tax and Loan payments. The Company's outstanding FHLB borrowings were $201.3 million and $298.5 million at September 30, 2008 and December 31, 2007, respectively, resulting in a decline of $97.2 million. This decrease along with the loan growth was primarily funded by the brokered deposits during the nine months ended September 30, 2008. Outstanding brokered deposits were $225.2 million as of September 30, 2008 compared to $70.3 million as of December 31, 2007. Notes issued to the U.S. Treasury amounted to $889,000 as of September 30, 2008 compared to $1.1 million as of December 31, 2007. The total borrowed amount outstanding at September 30, 2008 and December 31, 2007 was $207.2 million and $299.6 million, respectively.

In addition, the issuance of long-term subordinated debentures of $18.0 million at the end of 2003 in "pass-through" trust preferred securities created another source of funding.

Contractual Obligations

The following table presents, as of September 30, 2008, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date. These contractual obligations, except for the operating lease obligations, are included in the Consolidated Statements of Financial Condition. The payment amounts represent those amounts contractually due to the recipient.

	Remaining 3 months in 2008	2009	2010	2011	2012 & thereafter	Total
			(Dollars in thousands)			
Debt obligations (21)	$ —	$ 5,000	$ —	$ —	$ 18,557	$ 23,557
FHLB advances	9,083	45,343	361	25,381	121,096	201,264
Deposits	319,918	443,576	31,705	6,902	8,021	810,122
Operating lease obligations	887	2,299	2,073	1,314	4,211	10,784
Total contractual obligations	$ 329,888	$ 496,218	$ 34,139	$ 33,597	$ 151,885	$ 1,045,727

(21) Includes principal payment only.

LIQUIDITY AND MARKET RISK/INTEREST RISK MANAGEMENT

Liquidity

The objective of liquidity risk management is to ensure that the Company has the continuing ability to maintain cash flows that are adequate to fund operations and meet its other obligations on a timely and cost-effective basis in various market conditions. Changes in each of the composition of its balance sheet, the ongoing diversification of its funding sources, risk tolerance levels and market conditions are among the factors that influence the Company's liquidity profile. The Company establishes liquidity guidelines and maintains contingency liquidity plans that provide for specific actions and timely responses to liquidity stress situations.

As a means of augmenting the liquidity sources, the Company has available a combination of borrowing sources comprised of FHLB advances, a holding company line of credit, federal funds lines with various correspondent banks, and access to the wholesale markets. The Company believes these liquidity sources to be stable and adequate. At September 30, 2008, the Company was not aware of any information that was reasonably likely to have a material adverse effect on the Company's liquidity position.

The liquidity of the Company is primarily dependent on the payment of cash dividends by its subsidiary, Center Bank, subject to limitations imposed by the laws of the State of California.

As part of the Company's liquidity management, the Company utilizes FHLB borrowings to supplement the Company's deposit source of funds. Therefore, there could be fluctuations in these balances depending on the short-term liquidity and longer-term financing need of the Company. The Company's primary sources of liquidity are derived from financing activities, which include customer and broker deposits, federal funds facilities, and advances from the FHLB.

Because the Company's primary sources and uses of funds are deposits and loans, respectively, the relationship between net loans and total deposits provides one measure of the Company's liquidity. Typically, if the ratio is over 100%, the Company relies primarily on borrowings, wholesale brokered deposits and repayments from the loan portfolio to provide liquidity. The Company's loan to deposit ratio decreased to 107.1% as a result of the decrease in loans and an increase in deposits.

	At September 30, 2008	At December 31, 2007
Net loans	$ 1,733,771	$ 1,789,635
Deposits	1,619,276	1,577,674
Net loan to deposit ratio	107.1%	113.4%

Alternative sources of funds such as FHLB advances and wholesale brokered deposits and other collateralized borrowings provide liquidity as needed from liability sources are an important part of the Company's asset liability management strategy

As of September 30, 2008, the Company's liquidity ratio on its balance sheet, which is the ratio of available liquid funds to net deposits and short-term liabilities, was 4.5%, compared to 5.6% at December 31, 2007. The Company's cash holdings declined as of September 30, 2008 as compared to December 31, 2007. Total available liquidity as of September 30, 2008 was $76.0 million, consisting of cash holdings or balances in due from banks, overnight Fed funds sold, money market funds and unpledged available-for-sale securities. The Company has ample borrowing capacity to fund short-term funding needs.

The Company's net non-core fund dependence ratio was 50.7% under applicable regulatory guidelines, which assumes all certificates of deposit over $100,000 ("Jumbo CD's") as volatile sources of funds. The Company has identified approximately $265 million of Jumbo CD's as stable and core sources of funds based on past historical analysis. The net non-core fund dependence ratio was 35.9% assuming this $265 million is stable and core fund sources and certain portions of money market account as volatile. The net non-core funding dependence ratio is the ratio of net short-term investment less non-core liabilities divided by long-term assets. All of the ratios were in compliance with internal guidelines as of and for the nine months ended September 30, 2008. The Company is focusing on the growth of retail core and time deposits, borrowings and wholesale brokered deposits to meet its liquidity needs in the future.

At September 30, 2008, the Company had $100.0 million available in federal funds lines, $298.7 million in FHLB borrowings and a $20 million line of credit held at the holding company totaling $418.7 million of available funding sources. This does not include the Company’s ability to purchase wholesale brokered deposits, as to which management has set the Company’s limit at 20% of total deposits.

	Borrowing Capacity at September 30, 2008 (dollars in thousands)			
	FHLB	Fed Funds Facility	Holding Co. Line	Total
Total Capacity	$ 499,945	$ 100,000	$ 25,000	$ 624,945
Used	(201,264)	—	(5,000)	(206,264)
Available	$ 298,681	$ 100,000	$ 20,000	$ 418,681

Market Risk/Interest Rate Risk Management

Market risk is the risk of loss from adverse changes in market prices and rates. The Company’s market risk arises primarily from interest rate risk inherent in its lending, investment and deposit taking activities. The Company’s profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company’s earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, Management actively monitors and manages its interest rate risk exposure.

The Company’s strategy for asset and liability management is formulated and monitored by the Company’s Asset/Liability Board Committee (the “Board Committee”). This Board Committee is composed of four non-employee directors and the President. The Board Committee meets quarterly to review and adopt recommendations of the Asset/Liability Management Committee.

