

10-K 1 f38454e10vk.htm FORM 10-K

[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION**Washington, D.C. 20549****Form 10-K**

(Mark One)

**☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.****For the fiscal year ended December 31, 2007.****OR****☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934.****For the transition period from _____ to _____.****Commission File Number: 000-24947****UCBH Holdings, Inc.***(Exact name of registrant as specified in its charter)***Delaware***(State or other jurisdiction of
incorporation or organization)***555 Montgomery Street,
San Francisco, California***(Address of principal executive offices)***94-3072450***(I.R.S. Employer
Identification No.)***94111***(Zip Code)***Registrant's telephone number, including area code:
(415) 315-2800****Securities registered pursuant to Section 12(b) of the Act:
None****Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value \$0.01 Per Share
Preferred Stock Purchase Rights**

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

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

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

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

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

Large accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐Smaller reporting
company ☐(Do not check if a 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 ☒

The aggregate market value of the common stock held by non-affiliates of the registrant is \$1,199,989,386 and is based upon the last sales price as quoted on the NASDAQ Global Select Market as of June 30, 2007.

As of January 31, 2008, the Registrant had 104,439,018 shares of common stock, par value \$0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement for the May 22, 2008, Annual Meeting of Stockholders is incorporated by reference into Part III.

UCBH HOLDINGS, INC. AND SUBSIDIARIES
Table of Contents

	<u>Page</u>
<u>PART I</u>	
<u>Item 1</u>	<u>Business</u> 2
<u>Item 1A</u>	<u>Risk Factors</u> 14
<u>Item 1B</u>	<u>Unresolved Staff Comments</u> 19
<u>Item 2</u>	<u>Properties</u> 19
<u>Item 3</u>	<u>Legal Proceedings</u> 19
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u> 19
<u>PART II</u>	
<u>Item 5</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 20
<u>Item 6</u>	<u>Selected Financial Data</u> 24
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u> 26
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 73
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u> 74
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 136
<u>Item 9A</u>	<u>Controls and Procedures</u> 136
<u>Item 9B</u>	<u>Other Information</u> 137
<u>PART III</u>	
<u>Item 10</u>	<u>Directors and Executive Officers of the Registrant</u> 138
<u>Item 11</u>	<u>Executive Compensation</u> 138
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 138
<u>Item 13</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 138
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u> 138
<u>PART IV</u>	
<u>Item 15</u>	<u>Exhibits, Financial Statement Schedules</u> 139
<u>Signatures</u>	143
<u>EXHIBIT 21.0</u>	
<u>EXHIBIT 23.1</u>	
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.0</u>	

[Table of Contents](#)**PART I****Forward Looking Statements**

This document, including information included or incorporated by reference in this document, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements provide current expectations or forecasts of future events and include, among other things:

- statements with respect to UCBH Holdings, Inc. and its consolidated subsidiaries' (collectively, the "Company") beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance; and*
- statements preceded or identified by words, such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "will", "should", "could", "projects" and "may", "might" or words of similar import.*

These forward-looking statements are based upon management's current beliefs and expectations and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. These forward-looking statements are also inherently subject to significant business, economic and competitive uncertainties, risks and contingencies, many of which are difficult to predict and generally beyond management's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change and actual results, performance or achievements may be materially different from the anticipated results, performance or achievements discussed, expressed or implied by these forward-looking statements. Factors that might cause such differences include, but are not limited to the following:

- the Company's ability to successfully execute its business plans and achieve its objectives;*
- changes in political and economic conditions, including the economic effects of terrorist attacks against the United States and related events;*
- changes in financial market conditions, either nationally, internationally or locally in areas in which the Company conducts its operations;*
- further expansion into China, as well as new Asia Pacific market areas;*
- fluctuations in the equity and fixed-income markets;*
- changes in interest rates and the resultant impact on our net interest margin;*
- asset and liability sensitivity of our balance sheet;*
- acquisitions and integration of acquired businesses;*
- deterioration in asset or credit quality;*
- increases in the levels of losses, customer bankruptcies, claims and assessments;*
- deposit renewals and ability to attract and retain core deposits;*
- the availability and cost of capital;*
- continuing consolidation in the financial services industry;*
- new litigation or changes in existing litigation;*
- success in gaining regulatory approvals, when required;*
- changes in consumer spending and savings habits;*
- increased competitive challenges and expanding product and pricing pressures among financial institutions, whether banks, investment banks, insurance companies or others, in the Company's markets;*
- the potential effects of technological changes;*

[Table of Contents](#)

- *legislation or regulatory changes, both domestically as well as internationally, which adversely affect the Company's operations and businesses;*
- *the Company's ability to meet regulatory requirements; and*
- *changes in accounting principles generally accepted in the United States of America.*

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning matters addressed in this document and attributable to the Company or any person acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, the Company undertakes no obligation to update these forward-looking statements to reflect events, developments or circumstances after the date of this document or to reflect the occurrence of future events.

Item 1. Business

Company Background

UCBH Holdings, Inc. ("UCBH") is a Delaware corporation incorporated in 1998, and registered with the Board of Governors of the Federal Reserve System as a bank holding company. UCBH conducts its principal business through its wholly owned banking subsidiary, United Commercial Bank ("UCB"; UCBH, UCB and UCB's wholly owned subsidiaries are collectively referred to as the "Company", "we", "us" or "our"), which makes up substantially all of our consolidated assets and revenues. UCB is a California state-chartered commercial bank.

UCB was founded as United Federal Savings and Loan Association in 1974 to serve the financial needs of the San Francisco Chinese community. As the Chinese population grew significantly and expanded into new communities throughout California, we became United Savings Bank, F.S.B. to provide statewide banking services. In 1998, reflecting a rapidly growing focus on our commercial banking capabilities, we converted our charter to become UCB, a commercial bank. The Company went public on November 5, 1998, and currently trades on the NASDAQ Global Select Market ("NASDAQ") under the symbol "UCBH".

In 2002, we acquired all of the outstanding shares of Bank of Canton of California ("BCC"), a \$1.45 billion Chinese-focused California banking corporation. In 2002, UCB also purchased selected assets and assumed selected liabilities of a branch of Broadway National Bank, a national banking association located in Brooklyn, New York.

In 2003, the Company completed its acquisition of privately held First Continental Bank ("FCB"), a \$356.7 million full-service commercial bank focused on serving the ethnic Chinese market, headquartered in Rosemead, California. Also during 2003, the Company was granted a full banking license by the Hong Kong Monetary Authority, enabling the Company to open a full-service branch in Hong Kong. This license has allowed us to engage in a wide range of banking activities in Hong Kong, including deposit generation and international trade finance lending activities. The Hong Kong branch has enhanced our capability to expand our international banking business across the Pacific Rim, which we expect will continue in the future.

During 2004, UCB established UCB Investment Services, Inc. ("UCBIS") as a wholly owned subsidiary. UCBIS is a registered broker-dealer with the Securities and Exchange Commission (the "SEC") and is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation. UCBIS acts as an introducing broker in sales of shares of mutual funds, listed and over-the-counter equities, and corporate, municipal and United States government debt. In addition, UCBIS sells fixed and variable annuities, life insurance and covered options and is registered with the Municipal Securities Rulemaking Board. UCBIS does not have custody or possession of customer funds or securities. Instead, customer accounts are carried on a fully disclosed basis at National Financial Services, LLC, which is UCBIS' clearing firm.

During 2005, the Company completed two acquisitions; Pacifica Bancorp, Inc. ("Pacifica"), headquartered in Seattle, Washington, and Asian American Bank & Trust Company ("AABT"), headquartered in Boston, Massachusetts. As of the acquisition date, Pacifica's total assets were \$178.8 million and total deposits were \$148.8 million. Two branches in the Seattle area were included in the acquisition. As of the acquisition date,

[Table of Contents](#)

AABT's total assets were \$133.0 million and total deposits were \$112.1 million. The acquisition included three branches in the Boston area.

During 2006, the Company completed its acquisition of Summit Bank Corporation ("Summit"), headquartered in Atlanta, Georgia. As of the acquisition date, Summit's total assets were \$887.9 million and total deposits were \$547.6 million. The acquisition included five branches/offices in Atlanta, Georgia, one branch in Houston, Texas, two branches/offices in California and a representative office in Shanghai, China. Additionally during 2006, UCB established a wholly owned subsidiary, UCB Asset Management, Inc. ("UCBAM"), which was created to provide professional investment management services to high-net-worth clients.

In 2007, the Company completed two acquisitions; CAB Holding, LLC ("CAB"), the holding company of The Chinese American Bank, a New York state-chartered bank, and Business Development Bank Ltd., now United Commercial Bank (China) Limited ("UCB China Ltd"), a wholly foreign owned enterprise established and existing under the laws of the People's Republic of China. As of the acquisition date, CAB's total assets were \$357.2 million and total deposits were \$312.4 million. The acquisition included three branches in the New York area. As of the acquisition date, UCB China Ltd's total assets were \$338.7 million and total deposits were \$30.5 million. The acquisition included branches in Shanghai and Shantou, China and representative offices in Beijing and Guangzhou, China. UCB infused \$65 million in capital into UCB China Ltd at the closing of the acquisition.

We intend to continue to expand within our existing markets and move into new markets by developing new product offerings, opening new branches and/or acquiring financial institutions in existing markets, and entering into and/or acquiring financial institutions in other markets with high concentrations of Asians in keeping with our capital requirements and management abilities.

Market Area

We have been expanding to develop a nationwide presence to provide services to companies doing business in China and to enhance our local presence in Asian communities. These areas include the San Francisco Bay Area and the Sacramento/Stockton, Los Angeles, Atlanta, Boston, Houston, New York and Seattle metropolitan areas. We currently have fifty-one branches/offices in the State of California, five in Atlanta metropolitan area, three in the Boston metropolitan area, a branch in Houston, eight in the New York metropolitan area, two in the Seattle metropolitan area and branches in Hong Kong, Shanghai and Shantou, China. We also have representative offices in Shanghai, Shenzhen, Beijing, and Guangzhou, China and Taipei, Taiwan. Our Northern and Southern California locations encompass twenty-nine and twenty-two branches/offices, respectively.

We have tailored our products and services to meet the financial needs of the growing Asian communities in our market areas. We believe that this approach, together with the relationships of our management and the Company's Board of Directors with the Asian communities, provides us with an advantage in competing for customers in these areas.

Current Banking Services

Through our branch network, we provide a wide range of personal and commercial banking services to small- and medium-sized businesses, business executives, professionals and other individuals. We offer multilingual services to all of our customers in English, Cantonese and Mandarin.

We offer the following deposit products:

- business and personal checking, savings and money market accounts;
- time deposits (certificates of deposit); and
- Individual Retirement Accounts ("IRAs").

We offer a full complement of loan products, including the following types of loans:

- commercial real estate loans;

[Table of Contents](#)

- construction loans, primarily to small- and medium-sized developers for construction of single-family homes, multifamily and commercial properties;
- commercial, accounts receivable and inventory loans to small- and medium-sized businesses with annual revenues generally ranging from \$500,000 to \$20.0 million;
- short-term trade finance facilities for terms of less than one year to United States importers, exporters and manufacturers;
- loans guaranteed by the United States Small Business Administration (“SBA”);
- multifamily real estate loans;
- residential mortgage loans; and
- home equity lines of credit.

We also provide a wide range of specialized services, including merchant bankcard services, cash management services, private client services, brokerage investment products and services, and online banking services. In addition, we provide trade finance facilities for customers involved in the import and/or export of goods principally between Asia and the United States.

UCB maintains an Internet banking website at www.ibankUNITED.com. This website, which is available in both English and Chinese character versions, provides information about UCB as well as easy access to business and personal online banking services, a web-based trade finance management system and an online information services for home loans. We believe our website serves as a strong platform to promote UCB, to cross-sell the products and services that UCB offers and to deliver advanced online banking services.

Subsidiaries of the Company and UCB

UCBH has eleven wholly owned subsidiaries, including UCB. Other than UCB, the subsidiaries are special purpose trusts that were either formed by UCBH to issue guaranteed preferred beneficial interests in UCBH’s junior subordinated debentures or acquired by UCBH in the Summit acquisition.

UCB has twelve wholly owned subsidiaries. United Commercial Bank (China) Limited was acquired during the fourth quarter of 2007. United Commercial Bank (China) Limited is a foreign owned bank incorporated in China whose primary business efforts are on the small and medium size enterprise corporate sector in China, which include private companies and businesses with annual revenues in the \$7 million to \$70 million revenue range. UCBSC, a Washington corporation, formed in 2006, manages the investment securities portfolio of UCB. California Canton International Bank (Cayman) Ltd. which was acquired as part of the BCC transaction in 2002 provides banking services and has deposits of \$352.0 million as of December 31, 2007, and assets consisting of cash and investment securities. UCBIS is a registered broker-dealer with the United States Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. UCBAM provides professional investment management services to high-net-worth clients. United Commercial Bank Building Corporation was also acquired in the BCC transaction and holds real property located in San Francisco, California. SBGA California Investments, Inc. is the holding company of SBGA Investments, Inc., which is a real estate investment trust. Newston Investments, Inc. owns the office building that houses UCB’s branch in Houston, Texas. Of the remaining four subsidiaries of UCB, two are inactive, a third, U.F. Service Corporation acts as a trustee under deeds of trust securing promissory notes held by UCB and a fourth, United Commercial Mortgage Securities, LLC is a Delaware limited liability company organized for the purpose of serving as a private secondary mortgage market conduit.

Segment Disclosures

The disclosure regarding the Company’s segments are included in Note 29 to the Consolidated Financial Statements as set forth herein under Item 8.

[Table of Contents](#)

Competition

The banking and financial services industry in California, and particularly in our market areas, is highly competitive. This is due in part to changes in regulation, changes in technology and product delivery systems, and the consolidation of the industry. We compete for loans, deposits and customers with the following types of institutions:

- commercial banks;
- savings and loan associations;
- securities and brokerage companies;
- mortgage companies;
- insurance companies;
- finance companies;
- money market funds;
- credit unions; and
- other nonbank financial services providers.

Many of our competitors are much larger in terms of total assets and capitalization, have greater access to capital markets and may offer a broader array of financial services. To compete with these financial service providers, we rely on local promotional activities, personal relationships established by our officers, bilingual employees to effectively interact with customers and specialized services tailored to meet our customers' needs.

We also have several major competitors targeting Asian customers in California and other markets in which we compete. These competitors have branch locations in many of the same neighborhoods, provide similar services and market their services in similar Asian publications and media in California. Additionally, we compete with numerous financial institutions that do not target the Asian markets in California.

Supervision and Regulation

Introduction

Both the Company and UCB are extensively regulated under both federal and state laws. The following is a summary of selected laws and regulations that govern the activities of the Company and UCB. These laws and regulations are intended to protect depositors, the Federal Deposit Insurance Corporation (the "FDIC") Bank Insurance Fund and the banking system as a whole, and are not intended to protect security holders.