The Asset/Liability Management Committee consists of executive and manager level officers from various areas of the Company including lending, investment, and deposit gathering, in accordance with policies approved by the board of directors. The primary goal of the Company’s Asset/Liability Management Committee is to manage the financial components of the Company’s balance sheet to optimize the net income under varying interest rate environments. The focus of this process is the development, analysis, implementation, and monitoring of earnings enhancement strategies, which provide stable earnings and capital levels during periods of changing interest rates.

The Asset/Liability Management Committee meets regularly to review, among other matters, the sensitivity of the Company’s assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, and maturities of investments and borrowings. The Asset/Liability Management Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition, and reports regularly to the Board Committee and the board of directors.

Interest Rate Risk

Interest rate risk occurs when assets and liabilities reprice at different times as interest rates change. In general, the interest the Company earns on its assets and pays on its liabilities are established contractually for specified periods of time.

Market interest rates change over time and if a financial institution cannot quickly adapt to changes in interest rates, it may be exposed to volatility in earnings. For instance, if the Company were to fund long-term fixed rate assets with short-term variable rate deposits, and interest rates were to rise over the term of the assets, the short-term variable deposits would rise in cost, adversely affecting net interest income. Similar risks exist when rate sensitive assets (for example, prime rate based loans) are funded by longer-term fixed rate liabilities in a falling interest rate environment.

The Company's overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and economic value of equity. Economic value of equity is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, the Company simulates the effect of instantaneous interest rate changes on net interest income and economic value of equity ("EVE") on a quarterly basis. The table below shows the estimated impact of changes in interest rates on the Company's net interest income and market value of equity as of September 30, 2008 and June 30, 2008, respectively, assuming a parallel shift of 100 to 300 basis points in both directions.

	Net Interest Income (NII)(22)		Economic Value of Equity (EVE)(23)	
Change in Interest Rates (In Basis Points)	**September 30, 2008 % Change**	**June 30, 2008 % Change**	**September 30, 2008 % Change**	**June 30, 2008 % Change**
+300	10.31%	12.04%	-27.31%	-27.70%
+200	7.25%	8.23%	-17.30%	-16.89%
+100	3.75%	4.24%	-7.78%	-6.87%
-100	-6.10%	-6.82%	5.26%	6.66%
-200	-12.70%	-14.06%	3.09%	8.10%
-300	-8.76%	-9.46%	2.95%	7.18%

(22) The percentage change represents net interest income for twelve months in a stable interest rate environment versus net interest income in the various rate scenarios

(23) The percentage change represents economic value of equity of the Company in a stable interest rate environment versus economic value of equity in the various rate scenarios

All interest-earning assets and interest-bearing liabilities are included in the interest rate sensitivity analysis at September 30, 2008 and June 30, 2008, respectively. At September 30, 2008 and June 30, 2008, respectively, the Company's estimated changes in net interest income and economic value of equity were within the ranges established by the Board of Directors. The reduction in fixed rate loans as a percentage of the total loan portfolio from 58% at June 30, 2008 to 55% at September 30, 2008 during the third quarter of 2008 had the most significant impact on the change in EVE. The Company brought the EVE back into the range established by the Board during the second quarter through the sale of certain fixed rate loans and by repositioning the balance sheet to meet the Company's near-term strategic objectives. The Company will continue its efforts to actively manage the interest rate risk exposure in the balance sheet.

The primary analytical tool used by the Company to gauge interest rate sensitivity is a simulation model used by many community banks, which is based upon the actual maturity and repricing characteristics of interest-rate-sensitive assets and liabilities. The model attempts to forecast changes in the yields earned on assets and the rates paid on liabilities in relation to changes in market interest rates. As an enhancement to the primary simulation model, other factors are incorporated into the model, including prepayment assumptions and market rates of interest provided by independent broker/dealer quotations, an independent pricing model, and other available public information. The model also factors in projections of anticipated activity levels of the Company's product lines. Management believes that the assumptions it uses to evaluate the vulnerability of the Company's operations to changes in interest rates approximate actual experience and considers them reasonable;

however, the interest rate sensitivity of the Company's assets and liabilities and the estimated effects of changes in interest rates on the Company's net interest income and EVE could vary substantially if different assumptions were used or if actual experience were to differ from the historical experience on which they are based.

CAPITAL RESOURCES

Shareholders' equity as of September 30, 2008 was $164.9 million, compared to $157.5 million as of December 31, 2007. The primary sources of increases in capital have been retained earnings, additional common stock issuance as a result of legal settlement and relatively nominal proceeds from the exercise of employee incentive and/or nonqualified stock options. Shareholders' equity is also affected by increases and decreases in unrealized losses on securities classified as available-for-sale. The Company is committed to maintaining capital at a level sufficient to assure shareholders, customers, and regulators that the Company and the Bank are financially sound and are able to support their growth from retained earnings. The Company has sufficient cash and liquidity sources at the holding company level that it does not anticipate a need to upstream dividends from the Bank for the next two quarters to meet the obligation of the holding company such as dividends paid to its shareholders.

The Company is subject to risk-based capital regulations adopted by the federal banking regulators. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposures. The risk-based capital guidelines assign risk weightings to assets both on and off-balance sheet and place increased emphasis on common equity. According to the regulations, institutions whose total risk-based capital ratio, Tier I risk-based capital ratio, and Tier I leverage ratio meet or exceed 10%, 6%, and 5%, respectively, are deemed to be "well-capitalized." The most recent notification from the FDIC in June 2008 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action, and the Company and the Bank were also well capitalized as of September 30, 2008.

The following table compares the Company's and Bank's actual capital ratios at September 30, 2008, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

Risk Based Ratios

	Center Financial Corporation	Center Bank	Minimum Regulatory Requirements	Well Capitalized Requirements
Total Capital (to Risk-Weighted Assets)	11.03%	11.04%	8.00%	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	9.84%	9.86%	4.00%	6.00%
Tier 1 Capital (to Average Assets)	8.71%	8.73%	4.00%	5.00%

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk is included as part of Part I, Item 2 above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Market Risk/Interest Rate Risk Management."

Item 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including the Company's CEO and CFO, of the effectiveness of the design and operation of the disclosure controls and procedures as of September 30, 2008. Based on the evaluation, the Company's CEO and CFO have concluded that the disclosure controls and procedures were effective as of September 30, 2008.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 1: LEGAL PROCEEDINGS

From time to time, the Company is a party to claims and legal proceedings arising in the ordinary course of business. With the exception of the potentially adverse outcome in the litigation herein described, after taking into consideration information furnished by counsel as to the current status of these claims and proceedings, management does not believe that the aggregate potential liability resulting from such proceedings would have a material adverse effect on the Company's financial condition or results of operations.