Regulation of the Company

UCBH is a bank holding company registered with the Board of Governors of the Federal Reserve System and is subject to the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and the regulations of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). UCBH files quarterly and annual reports with the Federal Reserve Bank of San Francisco, Banking Supervision & Regulation Division ("Federal Reserve"), as well as any other information that the Federal Reserve may require under the Bank Holding Company Act. The Federal Reserve examines UCBH and its non-bank subsidiaries. UCBH is also a bank holding company under Delaware law and, together with UCB, is subject to examination by the California Department of Financial Institutions (the "DFI").

The Federal Reserve has the authority to require that UCBH stop an activity, whether conducted directly or through a subsidiary or affiliate, if the Federal Reserve believes that the activity poses a significant risk to the financial safety, soundness or stability of UCB. The Federal Reserve can also regulate provisions of certain debt instruments issued by bank holding companies, including imposing ceilings on interest rates and requiring reserves on such debt. In certain cases, UCBH will be required to file written notice and obtain approval from the Federal Reserve before repurchasing or redeeming its equity securities. Additionally, the Federal Reserve imposes capital requirements on UCBH as a bank holding company.

[Table of Contents](#)

As a registered bank holding company, UCBH is required to obtain the approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, UCBH would own or control more than 5% of the voting shares of such bank. The Bank Holding Company Act allows UCBH to acquire voting shares of, or interest in, all or substantially all of the assets of a bank located outside the State of California, subject to the provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

UCBH and any subsidiaries which it may acquire or organize are deemed “affiliates” of UCB within the meaning of that term as defined in the Federal Reserve Act and Federal Reserve Regulation W. This means, for example, that there are limitations on loans by UCB to affiliates and on investments by UCB in affiliates’ stock.

UCBH and any subsidiaries are also subject to certain restrictions with respect to engaging in non-banking activities, including the underwriting, public sale and distribution of securities and many insurance activities. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999, qualifying bank holding companies may make an appropriate election to the Federal Reserve to become a “financial holding company” and may then engage in a full range of financial activities, including insurance, securities and merchant banking. See “Gramm-Leach-Bliley Financial Modernization Act of 1999” following this discussion. Although the Company currently qualifies to make the election, UCBH has not elected to become a financial holding company. UCBH continues to review its business plan to determine whether it would benefit from the expanded powers of a financial holding company status.

As a company with securities registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and listed on NASDAQ, UCBH is also subject to the Sarbanes-Oxley Act of 2002 and regulation by the SEC and NASDAQ. See the “Sarbanes-Oxley Act of 2002” section, which follows this discussion.

Regulation of UCB

Bank Regulators. UCB is a California state-chartered commercial bank and its deposits are insured by the FDIC up to the applicable legal limits. UCB is supervised, examined and regulated by the State of California Department of Financial Institutions (“DFI”), as well as by the FDIC. In addition, our wholly owned subsidiary, UCB China Ltd, is subject to the regulatory oversight of the China Banking Regulatory Commission in China (“CBRC”) and by the Hong Kong Monetary Authority for our Hong Kong branch. Our broker dealer, UCB Investment Services, is subject to the regulatory oversight of the Financial Industry Regulatory Authority. Any of these regulatory agencies may take formal enforcement action if they determine that the financial condition, capital resources, asset quality, earnings prospects, management or liquidity aspects of UCB’s operations are unsatisfactory. These agencies may also take action if UCB or its management is violating or has violated any law or regulation. No regulator has ever taken any such action against UCB in the past.

Safety and Soundness Standards. The FDIC has adopted guidelines that establish standards for safety and soundness of banks. The Federal Reserve Board has established safety and soundness guidelines for bank holding companies. These guidelines are designed to identify potential safety and soundness problems and ensure that banks address those concerns before they pose a risk to the deposit insurance fund. If the FDIC determines that an institution fails to meet any of these standards, the agency can require the institution to prepare and submit a plan to come into compliance. If the agency determines that the plan is unacceptable or not implemented, the agency must, by order, require the institution to correct the deficiency.

The FDIC also has safety and soundness regulations and accompanying guidelines on asset quality and earnings standards. The guidelines provide standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. The guidelines also provide standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient to maintain adequate capital and reserves. If an institution fails to comply with a safety and soundness standard, the agency may require the institution to submit and implement an acceptable compliance plan or face enforcement action.

Other Regulations. The activities of UCB as a consumer lender are also subject to regulations under various federal laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act as well as the Electronic Fund Transfer Act, the Fair Debt Collection Practices Act, the Community Reinvestment Act, etc., in addition to various state laws. These statutes impose requirements for providing timely disclosures to customers primarily in connection with the making, enforcement and collection of loans.

[Table of Contents](#)***Deposit Insurance Assessments***

On February 8, 2006, President Bush signed into law the Federal Deposit Reform Act of 2005, which reformed the deposit insurance system. The law merged the Bank Insurance Fund with the Savings Association Insurance Fund into a new fund, the Deposit Insurance Fund. The law also granted the FDIC Board broad authority in managing the adequacy of the Deposit Insurance Fund, including the discretion to price deposit insurance according to risk for all insured institutions regardless of the level of reserve ratio.

Prior to the enactment of the law, the FDIC charged annual assessments to insure a bank's deposits that ranged from zero to \$0.27 per \$100 of domestic deposits, depending on the risk that a particular institution poses to the Deposit Insurance Fund. The final rule, effective January 1, 2007 consolidates the existing nine risk categories into four and names them Risk Categories I, II, III, and IV. Within Risk Category I, the final rule combines supervisory ratings with other risk measures to differentiate risk. For most institutions, the final rule combines CAMELS components with financial ratios to determine an institution's assessment rate. For large institutions that have long-term debt issuer ratings, the final rule differentiates risk by combining capital, asset quality, management, earnings, liquidity, and sensitivity ("CAMELS") component ratings with these ratings. The final rule defines a large institution that has \$10 billion or more in assets. The final rule sets actual rates beginning January 1, 2007 as follows: \$0.05 to \$0.07 per \$100 of domestic deposits for Risk I Category (most favorable category); \$0.10 per \$100 for Risk II Category, \$0.28 per \$100 for Risk III Category; and \$0.43 per \$100 for Risk IV Category. Currently, UCB is in the Risk I Category.

Capital Requirements

UCB (on a consolidated basis) is subject to the capital requirements of Part 325 of the FDIC's Rules and Regulations — Capital Maintenance. Part 325 includes a framework that is sensitive to differences in risk between banking institutions. The amount of regulatory capital that a financial institution is required to have is dependent on its overall risk profile. The ratio of its regulatory capital to its risk-weighted assets is called the "risk-based capital ratio". Assets and certain off-balance-sheet items are allocated into four categories based on the risk inherent of the asset and are weighted from 0% to 100%. The higher the risk-weighted asset category, the more risk UCB is subject to and thus more capital that is required. As of December 31, 2007, UCB's total risk-based capital ratio was 10.80% compared to 10.53% at December 31, 2006.

The guidelines divide a bank's capital into two tiers. Tier 1 core capital is the sum of it's common stockholder's equity, non-cumulative perpetual preferred stock (including any related surplus), and minority interests in consolidated subsidiaries, minus all intangible assets (except for mortgage and nonmortgage servicing assets and eligible purchased credit card relationships) and minus certain other items specifically defined by Part 325. Tier 2 capital includes, among other items, cumulative perpetual and long-term, limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses (subject to certain limitations). In addition, certain items are required to be deducted from Tier 2 capital as specified in Part 325.