KEIC Claims—In March 2003, the Bank was served with a complaint filed by Korea Export Insurance Corporation ("KEIC") in Orange County, California Superior Court, entitled Korea Export Insurance Corporation v. Korea Data Systems (USA), Inc., et al. KEIC sought to recover alleged losses from a number of parties involved in international trade transactions that gave rise to bills of exchange financed by various Korean Banks but not ultimately paid. KEIC sought to recover damages of approximately $56 million from the Bank based on a claim that, in its capacity as a presenting bank for these bills of exchange, the Bank acted negligently in presenting and otherwise handling trade documents for collection.

Korean Bank Claims—In July 2006, the Bank was served with cross-claims from five of the nine Korean banks who are also third party defendants in the KEIC action. The Korean banks were Citibank Korea, Inc. (formerly known as KorAm Bank), Industrial Bank of Korea, Kookmin Bank, Korea Exchange Bank and Hana Bank (hereinafter the Korean Banks). The Korean Banks alleged, in both suits, various claims for breach of contract, negligence, negligent misrepresentation and breach of fiduciary duty in the handling of similar but a different set of documents against acceptance transactions that occurred in the years 2000 and 2001. The total amount of the Korean Bank claims was approximately $46.1 million plus interest and punitive damages. These claims were in addition to KEIC's claims against the Bank in the approximate amount of $56 million originally filed in March 2003.

Counterclaims by Center Bank—In June 2004, the Bank filed cross-complaints against KDS Korea, KDS America, KDS USA, and nine Korean Banks for negligence, fraudulent concealment and equitable indemnity as well as other claims.

Settlement Agreements Concerning Above Claims

On August 6, 2008 the Bank entered into a Settlement Agreement with KEIC (the "KEIC Settlement Agreement "). Pursuant to the KEIC Settlement Agreement, KEIC dismissed with prejudice its complaints against the Bank in both the Superior Court of the State of California and in federal court and to assign to Center Bank its rights and claims as against certain other defendants. In consideration of its dismissal of such claims and assignment of such rights, the Bank agreed to pay consideration of $10.5 million to KEIC, consisting of cash consideration of $6.5 million in scheduled installments over a three-year period and the issuance of 415,369 shares of the common stock of the Company valued at $4.0 million.

Pursuant to separate agreement, KEIC and nine Korean banks mutually dismissed all claims against one another arising out of or related to the KEIC Action.

The Bank also entered into a settlement agreement with Korea Data Systems (USA), Inc ("KDS-USA") and Lap Shun (John) Hui, pursuant to which KDS USA agreed to pay the Bank a total of $2.5 million in cash payable in scheduled installments over a two-year period in consideration for Center Bank dismissing with prejudice all claims against KDS-USA.

FICB Claims

On September 18, 2007, the Company entered into a definitive agreement to acquire First Intercontinental Bank ("FICB"), a Georgia State-chartered commercial bank with assets of approximately $232 million as of June 30, 2007, for an aggregate purchase price of approximately $65.2 million. Under the agreement, the Company was to acquire all outstanding shares of FICB for consideration consisting of 60% cash and 40% in the Company's common stock. FICB shareholders were to be given the option to elect to receive cash, stock or a combination of both. Included in the total purchase price, the Company was going to pay approximately $3.6 million related to the outstanding stock options of FICB.

On March 28, 2008, the Company received a notice from FICB asserting that FICB was entitled to, and was in fact terminating, the definitive agreement under which the Company was to have acquired FICB. On April 8, 2008, FICB filed a complaint in the U.S. District Court in Atlanta alleging that the Company breached the definitive agreement and demanded liquidated damages of $3.1 million. The Company believes that FICB is in breach of the definitive agreement and, on May 2, 2008, filed a cross complaint on FICB to recover liquidated damages of $3.1 million. Although the Company believes that it has meritorious defenses and counter claims against FICB and intends to vigorously defend this lawsuit and to prosecute the counterclaims, management cannot predict the outcome of this litigation.

Item 1A: RISK FACTORS

There have been no material changes in the Risk Factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 as amended by the Form 10-Q for the quarter ended June 30, 2008, except that the following Risk Factor is modified due to the settlement of the KEIC litigation in the third quarter ended September 30, 2008:

The following Risk Factor has been modified to read in full as follows:

- **Adverse developments in the Company's litigation could negatively impact the Company's results of operations**.

  From time to time, the Company or the Bank is involved in litigation. If litigation arises, the Company or the Bank will vigorously enforce and defend its rights. Litigation may result in significant expense to us and divert the efforts of the Company's or the Bank's management personnel from their day-to-day responsibilities. In addition, in the event of an adverse result in litigation, the Company or the Bank could also be required to pay substantial damages.

Item 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

Item 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

Item 5: OTHER INFORMATION

Not applicable

Table of Contents

Item 6: EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization dated September 18, 2007 by and between Center Financial Corporation and First Intercontinental Bank[1]
3.1	Restated Articles of Incorporation of Center Financial Corporation[2]
3.2	Amended and Restated Bylaws of Center Financial Corporation[2]
10.1	Employment Agreement between Center Financial Corporation and Jae Whan Yoo effective January 16, 2007 [3]
10.2	2006 Stock Incentive Plan, as amended[4]
10.3	Lease for Corporate Headquarters Office[1]
10.4	Indenture dated as of December 30, 2003 between Wells Fargo Bank, National Association, as Trustee, and Center Financial Corporation, as Issuer[5]
10.5	Amended and Restated Declaration of Trust of Center Capital Trust I, dated as of December 30, 2003 [4]
10.6	Guarantee Agreement between Center Financial and Wells Fargo Bank, National Association dated as of December 30, 2003 [5]
10.7	Deferred compensation plan and list of participants[6]
10.8	Split dollar plan and list of participants[6]
10.9	Survivor income plan and list of participants[6]
10.10	Settlement Agreement dated August 6, 2008 by and between Center Bank and Korea Export Insurance Corporation (filed herewith)
10.11	Stock Purchase Agreement dated August 6, 2008 by and between Center Bank, Center Financial Corporation and Korea Export Insurance Corporation (filed herewith)
11	Statement of Computation of Per Share Earnings (included in Note 9 to Interim Consolidated Financial Statements included herein.)
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)

[1] Filed as an Exhibit of the same number to the Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference

[2] Filed as an Exhibit to the Form 8-K filed with the Commission on May 12, 2006 and incorporated herein by reference

[3] Filed as an Exhibit to the Form 8-K filed with the Commission on February 1, 2007 and incorporated herein by reference

[4] Filed as an Exhibit to the Form 10-Q for the quarterly period ended June 30, 2007 and incorporated herein by reference

[5] Filed as an Exhibit Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference

[6] Filed as an Exhibit to the Form 10-Q for the quarterly period ended March 31, 2006 and incorporated herein by reference

Table of Contents

SIGNATURES

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

Center Financial Corporation

Date: October 22, 2008

By: /s/ JAE WHAN YOO

Jae Whan Yoo
President & Chief Executive Officer

Date: October 22, 2008

By: /s/ LONNY D. ROBINSON

Lonny D. Robinson
Executive Vice President & Chief Financial Officer

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into this sixth day of August, 2008, at Los Angeles, California, by and between Korea Export Insurance Corporation, a Korean corporation established by the Government of Korea (KEIC), and Center Bank, formerly known as California Center Bank, a California banking corporation (Center Bank), which is a wholly-owned subsidiary of Center Financial Corporation ("CFC"). KEIC and Center Bank agree as follows:

I. RECITALS

A. KEIC is an export credit agency of the Government of Korea, with its headquarters in Seoul, Korea. Center Bank is a California banking corporation, with its headquarters in Los Angeles, California.

B. On or about February 25, 2003, KEIC filed a first amended complaint in the Orange County Superior Court, styled as "KEIC vs. Korea Data Systems (USA), Inc., et al.," Case No. 02CC06589 ("the Orange County Action") whereby KEIC asserted causes of action against Center Bank for alleged negligence and negligent misrepresentation arising out of Center Bank's handling of bill of exchange collection transactions for ten separate Korean banks insured by KEIC. The Orange County action was filed by KEIC as a subrogation action for the recovery of losses sustained by the Korean banks following KEIC's payment of insurance claims made by the Korean banks.

C. The Orange County action was filed by KEIC relating to insured losses of approximately $63 million relating to 167 bills of exchange issued by Korea Data Systems Co., Ltd., a Korean corporation (KDS-Korea). These 167 bills of exchange variously listed as drawees five different California companies that purportedly were purchasing computer monitors from KDS-Korea.

D. The Orange County Action was filed by KEIC against five defendants, including Korea Data Systems (USA), Inc. (KDS-USA); Center Bank; Arsys Innotech Corporation (Arsys); Princeton Graphic Systems (Princeton); and Waffer International Corporation (Waffer).

E. KEIC has pending claims against KDS-USA in the Orange County action for (1) approximately $7.5 million owed by KDS-USA on 17 bills of exchange accepted under its own name, and (2) approximately $56 million for fraudulent concealment relating to its conduct with respect to the processing for collection of the remaining 150 bills of exchange for which the drawees were Arsys, Princeton, Waffer and Memtek Products, Inc. (Memtek), respectively.

F. KEIC has a pending claim against Arsys for approximately $10.4 million in the Orange County Action for payment owed on 28 bills of exchange.

G. KEIC previously asserted claims against Princeton and Waffer in the Orange County Action but those claims have become moot due to the prior filing of bankruptcy petitions by those entities.

H. The Orange County Action has given rise to various pending cross-complaints, and Center Bank is either a cross-complainant or a cross-defendant in various of those cross-actions. KEIC is not a party to any of the cross-complaints.

I. On or about December 28, 2005, KEIC also filed an action against Center Bank, KDS-USA and Arsys in the United States District Court, Central District of California, Southern Division, styled as "Korea Export Insurance Corporation v. Center Bank, et al.," USDC Case No. SACV05-1270 AHS (ANx) ("the Federal Action"). The Federal Action was filed as a duplicative lawsuit to the Orange County action as a result of jurisdictional issues raised with respect to the Orange County Action. In December 2006, the California Court of Appeal issued a decision declaring that the Orange County Superior Court had jurisdiction over the KEIC claims against Center Bank. Accordingly, on February 5, 2007 the Federal Action was stayed. The stay order is currently in effect.

J. The purpose of this Settlement Agreement is to resolve once and for all time the claims that KEIC has asserted against Center Bank in the Orange County Action and the Federal Action. Pursuant to this Settlement Agreement, KEIC is making an assignment to Center Bank of its pending claims against KDS-USA and Arsys, and it is therefore contemplated that Center Bank will continue to pursue those assigned claims and that it also may be engaged in ongoing litigation with respect to one or more cross-complaints in the Orange County Action and the Federal Action.

II. CONSIDERATION

Pursuant to and in furtherance of this Settlement Agreement, KEIC and Center Bank mutually promise to provide consideration to each other as follows:

A. The following consideration shall be provided to KEIC by Center Bank:

Payment of cash and stock having a total value of $10.5 million pursuant to the following requirements:

1. Total cash consideration shall be $6.5 million.

2. Payment in stocks shall be made by shares of common stock of CFC having a value of $4.0 million.

B. Center Bank's $6.5 million cash payment shall be made as follows:

1. The sum of $2 million shall be paid to KEIC within 10 days of the date of signing this Settlement Agreement;

2. An additional sum of $1 million shall be paid to KEIC no later than one year following the due date of the initial payment described in B.1 above;

3. A second additional sum of $1 million shall be paid to KEIC no later than two years following the due date of the initial payment described in paragraph B.1 above;

4. A final cash installment payment of $2.5 million shall be paid to KEIC no later than three years following the due date of the initial payment described in paragraph B.1, provided, however, that Center Bank may defer making this last $2.5 million cash payment, or some portion of it, for up to a maximum period of an additional two years during which time the said payment obligation of Center Bank on such unpaid balance shall bear interest as specified below.

5. The interest to be paid by Center Bank to KEIC upon Center Bank's election to defer payment of the cash installment of $2.5 million, or some portion thereof, pursuant to paragraph II(B)(4) above, shall be a simple per annum interest rate calculated as one half of the sum of Center Bank's one year term certificate of deposit interest rate and KEIC's fund yield rate, as disclosed on KEIC's internet homepage, for the prior ending fiscal year.