Banks must maintain a total risk-based capital ratio of 8%, of which at least 4% must be Tier 1 capital, to maintain a status as "adequately capitalized" as set forth by the prompt corrective action rules adopted by the FDIC. The "well capitalized" levels established by the FDIC are 10% and 6% for total risk-based capital ratio and Tier 1 risk-based capital ratio, respectively.

In addition, the FDIC has regulations prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to total adjusted assets, as specified in the regulations). The required minimum Tier 1 leverage ratio is 3% if the FDIC determines that the institution is not anticipating or experiencing significant growth and has well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and in general is considered a strong banking organization. Banks that do not meet the conditions for a 3% minimum must have a minimum Tier 1 leverage ratio of 4%. The FDIC may impose higher limits on individual institutions when particular circumstances exist, including if a bank is experiencing or anticipating significant growth. At December 31, 2007, UCB's Tier 1 leverage ratio was 7.42% compared to 9.30% at December 31, 2006.

UCB was in compliance with the FDIC's capital maintenance rules as of December 31, 2007 and 2006. For further discussion of UCB's capital, refer to the Capital Management section under "Management's Discussion and Analysis" incorporated in Part II, Item 7 and Note 19 to the Consolidated Financial Statements in this Annual Report on Form 10-K.

[Table of Contents](#)

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the federal banking regulators to take “prompt corrective action” against undercapitalized institutions. The FDIC and the other bank regulatory agencies have established a framework of supervisory actions for insured depository institutions that are not adequately capitalized. The following capital categories have been created to define capital adequacy:

- “Well capitalized” has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a Tier 1 leverage ratio of 5% or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive.
- “Adequately capitalized” has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and a Tier 1 leverage ratio of 4% or greater (3% or greater if rated Composite 1 under the “CAMELS” rating system).
- “Undercapitalized” has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a Tier 1 leverage ratio of less than 4% (3% if rated Composite 1 under the “CAMELS” rating system).
- “Significantly undercapitalized” has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%.
- “Critically undercapitalized” has a ratio of tangible equity to total assets that is equal to less than 2%.

Federal banking regulators are required to take prompt corrective action to resolve the problems of those institutions that fail to satisfy their minimum capital requirements. As an institution’s capital level falls, the level of restrictions that can be imposed by the FDIC becomes increasingly severe and the institution is allowed less flexibility in its activities.

As of December 31, 2007 and 2006, UCB was “well capitalized” under the regulatory framework for prompt corrective action.

Community Reinvestment Act

Under the Community Reinvestment Act (the “CRA”), as implemented by Part 345 of the FDIC’s regulations, a bank has an obligation, consistent with safe and sound operation, to help meet the credit needs of its entire community in which an institution is chartered, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs, nor does it limit a bank’s discretion to develop the types of products and services that it believes are best suited to its community. It does require that federal banking regulators, when examining an institution, assess the institution’s record of meeting the credit needs of its community and to take such record into account in evaluating certain applications. As a state-chartered non-member bank, UCB is subject to the fair lending requirements and reporting obligations involving home mortgage and small business lending operations of the CRA. Federal banking regulators are required to provide a written examination report of an institution’s CRA performance using a four-tiered descriptive rating system and these ratings are available to the public. UCB has received an “outstanding” rating for the past four CRA examinations.

Gramm-Leach-Bliley Financial Modernization Act of 1999

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “Gramm-Leach-Bliley Act”) eliminated most of the depression-era “firewalls” between banks, securities firms and insurance companies, which were established by The Banking Act of 1933, also known as the Glass-Steagall Act. The Glass-Steagall Act sought to insulate banks as depository institutions from the perceived risks of securities dealing and underwriting, and related activities.

Bank holding companies, which qualify as financial holding companies, can now, among other things, acquire securities firms or create them as subsidiaries, and securities firms can now acquire banks or start banking activities through a financial holding company. This liberalization of United States banking and financial services regulation applies both to domestic and foreign institutions conducting business in the United States. Consequently, the common ownership of banks, securities firms and insurance firms is now possible, as is the conduct of commercial

[Table of Contents](#)

banking, merchant banking, investment management, securities underwriting and insurance within a single financial institution using a “financial holding company” structure authorized by the Act. As noted earlier, the Company has not elected to become a financial holding company.

The Gramm-Leach-Bliley Act also requires that federal financial institutions and securities regulatory agencies respect the privacy of their customers and protect the security and confidentiality of customers’ non-public personal information. These regulations generally require that financial institutions:

- (i) not disclose non-public personal information of customers to non-affiliated third parties without notice to their customers, who must have an opportunity to direct that such information not be disclosed;
- (ii) not disclose customer account numbers except to consumer reporting agencies; and
- (iii) give prior disclosure of their privacy policies before establishing new customer relationships.

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001

Under Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the “USA PATRIOT Act”) adopted by the United States Congress on October 26, 2001, which strengthened the then existing anti-money laundering provisions of the Bank Secrecy Act, FDIC insured banks are required to increase their due diligence efforts for correspondent deposit accounts and private banking customers. The USA PATRIOT Act requires banks to perform additional record keeping and reporting, require identification of owners of deposit accounts and the customers of foreign banks with correspondent deposit accounts, and restrict or prohibit certain correspondent deposit accounts. The Financial Crimes Enforcement Network, a bureau of the Department of Treasury, has also issued regulations to implement the provisions of the USA PATRIOT Act. UCB’s regulatory compliance in this important area has been found satisfactory.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under Section 12 of the Exchange Act. Among other things, the Sarbanes-Oxley Act establishes:

- (i) requirements for board of directors committees, including independence, expertise, and responsibilities;
- (ii) additional responsibilities regarding certification of the financial statements by the chief executive officer and chief financial officer of the reporting company;
- (iii) standards for auditors and regulation of audits;
- (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and
- (v) increased civil and criminal penalties for violation of the securities laws.

In addition, the Sarbanes-Oxley Act generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exception from such prohibitions for loans by a bank to its executive officers and directors in compliance with federal banking regulatory restrictions on such loans. UCB’s authority to extend credit to affiliates is also governed by federal law. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and that do not involve more than the normal risk of repayment. An exception exists for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to affiliates over other employees. The law limits both the individual and aggregate amount of loans that UCB may make to affiliates based, in part, on UCB’s capital position and requires certain board approval procedures to be followed. For the years presented in this Annual Report on Form 10-K, UCB’s policy was to make no loans to the Company’s and UCB’s executive officers or directors.

[Table of Contents](#)

Although we have incurred additional accounting and other expense in complying with the requirements under the Sarbanes-Oxley Act and the regulations promulgated thereunder, such compliance has not had a material impact on our results of operations or financial condition.

Basel Committee on Banking Supervision

The United States federal bank regulatory agencies' risk-based capital guidelines are based upon the 1988 Capital Accord of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country's supervisors can use to set the supervisory policies they apply. In January 2001, the Basel Committee released a proposal to replace the 1988 Capital Accord with a new capital framework (the "Basel II Framework") that would set capital requirements for operational risk and would also materially change the existing capital requirements for credit risk and market risk exposures. Operational risk is defined by the proposal to mean the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The 1988 Capital Accord does not include separate capital requirements for operational risk. The Basel II Framework standard is intended to strengthen the regulation of large, complex banking companies by making their capital requirements more sensitive to changes in risk. In June 2004, the Basel Committee issued a new capital accord (the "Basel II Accord") to replace the 1988 Capital Accord. Institutions can elect not to use the Basel II Framework; however, the prospect of reductions in risk-based capital requirements under the Basel II Accord has given rise to competitive equity concerns among smaller banks and thrifts.