6. All cash payments by Center Bank shall be in U. S. Dollars. If any payment is remitted in Korean Won, the exchange rate for conversion of U.S. Dollars to Korean Won will be the market average rate in the Korean currency market on the date prior to the date that Center Bank remits its payment to KEIC. Cash payments by Center Bank in US Dollars should be made to KEIC's account at Kookmin Bank, account number 001568-03-100696, bank cord CZNBKRSE, or such other bank account as directed by KEIC. Payments in Korean Won should be made to KEIC's account at Kookmin Bank, account number 344-04-0001-541, or such other bank account as directed by KEIC.

C. Center Bank's Common Stock Payment

1. Within fifteen days after the date of signing this Settlement Agreement, Center Bank shall deliver to KEIC shares of CFC common stock having a value of $4 million (the "Shares"). The Shares will be issued by CFC pursuant to a private placement of securities and will not be registered under the Securities Act of 1933, as amended (the "Act"). The Shares will be restricted securities under the federal securities laws inasmuch as they are being issued by CFC in a transaction not involving a public offering and under such laws and applicable regulations such securities may be resold without registration under the Act, only in limited circumstances. In this connection, KEIC represents that it is familiar with SEC Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

2. The price of the Shares delivered to KEIC pursuant to this Settlement Agreement shall be the average closing price of CFC's common stock over the last thirty calendar days from July 3rd, 2008 to August 1st, 2008, which is $9.63.

3. With respect to the Shares provided to KEIC pursuant to this Settlement Agreement, KEIC shall not transfer any of the Shares for a period of one year following issuance of the Shares by CFC. This one year holding period for the Shares includes the six month holding period under SEC Rule 144 in connection with the resale of restricted stock of a reporting issuer by a non-affiliate.

4. KEIC shall exercise in good faith the voting rights represented by KEIC's stock ownership in accordance with the voting recommendations of the Board of Directors of CFC. This voting agreement will be in effect for a one year period after the Shares are issued to KEIC. The voting agreement will not apply to subsequent holders who acquire the Shares from KEIC pursuant to the terms of this Agreement.

5. Center Bank agrees that it will promptly provide an opinion of counsel for resales made by KEIC of the Shares pursuant to Rule 144.

6. If KEIC conducts a block sale of more than 50,000 Shares within any 30 day period to a third party that is not a sale in the public stock market (subject to compliance with all federal and state securities laws), KEIC must provide advance notice of the sale(s) to Center Bank. Such third party sale(s) must be set forth in written agreements with the price(s) pre-settled before the transaction date. The notice to Center Bank must include relevant information about the sale(s) such as the proposed date of the sale(s), the identity of the buyer(s), the number of Shares to be sold, and the price(s). Notwithstanding the above, if any of the written agreements with the third party purchaser(s) require confidentiality regarding the terms of the sale, KEIC shall not be required to provide notice of the sale or any of its terms to Center Bank.

D. KEIC shall provide consideration to Center Bank for this Settlement Agreement as follows:

1. Forthwith upon execution of this Settlement Agreement KEIC shall dismiss with prejudice its First Amended Complaint on file in the Orange County Action as against Center Bank only.

2. KEIC shall enter into a separate stipulation and agreement with Center Bank to request a dismissal with prejudice, as to Center Bank only, in the Federal Action described in paragraph I(I) above, with both parties bearing their own respective costs and attorneys' fees incurred therein.

3. KEIC shall, and does hereby, assign to Center Bank all of its known and unknown rights and claims as against KDS-USA and Arsys, including those rights and claims that have been or could have been asserted in the Orange County Action or in the Federal Action described herein, including all rights as against any affiliated or non-affiliated person or entity who may be liable for the conduct of KDS-USA and/or Arsys, respectively, as to the assigned claims. In furtherance of this assignment, KEIC shall execute a separate notice of assignment, as reasonably necessary and appropriate, to allow Center Bank to pursue the assigned claims.

4. With respect to the assigned claims described in paragraph II(D)(3) above, KEIC shall cooperate with Center Bank by producing witnesses and documents in response to litigation discovery requests and as otherwise reasonably requested by Center Bank to prosecute the claims in a trial or other proceeding, such as an arbitration hearing or mediation. KEIC shall also provide documents and witnesses, as reasonably requested by Center Bank, in response to requests for evidence by Center Bank in connection with Center Bank's ongoing litigation relating to the cross-complaints in the Orange County Action, including with respect to the cross-complaints involving the Korean negotiating banks. It is expressly agreed and understood that KEIC's duty of cooperation as set forth in this paragraph is conditioned upon Center Bank's tender to KEIC of payment for all actual expenses as reasonably may be incurred and/or are to be incurred by KEIC in providing such cooperation.

5. With respect to the assigned claims described in paragraph II(D)(3) above, KEIC makes no representation or warranty whatsoever as to the viability and/or enforceability of said claims, and in this respect, Center Bank assumes for itself all such risks as may be associated therewith in pursuing said assigned claims.

6. Center Bank may continue to prosecute the Orange County Action and/or the Federal Action in the name of KEIC, at its discretion. It is expressly agreed and understood, however, that Center Bank is solely responsible for all further costs and attorneys' fees incurred by Center Bank with respect to the prosecution of said assigned claims immediately upon the execution of this Settlement Agreement, and it is further expressly agreed and understood that immediately upon the signing of this Settlement Agreement Center Bank shall be solely responsible to retain, appoint and compensate its own attorneys to prosecute the assigned claims.

III. RELEASE BY KEIC

A. In consideration of all promises and agreements recited herein, KEIC does hereby release, acquit and forever discharge Center Bank and its attorneys, agents, employees, directors, personal representatives, successors or predecessors-in-interest, of and from any and all actions, claims, demands, costs, expenses and compensation, on account of, or in any way growing out of, any economic damage or financial loss or damage, including any and all tangible and non-tangible damage whatsoever, relating to or resulting from or by reason of the conduct of said releasees and each of them occurring at any time prior hereto, the facts of which, in whole or in part, are alleged in the Orange County Action and in the Federal Action described above.

B. It is understood and acknowledged that the claims of KEIC as are hereby being released are derivative of the claims of ten Korean negotiating banks from whom KEIC has acquired its right to assert the above-mentioned claims by virtue of express assignment and/or equitable subrogation rights. It is further understood and acknowledged that the said ten Korean negotiating banks, namely, Korea Exchange Bank; Hana Bank; Citibank Korea, successor-in-interest and/or formerly known as KorAm Bank; Industrial Bank of Korea; Kookmin Bank, on its own behalf and as successor-in-interest by merger to H&CB Bank; SC First Bank, successor-in-interest and/or formerly known as Korea First Bank; Pusan Bank; Shinhan Bank; and Daegu Bank; are parties to the Orange County Action and the Federal Action by virtue of cross-complaints and cross-actions asserted therein whereby the said ten Korean negotiating banks and/or one or more of them, on the one hand, and Center Bank, on the other hand, are in an adversarial relationship whereby all of said parties are asserting claims in the said litigation, including for damages and/or recovery of litigation costs and expenses. In connection therewith, it is expressly agreed and understood that this release by KEIC of Center Bank is not intended to and does not extend to or in any way apply to any claim by any of the ten Korean negotiating banks identified in this paragraph as asserted by said banks in the Orange County Action and/or the Federal Action.

C. With respect to the release set forth in paragraph III(A) above, KEIC acknowledges and agrees that it is waiving all rights under Section 1542 of the *California Civil Code,* which provides as follows:

"CERTAIN CLAIMS NOT AFFECTED BY GENERAL RELEASE – A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release which, if known by him, must have materially affected his settlement with debtor."

IV. OTHER TERMS AND CONDITIONS

A. KEIC and Center Bank agree to use good faith efforts to develop a mutually beneficial business relationship and to cooperate, as opportunities provide, in developing future business opportunities.

B. The parties hereto understand and agree that this is a release and settlement of disputed claims and that no admission of liability is made by any party by virtue of entering into this Settlement Agreement, and that, in fact, any and all such liability is expressly repudiated and denied.

C. Except as otherwise potentially may be required of Center Bank pursuant to paragraph II(D)(4) above (with respect to payment to KEIC of reasonable expenses relating to its providing of cooperation to Center Bank in connection with assigned claims), the parties agree, as between themselves only, to each bear all of their own expenses and attorneys' fees incurred in connection with the Orange County Action and the Federal Action.

D. KEIC represents and warrants that it has neither assigned or transferred nor purported to assign or transfer to any other party any of the rights which are being assigned and transferred to Center Bank pursuant to this Settlement Agreement.

E. The undersigned parties to this Settlement Agreement each represents that it has the right, power, legal capacity and authority to enter into and perform the obligations under this Settlement Agreement and to bind its successors, administrators and assigns. Each party has been represented in negotiations for and in preparation of this Settlement Agreement by legal counsel of its own choosing, has had this Settlement Agreement fully explained by such counsel, and is fully aware of the contents of this Settlement Agreement and the legal effect thereof.

F. This Settlement Agreement contains the entire understanding of the parties and it is understood and agreed that there are no representations, covenants or undertakings other than those expressly set forth herein. Each party acknowledges that no other party or representative of any other party has made any promise, representation or warranty whatsoever, except as set forth herein, to induce any such party to execute this Settlement Agreement, and each party acknowledges that it has not executed this Settlement Agreement in reliance on any such promise, representation, or warranty not specifically contained herein.

G. This Settlement Agreement applies to and is binding upon all successors-in-interest to each respective party, including all executors, receivers, trustors, trustees, beneficiaries, assignees, partners, partnerships, parent, subsidiary, affiliated and related entities, officers, directors, principals, agents, employees, servants, representatives, and all persons, firms, associations and/or corporations connected with them, including, without limitation, their insurers, sureties and attorneys.

H. This Settlement Agreement shall in all respects be interpreted, enforced and governed by laws of the State of California. Any claim for breach of this Settlement Agreement or to otherwise seek enforcement of its provisions shall be subject to the jurisdiction of, and venue in, the state and/or federal courts located in the State of California.

I. In the event that any one or more of the provisions of this Settlement Agreement shall be held invalid, illegal, or unenforceable, then each such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Settlement Agreement shall be construed by disregarding the invalid, illegal, or unenforceable provision or provisions.

J. In any action brought to enforce the terms and provisions of this Settlement Agreement, the prevailing party shall be entitled to recover from the other party all of its attorneys' fees and expenses reasonably incurred in the prosecution and/or defense of any such action.

K. Each party agrees to execute and deliver such other documents and instruments and to take such further action as reasonably may be necessary to fully carry out the intent and purposes of this Settlement Agreement.

L. This Settlement Agreement is a product of negotiation and preparation by and between the parties and their respective attorneys. This Settlement Agreement shall not be deemed to have been prepared or drafted by one party or another, or its attorneys, and shall be construed accordingly.

M. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original and both of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereby enter into and execute this Settlement Agreement effective as of the date first written above.

DATED: 8/6/08

KOREA EXPORT INSURANCE CORPPORATION

By: */s/ WOO-SEOK LEE*
WOO-SEOK LEE
EXECUTIVE DIRECTOR

DATED: 8/6/08

CENTER BANK

By: */s/ JAE WHAN YOO*
JAE WHAN YOO
PRESIDENT & CHIEF EXECUTIVE OFFICER

APPROVED AS TO FORM AND CONTENT:

DATED: 8/6/08

LEE, HONG, DEGERMAN, KANG & SCHMADEKA

By: */s/ SIMON HONG*
SIMON HONG

DATED: 8/6/08

BRYAN CAVE LLP

By: */s/ ERIC D. OLSON*
ERIC D. OLSON

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement is made as of August 6, 2008, by and between Center Bank, a California banking corporation ("**Center Bank**"); Center Financial Corporation, a California corporation which owns 100% of the issued and outstanding shares of Center Bank (**"CFC"**); and Korea Export Insurance Corporation, a Korean corporation established by the Government of Korea (**"KEIC"**), with reference to the following:

RECITALS

WHEREAS, Center Bank and KEIC have entered into a Settlement Agreement of even date herewith (the "**Settlement Agreement**"), pursuant to which, among other things, Center Bank has agreed to deliver to KEIC shares of the authorized but unissued common stock of CFC, as set forth herein;

WHEREAS, the parties hereto desire to provide for the issuance and sale of such shares by CFC to KEIC in accordance with the terms hereof;

NOW, THEREFORE, the parties agree as follows:

1. On August 21, 2008, at 10:00 A.M. Pacific Time, or on such other date and time as the parties hereto shall mutually agree (the **"Closing Date"**), for good and valuable consideration, the receipt of which is hereby acknowledged, CFC shall issue and sell to KEIC, 415,369 shares of its authorized but unissued common stock (the "**Settlement Shares**"). The closing of the issuance and sale of the Settlement Shares (the "**Closing**") will take place at the offices of Center Bank at 3435 Wilshire Boulevard, Suite 700, Los Angeles, California 90010. At the Closing CFC will deliver to KEIC a certificate or certificates representing all of the Settlement Shares registered in the name "Korea Export Insurance Corporation."