On December 26, 2006, the United States banking regulators issued proposed rulemaking that revises the existing risk-based capital framework for those institutions that elect not to use the Basel II Framework. This new framework is sometimes referred to as Basel 1-A as it is anticipated to apply to banks that do not adopt the international Basel II Accord. The proposed rule would allow an institution that elected not to adopt the Basel II Accord to continue using the existing risk-based capital rules or adopt the new Basel 1-A rules. The new rules would:

- expand the number of risk weight categories;
- allow the use of external credit ratings to risk weight certain exposures;
- expand the range of recognized collateral and guarantors;
- use loan-to-value ratios to risk weight most residential mortgages;
- increase the credit conversion factor for certain credit commitments with an original maturity of one year or less;
- assess a charge for early amortizations in securitizations of revolving exposures; and
- remove the 50 percent on the risk weight for certain derivative transactions.

On December 7, 2007 the final rule implementing the advanced approaches of the Basel II Capital Accord was published jointly by the United States federal banking agencies. The final rule establishes regulatory capital requirements and supervisory expectations for credit and operational risks for banks that choose or are required to adopt the advanced approaches of the Basel II Capital Accord. The final rule retains the three groups of banks identified in the proposed rule: (i) large or internationally active banks that are required to adopt advanced capital approaches under Basel II (core banks); (ii) banks that voluntarily decide to adopt the advance approaches (opt-in banks); and (iii) banks that do not adopt the advanced approaches (general banks), and for which the provisions of the final rule are inapplicable. The final rule also retains the proposed rule definition of the core bank as a bank that meets either of two criteria: (i) consolidated assets of \$250 billion or more, or (ii) consolidated total on-balance sheet foreign exposure of \$10 billion or more. Also, a bank is a core bank if it is a subsidiary of a bank or bank holding company that uses advanced approaches. The final rule contains relevant implementation timeframes for core banks and qualification requirements that each core and opt-in bank must meet before using the advanced approaches for risk-based capital purposes.

[Table of Contents](#)

The final rule is effective April 1, 2008. The agencies expect to publish in the near future a proposed rule that would provide all non-core banks with the option to adopt a standardized approach under the Basel II Capital Accord.

Employees

At December 31, 2007, we had 1,525 employees. None of the employees are covered by a collective bargaining agreement.

Website Access to Company Reports

Our corporate Internet address is www.ucbh.com. We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The Internet address of the SEC website is www.sec.gov.

Executive Officers of the Registrant

The following table sets forth the names, ages and positions of the executive officers of UCBH and UCB as of December 31, 2007. There are no family relationships between any director or executive officer and any other director or executive officer of UCBH or UCB.

Name	Age	Position with UCBH and UCB
Thomas S. Wu	49	Chairman, President and Chief Executive Officer
Dennis Wu	65	Director, Executive Vice President and Chief Financial Officer
Jonathan H. Downing	56	Executive Vice President and Director of Corporate Development and Investor Relations
Daniel M. Gautsch	60	Executive Vice President and Chief Risk and Compliance Officer
William J. Laraia	72	Executive Vice President and Director of the New York Region
Sylvia Loh	52	Executive Vice President and Chairman of UCB/ China Minsheng Banking Corporation Strategic Alliance Task Force
Ebrahim Shabudin	59	Executive Vice President and Chief Operating Officer
Ka Wah Tsui	54	Executive Vice President and General Manager, Greater China Region
David Yu	56	Executive Vice President and Director of the Southeast Region
John M. Cinderey	60	Executive Vice President and Director of Commercial Banking
John M. Kerr	61	Executive Vice President and Chief Credit Officer
Cynthia C. Blackford	43	Senior Vice President and Chief Audit Executive
Dennis A. Lee	65	Senior Vice President, Corporate Counsel and Assistant Corporate Secretary
Jonas B. Miller	36	Senior Vice President and Treasurer
Craig S. On	55	Senior Vice President and Corporate Controller

The Chief Executive Officer updates UCBH's and UCB's Management Succession Plan on an annual basis for review by the Compensation Committee and the Board of Directors.

Mr. Thomas S. Wu

has been Chairman, President, and Chief Executive Officer of UCBH and UCB since October 10, 2001. Prior to this appointment, Mr. Wu served as President and Chief Executive Officer of UCB effective January 1, 1998. Prior to that appointment, Mr. Wu was an Executive Vice President and Director of UCB as of September 25, 1997. Mr. Wu was elected President and Chief Executive Officer of UCBH effective March 26, 1998, and as a director of UCBH on April 17, 1998. Previously, Mr. Wu was the Director of Customer Care for

[Table of Contents](#)

Pacific Link Communications Limited in Hong Kong where he was responsible for formulating and implementing customer care, customer retention and customer communications strategies. Mr. Wu served as a director of UCB from 1995 to 1996 and was a Senior Vice President, Head of Retail Banking of UCB from 1992 to 1996, when in addition to heading up the retail banking division, he directed marketing, public relations, loan originations, branch administration and operations control functions. Mr. Wu also served as Vice President and Regional Manager of UCB's Southern California Retail Banking Division from 1991 to 1992. Prior to joining UCBH, Mr. Wu held various banking positions with First Pacific Bank in Hong Kong, Chase Manhattan Bank, Banque Nationale De Paris and Standard Chartered Bank.

Mr. Dennis Wu

has been Executive Vice President and Chief Financial Officer of UCBH and UCB since June 9, 2005. Mr. Wu was elected as a director of UCBH and UCB at the May 19, 2005, Annual Meeting of Stockholders. Mr. Wu joined UCBH after a thirty-seven year career with the public accounting firm of Deloitte & Touche LLP, where he served as National Managing Partner of the firm's Chinese Services Group since June 2000. Mr. Wu served as a partner at Deloitte & Touche LLP from 1979 to 2004, including the partner-in-charge of the firm's Enterprise Group of Northern California, which includes its banking, savings and loan, securities brokerage, insurance, real estate, healthcare, and not-for-profit clients.

Mr. Jonathan H. Downing

has been Executive Vice President and Director of Corporate Development and Investor Relations of UCBH and UCB since June 9, 2005. Prior to this appointment, Mr. Downing was Executive Vice President and Chief Financial Officer of UCBH and UCB since January 9, 2003. Prior to that appointment, he served as Executive Vice President, Chief Financial Officer and Treasurer of UCBH and UCB since January 1, 2002. Prior to that appointment, he served as Senior Vice President and Chief Financial Officer of UCBH and UCB since 1989. Mr. Downing served as director of UCB from January 1991 to June 2005, and as director of UCBH from November 1993 to June 2005. Mr. Downing joined UCB in 1986 in conjunction with the acquisition of FPM Mortgage, of which Mr. Downing was a co-founder.

Mr. Daniel M. Gautsch

was appointed Executive Vice President and Chief Risk and Compliance Officer of UCBH and UCB effective August 23, 2006. Prior to this appointment, Mr. Gautsch was Executive Vice President and Director of Enterprise Risk Management of UCBH and UCB since February 7, 2005. Prior to joining UCB, Mr. Gautsch was the Assistant Regional Director, San Francisco Region of the FDIC responsible for overseeing over 270 insured institutions in Alaska, Hawaii, Northern California, Oregon, Washington and the Pacific Rim. His career at the FDIC spanned more than 30 years during which he served in various management and other positions.