2. KEIC acknowledges that the Settlement Shares are not being and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or under the securities laws of any state or other jurisdiction; that the Settlement Shares are being offered and will be sold in reliance on exemptions from the registration requirements thereof, which reliance is predicated in part on the acknowledgements, agreements and representations of KEIC in this Agreement; and that CFC does not contemplate filing and is not legally required to effect any such registration. KEIC further acknowledges that the Settlement Shares must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available; and KEIC represents that it is familiar with Rule 144 promulgated under the Securities Act ("**Rule 144**") and understands the resale limitations imposed thereby and under the Securities Act. CFC covenants and agrees that upon receipt of notice of a sale of the Settlement Shares to be made by KEIC in compliance with Rule 144, and receipt of all documentation which CFC's counsel deems reasonably necessary to evidence compliance with Rule 144, it will promptly provide, or cause to be provided, an opinion of counsel to its transfer agent, with respect to such proposed sale.

3. KEIC acknowledges that it heretofore has received, or CFC or Center Bank has given KEIC access to, or advised KEIC how to access, all such information concerning CFC or Center Bank as KEIC deems necessary or appropriate to enable it to evaluate the business and financial merits and risks inherent in an investment in the Settlement Shares, including, but not limited to, the documents set forth in Schedule A annexed hereto. KEIC represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Settlement Shares, and that it is able to bear the risks of such investment. KEIC acknowledges that investment in the Settlement Shares involves substantial risks. KEIC represents that it is able to hold the Settlement Shares for an indefinite period of time; that it has adequate means, other than the Settlement Shares, of providing for its current and foreseeable needs; that it has no foreseeable need to sell or otherwise dispose of the Settlement Shares; and that it has sufficient net worth to sustain a loss of its entire investment in the Settlement Shares in the event such loss should occur.

4. KEIC represents that it is entering into this Agreement and is acquiring the Settlement Shares solely for its account; that the Shares are being acquired for investment and not with a view to, or for sale in connection with, any distribution thereof; and that it has no present intention of selling or distributing any of the Settlement Shares. KEIC agrees that it will not sell, distribute, transfer, pledge, hypothecate or otherwise dispose of any of the Settlement Shares in such a manner as will violate the Securities Act or any applicable rules or regulations thereunder or any other federal securities laws, any federal banking laws or the securities or banking laws of any state or other jurisdiction.

5. CFC and Center Bank jointly or severally represent and warrant to KEIC that:

(i) CFC is a California corporation, validly existing and in good standing under the laws of the State of California.

(ii) Center Bank is a California banking corporation, validly existing and in good standing under the laws of the State of California.

(iii) Each of Center Bank and CFC has all power and authority necessary to enable it to enter into this Agreement and carry out the transactions contemplated by this Agreement. All actions necessary to authorize each of Center Bank and CFC to enter into this Agreement and carry out the transactions contemplated by each of them have been taken. This Agreement has been duly executed by each of Center Bank and CFC and is a valid and binding agreement of each of Center Bank and CFC, enforceable against each of them in accordance with its terms.

(iv) Neither the execution and delivery of this Agreement or of any document to be delivered in accordance with this Agreement nor the consummation of the transactions contemplated by this Agreement or by any document to be delivered in accordance with this Agreement will violate, result in a breach of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under the Articles of Incorporation or By-laws of either Center Bank or CFC, or under any agreement or instrument to which either Center Bank or CFC is a party or by which either is bound, under any law, or any order, rule or regulation of any court or governmental agency or other regulatory organization having jurisdiction over either Center Bank or CFC.

(v) No governmental filings, authorizations, approvals or consents, or other governmental action, are required to permit either Center Bank or CFC to fulfill all its obligations under this Agreement.

(vi) The Settlement Shares, when issued as provided for in this Agreement, will be duly and validly issued, full paid and non-assessable.

6. KEIC represents and warrants to CFC and Center Bank that:

(i) KEIC is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was formed.

(ii) KEIC has all power and authority necessary to enable it to enter into this Agreement and carry out the transactions contemplated by this Agreement. All actions necessary to authorize KEIC to enter into this Agreement and carry out the transactions contemplated by it have been taken. This Agreement has been duly executed by KEIC and is a valid and binding agreement of KEIC, enforceable against KEIC in accordance with its terms.

(iii) Neither the execution and delivery of this Agreement or of any document to be delivered in accordance with this Agreement nor the consummation of the transactions contemplated by this Agreement or by any document to be delivered in accordance with this Agreement will violate, result in a breach of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under the organizational and governing documents of KEIC, or under any agreement or instrument to which KEIC is a party or by which it is bound, or under any law, or any order, rule or regulation of any court or governmental agency or other regulatory organization having jurisdiction over KEIC.

(iv) No governmental filings, authorizations, approvals or consents, or other governmental action, are required to permit KEIC to fulfill all its obligations under this Agreement.

(v) For a period of one year from and after the Closing Date, KEIC will not sell, transfer, assign, convey, encumber or dispose of any of the Settlement Shares or of any securities which may be paid as a dividend or otherwise distributed thereon or with respect thereto or issued or delivered in exchange or substitution therefore (collectively, the "**KEIC Shares**").

(vi) With respect to any proposed offer and sale of 50,000 or more shares of the common stock of CFC in any offer and sale other than a registered public offering or a sale pursuant to Rule 144 (a "**Block Sale**"), KEIC will give CFC prior written notice of such proposed Block Sale, which notice shall include the proposed sale date, the name of the buyer(s), the number of shares of common stock of CFC proposed to be sold by KEIC, the purchase price of such shares and any other material terms with respect to the proposed Block Sale. Notwithstanding the above, if any of the written agreements with the third party purchaser(s) require confidentiality regarding the terms of the sale, KEIC shall not be required to provide notice of the sale or any of its terms to Center Bank.