Mr. William J. Laraia

was appointed Executive Vice President and Director of the New York Region of UCBH and UCB effective January 1, 2007. Prior to this appointment, Mr. Laraia was formerly the Chairman, President and Chief Executive Officer of Great Eastern Bank ("GEB"). Prior to serving at GEB, Mr. Laraia served as Chairman and Chief Executive Officer of Apple Bank for Savings in New York City from 1991 to 1996 and as Executive Vice President and Group Head of National Westminster Bancorp's Community Banking Group, where he managed the activities of the retail bank, from 1984 to 1991. Prior to joining National Westminster Bancorp, Mr. Laraia ran the Long Island Commercial Lending Division for Chemical Bank.

Ms. Sylvia Loh

was appointed Executive Vice President and Chairman of UCB/China Minsheng Banking Corporation Strategic Alliance Task Force effective January 2008. Prior to this appointment, she was Executive Vice President and Chief Lending Officer of UCBH and UCB since August 1, 2005. Prior to this appointment, Ms. Loh served as Executive Vice President and Director of Commercial Banking of UCBH and UCB from July 1, 2002 to August 1, 2005, and joined UCB as Vice President and Head of Commercial Banking in January 1996. From 1992 to 1996, Ms. Loh held the position of Vice President, Relationship Manager at Bank of America, International Trade Division.

Mr. Ebrahim Shabudin

has been Executive Vice President and Chief Operating Officer of UCBH and UCB since August 1, 2005. Prior to this appointment, Mr. Shabudin served as Executive Vice President and Chief Credit Officer of UCBH and UCB since January 1, 2004. Prior to joining UCBH, Mr. Shabudin was the Managing Director of Credit Risk Management with Deloitte & Touche LLP. Prior to that, Mr. Shabudin worked for Bank of America in various management positions for over 25 years with the most recent experience as a Senior Vice President and Credit Policy Executive.

[Table of Contents](#)**Mr. Ka Wah Tsui**

has been Executive Vice President and General Manager, Greater China Region of UCBH and UCB since January 1, 2005. Prior to this appointment, he served as Senior Vice President and General Manager of our Hong Kong Branch since September 2003. Previously, Mr. Tsui held various management positions at Citibank, First Pacific Bank and International Bank of Asia in Hong Kong.

Mr. David Yu

was appointed Executive Vice President and Director of the Southeast Region of UCBH and UCB effective December 30, 2006. Prior to joining UCB, Mr. Yu was the President of Summit Bank Corporation and Chairman of The Summit National Bank. Mr. Yu served as President and CEO of the Company until December 1989, at which time he was elected Chairman of the Board of Directors of The Summit National Bank. Mr. Yu was the founder and organizer of the Summit Bank Corporation and The Summit National Bank. Before organizing the Summit Bank Corporation and The Summit National Bank, Mr. Yu worked for The Citizens and Southern National Bank and First National Bank of Atlanta. From 1976 to 1980, Mr. Yu was employed as an Assistant National Bank Examiner by the Office of the Comptroller of the Currency in Atlanta.

Mr. John M. Cinderey

was appointed Executive Vice President and Director of Commercial Banking of UCBH and UCB effective January 2008. Prior to this appointment, he served as Senior Vice President and Director of Real Estate Lending since November 2006 and Senior Vice President and Senior Credit Approval Officer of the Commercial Banking Division of UCB from May 2004 to November 2006. Prior to joining UCB, Mr. Cinderey spent over 20 years with Bank of America and over 10 years at other financial institutions, including Mount Diablo National Bank, GMAC Commercial Finance and Union Bank of California in various management functions.

Mr. John M. Kerr

was appointed Executive Vice President and Chief Credit Officer of UCBH and UCB effective January 2008. Prior to this appointment, he served as Senior Vice President and Chief Credit Officer since October 13, 2005. Prior to joining UCB, Mr. Kerr served as Senior Portfolio Manager for Primus Financial Products, an AAA-rated credit insurer in New York and a company in which he played a key role in building the business from a start-up in 2002 to its going public in 2004. Prior to that, Mr. Kerr was with Bank of America for 18 years, where he held senior positions in credit approval, corporate and commercial banking, private banking, and international banking. He also spent 11 years with Royal Bank of Canada in business development and credit in corporate and commercial banking, in strategic planning, and in international banking.

Ms. Cynthia C. Blackford

was appointed as Senior Vice President and Chief Audit Executive of UCBH and UCB effective March 16, 2006. Prior to joining UCB, Ms. Blackford spent 11 years at PricewaterhouseCoopers LLP working in the Banking and Capital Markets practice in the United States and abroad. Ms. Blackford served in various positions with PricewaterhouseCoopers LLP including Director in Transaction Services, advising foreign banks on accessing the United States capital markets, and as a Senior Manager in the audit practice overseeing financial statement audits of domestic and foreign banks.

Mr. Dennis A. Lee

has been Senior Vice President and Corporate Counsel of UCBH and UCB since January 1, 2001. Prior to that appointment, he served as Vice President and Corporate Counsel of UCBH and UCB since 1993.

Mr. Jonas B. Miller

was appointed Senior Vice President and Treasurer of UCBH and UCB effective July 27, 2006. Prior to this appointment, he served as Senior Vice President and Treasurer of UCB from July 27, 2004 to July 27, 2006 and First Vice President and Treasurer of UCB from January 1, 2003 to July 27, 2004.

Mr. Craig S. On

has been Senior Vice President and Corporate Controller of UCBH and UCB since June 27, 2005. Mr. On joined UCB after a twenty-one year career with the public accounting firm of Deloitte & Touche LLP, where he served in the capacity of Audit Director and oversaw the audits of commercial and community banks, investment management and hedge fund companies, as well as multi-lateral development banks and mortgage banking organizations.

[Table of Contents](#)**Item 1A. Risk Factors**

The following describes some of the risk factors associated with UCBH Holdings, Inc. and subsidiaries (collectively referred to as the “Company”, “we”, “us” and “our”):

Our business strategy includes the execution of growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We expect to experience growth in both loans and deposits as well as in our level of operations. Achieving our growth targets will require us to attract customers that currently do business at other financial institutions in our existing and future markets. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced management staff, the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our markets and our ability to effectively manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance that we will be able to achieve our growth goals.

Fluctuations in interest rates may negatively affect our consolidated financial condition and results of operations.

Banking companies’ earnings depend largely on the relationship between the cost of funds, primarily deposits and borrowings, and the yield on earning assets, primarily loans and investments. This relationship, known as the interest rate margin, is subject to fluctuation and is affected by economic and competitive factors, which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Fluctuations in interest rates will also affect the customer’s demand for the products and services that we offer.

The Company’s operations are subject to fluctuations in interest rates, to the degree that its interest-bearing liabilities may reprice or mature more slowly or more rapidly or on a different basis than their interest-earning assets. Given our current volume and mix of interest-bearing liabilities and interest-earning assets, the Company’s net interest margin would be expected to increase during times of rising interest rates and, conversely, to decline during times of falling interest rates. As a result, significant fluctuations in interest rates may have an adverse effect on the Company’s consolidated financial condition and results of operations.

In addition, in a falling interest rate environment, we are subject to the risk of higher loan prepayments from our loan portfolio, which in turn may have a negative impact on our net interest margin.

Risks Relating to Use of Estimates and Valuations

Management makes various estimates that affect reported amounts and disclosures in our financial statements. These estimates are used in measuring the fair value of certain financial instruments, accounting for goodwill and identifiable intangibles, establishing our provision for loan losses, valuing equity-based compensation awards and assessing the realizability of deferred income taxes. Such estimates are based on available information and on judgments by management of the Company. As such, actual results could differ from these estimates, and the difference could have a material effect on our financial statements.

Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuations from outsourced service providers are generally obtained to assist the company. The valuations performed by the service providers involve some level of estimation and judgment, the degree of which is dependent on the price transparency of the financial instrument being valued and the financial instruments’ complexity. In particular, the residual tranche on our collateralized mortgage backed securities arising from our commercial real estate loan securitization, certain collateralized debt obligations and mortgage related asset backed securities, and certain other investments have no direct observable prices, and as a result, the related valuations require significant estimation and judgment and are therefore subject to significant subjectivity. Reliance on the estimation and judgment process increases in adverse market conditions with decreased liquidity, such as those experienced during the second half of 2007, and expected to continue for 2008.

[Table of Contents](#)**Our business is subject to the success of the state, national and international economies in which we operate.**

Because the majority of our borrowers and depositors are individuals and businesses located and doing business in the states of California, Georgia, Massachusetts, New York, Texas and Washington, our success depends on the strength of these economies. In addition, as we expand into other areas in the United States and into China, we will become increasingly dependent on the local economies in those markets, as well. Adverse economic conditions in these markets could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. Conditions, such as inflation, recession, unemployment, high interest rates, short money supply, scarce natural resources, international disorders, terrorism and other factors beyond our control, may adversely affect our profitability. In addition, any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in our markets could adversely affect the value of our assets, revenues, results of operations and financial condition.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We believe that our capital resources will satisfy these capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot be assured of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

If we cannot attract deposits, our growth may be inhibited.

We plan to increase significantly the level of our assets, including our loan portfolio. Our ability to increase our assets depends in large part on our ability to attract additional deposits at competitive rates. We intend to seek additional deposits by continuing to establish and strengthening our personal relationships with our existing customers and by offering deposit products that are competitive with those offered by other financial institutions in our markets. We cannot provide assurance that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material effect on our business, consolidated financial position, results of operations and cash flows.

Our wholesale funding sources may prove insufficient to replace deposits at their maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of our depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposits. As we continue to grow, we are likely to become more dependent on these sources, which include Federal Home Loan Bank advances, proceeds from the sale of loans, brokered certificates of deposit, federal funds, repurchase lines, and a line of credit from another financial institution. Our financial flexibility could be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

We may experience further writedowns on our financial instruments related to volatile and illiquid market conditions.

The Company recorded a \$11.6 million writedown on two of its REIT TPS collateralized debt obligations ("CDO") during the fourth quarter of 2007. We continue to have exposure in our investment securities portfolio and as market conditions continue to evolve, the fair value of these financial instruments could further deteriorate. In addition, recent market volatility has made it difficult to determine the fair value of certain of our investment securities and mortgage servicing rights. Further, cashflow shortfalls arising from actual prepayments and credit

[Table of Contents](#)

defaults exceeding our original estimates could in turn trigger other than temporary impairment in certain of our investment securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the value of these investment securities and mortgage servicing rights in future periods. Any of these factors could require us to take further writedowns in our investment securities portfolio, which could adversely affect our results of operations and regulatory capital in the future.

Intense competition exists for loans and deposits.

The banking and financial services business is highly competitive. Competitive pressure is increasing as a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial service providers. The Company must compete for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than we do. There can be no assurance that the Company will be able to compete effectively in its markets and the Company's consolidated financial condition and results of operations could be adversely affected if circumstances affecting the nature or level of competition change.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Like all financial institutions, we maintain an allowance for loan losses to provide for loans in our portfolio that may not be repaid in their entirety. We believe that our allowance for loan losses is maintained at a level that is adequate to absorb probable losses inherent in our loan portfolio as of the respective balance sheet date. However, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect our operating results.

If the value of real estate in our primary market areas were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

In the past three years, we have been growing our commercial business and construction loan portfolios. In addition, with a significant portion of our loans continuing to be in the state of California, a decline in local economic conditions could adversely affect the value of the real estate collateral securing our loans. A decline in property values would diminish our ability to recover on defaulted loans by selling the real estate collateral, making it more likely that we would suffer losses on defaulted loans. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would reduce our future profits and regulatory capital. Real estate values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, governmental rules or policies and natural disasters.

The loan portfolio may not perform as expected.

The Company's performance and prospects will depend to a significant extent on the performance of its loan portfolio. There are a number of factors that could negatively impact the performance of the loan portfolio including, among others, the general political and economic conditions in the Company's markets, significant changes in the mix of our loan products, significant changes in the interest rate environment, pressures from products and services from competitors and on any negative changes in the financial condition of the individual borrowers. In addition, to the extent that the Company does not retain the customers that it acquires in its acquisitions or incurs additional expenses in retaining them, there could be adverse effects on the Company's future consolidated financial condition and results of operations.

We are subject to operational risk and operational events that could adversely affect our business.

The Company's business is highly dependent on our ability to process, on a daily basis, a large number of transactions across geographic boundaries, both domestically and internationally. The Company performs the functions required to operate in different geographies either on our own or through agreements with third party

[Table of Contents](#)

service providers. The Company relies on the ability of its employees and its internal systems and information systems to process a high volume of transactions. In the event of a failure or improper operation of the Company or a third party service provider's systems, or improper action by employees or third parties, the Company could suffer financial loss, business disruption, regulatory intervention or reputational damage, which in turn could adversely impact our financial condition.

If we are unable to successfully integrate the operations of future acquisitions or branch expansions, the Company's consolidated financial condition and results of operations could be negatively affected.

We have announced that our future growth strategy could include acquiring other financial service companies. In addition, we intend to establish additional overseas offices and branches in the Asia Pacific region. While we have just completed The Chinese American Bank and Business Development Bank Ltd. acquisitions, we could encounter unplanned difficulties associated with integration of the operations with current acquisitions or any new acquisitions or branch expansions. These difficulties could include retaining customers, successful conversion of systems and processes, combining different corporate cultures, and retaining key employees. Any problems with integration would negatively impact the Company's day-to-day operations and increase the costs associated with the acquisition/branch expansion, which, in turn, could negatively affect the Company's consolidated financial condition and results of operations.

Unanticipated costs relating to the Company's recent acquisitions could reduce its future earnings per share.

To the extent we make acquisitions, we face numerous risks and uncertainties with respect to combining operational, accounting and data processing systems and management controls, and in integrating relationships with business partners and customers. We believe that we have reasonably estimated the likely costs of integrating the operations of our recent acquisitions. However, it is possible that unexpected transition costs or future operating expenses, as well as other types of unanticipated issues or developments, could have an adverse effect on the Company's future results of operations and financial condition. There is no assurance that our recent acquisitions or any business we acquire in the future will be successfully integrated and result in all of the positive benefits anticipated. If we are not able to integrate successfully such acquisitions, there is a risk that our results of operations and financial condition may be materially and adversely impacted. In addition, there is a risk that the goodwill arising from such acquisitions could be subject to potential impairment.

The Company may engage in further expansion through new branch openings or acquisitions, which could adversely affect net income.

The Company has disclosed its intention to take advantage of future expansion opportunities. There are risks associated with such expansion and, in particular, expansion through acquisitions. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular acquisition, encountering greater than anticipated costs of opening new branches or integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired through expansion or in acquisitions. Additional country- and region-specific risks are associated with any expansion and acquisitions that take place outside the United States, including in China. To the extent UCBH issues capital stock in connection with additional acquisitions, these acquisitions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

UCBH may issue additional capital stock in the future.

To fund internal growth and future acquisitions, UCBH may offer shares of its common stock to the public and future acquirees. Any such offerings would have a dilutive effect on earnings per share and share ownership. In addition, there is no assurance that UCBH would be able to effectively utilize any additional capital in the manner that it has done so in the past. UCBH does not currently have any definitive understandings or plans to raise additional capital.