(vii) For a period of one year from and after the Closing Date, at any meeting of shareholders of CFC, or at any adjournment thereof, or any other circumstances upon which KEIC's vote, consent, or other approval is sought as a shareholder of CFC, KEIC will vote (or cause to be voted) all of the KEIC Shares in accordance with the recommendation of the Board of Directors of

CFC; provided, however, that if KEIC in good faith determines that voting the KEIC Shares in accordance with the recommendation of the CFC Board of Directors would endanger or impair any significant proprietary interest of KEIC, then KEIC may notify CFC of its determination not to vote the KEIC shares in accordance with the CFC Board recommendation ("**Impairment Determination**"). Such notice of Impairment Determination shall indicate the nature and amount of any proprietary interest of KEIC that may be impaired by the CFC Board recommendation and such notice must be given by KEIC to CFC within 10 days following KEIC's receipt of the notice of meeting, or within 10 days from the date of receipt by KEIC of the request for written consent or other approval.

7. KEIC acknowledges and agrees that the certificate(s) representing the KEIC Shares may bear a restrictive legend in substantially the following form:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED OR HYPOTHECATED WITHOUT PRIOR REGISTRATION UNDER SAID ACT OR AN EXEMPTION THEREFROM ESTABLISHED TO THE SATISFACTION OF THE ISSUER."

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VOTING AND TRANSFER RESTRICTIONS CONTAINED IN A STOCK PURCHASE AGREEMENT BY AND AMONG CENTER FINANCIAL CORPORATION, CENTER BANK AND KOREA EXPORT INSURANCE CORPORATION DATED AUGUST 6, 2008, A COPY OF WHICH AGREEMENT IS ON FILE WITH THE ISSUER. ALL VOTING AND TRANSFER RESTRICTIONS UNDER THE STOCK PURCHASE AGREEMENT WILL TERMINATE ON AUGUST 21, 2009."

KEIC acknowledges and agrees that CFC may place stop orders on the certificates evidencing the KEIC Shares with its transfer agent to the same effect as the above legend.

8. KEIC acknowledges and agrees that CFC and Center Bank could not be made whole by monetary damages in the event of any default by the undersigned of the terms and conditions set forth in this Agreement. It is accordingly agreed and understood that each of CFC and Center Bank, in addition to any other remedy which it may have at law or in equity, shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and specific performance to enforce the terms and provisions hereof in any action instituted in any state or federal court having appropriate jurisdiction located in California.

9. In any action brought to enforce the terms and provisions of this Agreement, the prevailing party shall be entitled to recover from the other party all of its attorney's fees and expenses reasonably incurred in the prosecution and/or defense of any such action.

10. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

11. All notices or other communications hereunder shall be in writing and shall be deemed properly given if delivered in person or sent by facsimile (with proof of receipt at the facsimile number to which it is required to be sent), on the business day after the day on which it is delivered to a major nationwide delivery service for overnight delivery, or on the third business day after the day on which it is mailed by first class mail from within the United States of America, to the following addresses personally or when deposited in the United States mail for delivery by registered or certified mail (return receipt requested), postage and fees prepaid, to the parties at the following addresses (or at such other address as shall be specified by like notice; provided that notice of a change of address shall be effective only upon receipt thereof):

If to KEIC:

Korea Export Insurance Corporation
915 Wilshire Blvd., Suite 1640
Los Angeles, California 90017
Attn: Byung-Yang Choo, Chief Representative of Los Angeles Office
Fax: (213) 622-5316

If to Center Bank or CFC:

Center Bank
Center Financial Corporation
3435 Wilshire Boulevard, Suite 700
Los Angeles, California 90010
Attn: Lisa K. Pai, General Counsel
Fax: (213) 384-2106

12. This Agreement shall be binding upon and shall inure to the benefit of KEIC, CFC and Center Bank, and their respective successors and assigns; provided, however that KEIC may not assign or otherwise transfer this Agreement without the prior, express written consent of CFC and Center Bank. This Agreement shall be construed and enforced in accordance with the internal laws of California applicable to contracts between California parties made and performed in the State of California. Any claim of breach of this Agreement or to otherwise seek enforcement of its provisions shall be subject to the jurisdiction of, and venue in, the state and/or federal courts located in the State of California. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed an original and all of which taken together shall constitute one and the same agreement. This Agreement and the Settlement Agreement represent the sole agreements of the parties hereto with respect to the purchase, sale and issuance of the Settlement Shares, and it may be amended only by an agreement in writing executed by both of the parties hereto.

IN WITNESS WHEREOF, the parties have duly executed and delivered this Agreement as of the date first above written.

KOREA EXPORT INSURANCE CORPORATION

By: */s/ Woo-Seok Lee*
Woo-Seok Lee
Executive Director

CENTER FINANCIAL CORPORATION

By: */s/ Jae Whan Yoo*
Jae Whan Yoo
President and Chief Executive Officer

CENTER BANK

By: */s/ Jae Whan Yoo*
Jae Whan Yoo
President and Chief Executive Officer

SCHEDULE A

All of the documents set forth below for Center Financial Corporation are available on the website of the Securities and Exchange Commission at: www.SEC.gov.

1. Form 10-Q for the quarter ended June 30, 2008

2. Form 10-Q for the quarter ended March 31, 2008

3. Form 10-K for the fiscal year ended December 31, 2007

4. Definitive proxy statement for the shareholders meeting held on May 28, 2008

5. All Current Reports on Form 8-K filed with the SEC since January 1, 2006.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jae Whan Yoo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Center Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2008

/s/ JAE WHAN YOO

Jae Whan Yoo
President & Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Lonny D. Robinson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Center Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2008

/s/ LONNY D. ROBINSON

Lonny D. Robinson
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

Certification of Principal Executive Officer and Principal Financial Officer

Certification of Periodic Financial Report

Jae Whan Yoo and Lonny D. Robinson hereby certify as follows:

1. They are the Principal Executive Officer and Principal Financial Officer, respectively, of Center Financial Corporation.

2. The Form 10-Q of Center Financial Corporation for the Quarter Ended September 30, 2008 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)) and the information contained in the report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Center Financial Corporation.

Dated: October 22, 2008

/s/ JAE WHAN YOO

Jae Whan Yoo
President & Chief Executive Officer
(Principal Executive Officer)

Dated: October 22, 2008

/s/ LONNY D. ROBINSON

Lonny D. Robinson
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)