[Table of Contents](#)**Changes in government regulation and monetary policy may have an unfavorable impact on the Company.**

The banking industry is subject to extensive federal and state supervision and regulation. Such regulations limit the manner in which the Company conducts its business, undertakes new investments and activities, and obtains financing. These regulations have been designed primarily for the protection of the deposit insurance funds and consumers, and not to benefit holders of the Company's common stock. Financial institution regulation has also been the subject of considerable legislation in recent years, and may be the subject of further significant legislation in the future, none of which is within our control. New legislation or changes in, or repeal of, existing laws may cause the Company's consolidated results to differ materially from its historical performance. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions for financial institutions, primarily through open market operations in United States government securities, the discount rate for bank borrowings, and bank reserve requirements. Any material change in these conditions would likely have a material impact on the Company's consolidated financial condition and results of operations.

We are subject to regulation in the jurisdictions in which we conduct business.

In addition to the regulatory oversight in the United States of America, we are subject to regulation in China. As such, we are subject to intervention by regulatory authorities, such as the CBRC in China and by the Hong Kong Monetary Authority for our Hong Kong branch. Among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities. Significant regulatory action against the Company could result in an adverse financial impact, cause significant reputational harm, or harm the Company's business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely impact the Company's business.

Defaults by larger financial institutions could adversely affect financial markets in general

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing and other relationships between such institutions. As a result, concerns about, or a default or threatened default by one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect the Company

[Table of Contents](#)**Item 1B. *Unresolved Staff Comments***

None.

Item 2. *Properties*

UCBH Holdings, Inc.'s and United Commercial Bank's ("UCB") principal office and headquarters is located at 555 Montgomery Street in San Francisco, California. UCB owns this office building through its subsidiary, United Commercial Bank Building Corporation. UCB also owns an office building located at 711 Van Ness Avenue in San Francisco, California. With the acquisition of Summit Bank Corporation, UCB acquired two buildings. One building in Atlanta, Georgia, which serves as an administrative facility for the Atlanta banking operations. The other serves as a branch and administrative facility for the Houston operations, which UCB owns through its subsidiary, Newston Investments, Inc. With the acquisition of CAB, UCB acquired two buildings. One building serves a full-service branch office in Manhattan's Chinatown and the second building serves as a branch in Flushing, Queens. UCB also owns two buildings in the Boston, Massachusetts area, which serve as branch and administrative facilities for the Boston banking operations. In addition, UCB owns five branch facilities and leases all of its remaining branch and office facilities under noncancelable operating leases. Some of these branch leases contain renewal options and some include rent escalation clauses.

Item 3. *Legal Proceedings*

United Commercial Bank has been a party to litigation incidental to various aspects of its operations, in the ordinary course of business. Management is not currently aware of any litigation that in management's opinion will have a material adverse impact on UCBH Holdings, Inc.'s consolidated financial condition or the results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders or otherwise for the three months ended December 31, 2007.

[Table of Contents](#)**PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Market Information**

UCBH Holdings, Inc.'s ("UCBH") common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "UCBH". At December 31, 2007, there were approximately 22,760 stockholders of UCBH's common stock. The last reported sale price of the common stock on NASDAQ on January 31, 2008, was \$14.12 per share.

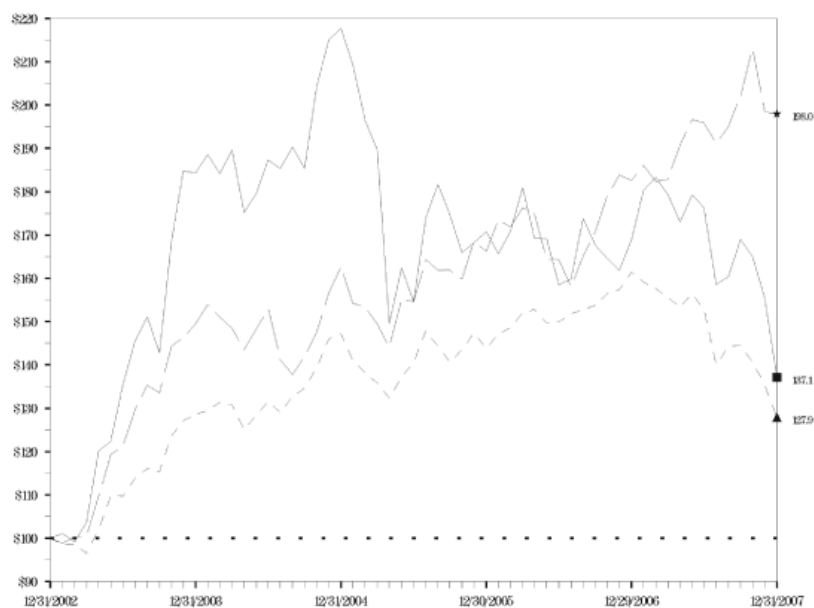
The high and low sales prices of UCBH's common stock, as quoted on NASDAQ, during the years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	High	Low	High	Low
Three months ended March 31,	\$ 20.19	\$ 17.41	\$ 19.28	\$ 16.74
Three months ended June 30,	19.11	17.50	19.60	16.06
Three months ended September 30,	19.56	15.66	18.41	15.55
Three months ended December 31,	20.22	13.69	18.14	16.35

[Table of Contents](#)

Comparison of Five—Year Cumulative Total Returns Performance Graph for UCBH Holdings, Inc.

Produced on 02/26/2008 including data to 12/31/2007



Legend							
Symbol	CRSP Total Returns Index for:	12/30/02	12/30/03	12/30/04	12/30/05	12/30/06	12/30/07
—■—	UCBH Holdings, Inc.	100.0	154.3	217.6	170.7	168.8	137.1
—★—	Nasdaq Stock Market (US Companies)	100.0	149.5	162.7	166.2	152.6	127.9
---▲---	Nasdaq Bank Stocks SIC 6020—6029, 6710—6719 US & Foreign	100.0	128.6	147.2	143.8	161.4	127.9

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
 B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
 C. If the monthly interval, based on the fiscal year—end, is not a trading day the preceding trading day is used.
 D. The index level for all series was set to \$100.0 on 12/31/2002.

[Table of Contents](#)

Dividends

The frequency and amount of dividends paid during the years ended December 31, 2007 and 2006, were as follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
Year ended December 31, 2007	\$ 0.030	\$ 0.030	\$ 0.030	\$ 0.030
Year ended December 31, 2006	\$ 0.030	\$ 0.030	\$ 0.030	\$ 0.030

On January 24, 2008, UCBH's Board of Directors declared a dividend of \$0.04 per share payable on April 11, 2008, to stockholders of record as of March 31, 2008.

Unregistered Sales of Equity Securities

On May 23, 2005, UCBH entered into an Agreement and Plan of Merger with Pacifica Bancorp, Inc. ("Pacifica"), the holding company of Pacifica Bank, a Washington state-chartered bank. As part of the consideration for the purchase of all outstanding stock of Pacifica, UCBH issued 1,241,194 shares of common stock to Pacifica shareholders pursuant to the terms and conditions of the merger agreement. The California Commissioner of Corporations approved the fairness of the terms and conditions of the offer and sale of these shares. Upon completion of the merger on October 31, 2005, UCBH issued these shares in a transaction exempt from registration requirements under Section 3(a)(10) of the Securities Act of 1933, as amended (the "Securities Act").

On August 2, 2005, UCBH entered into an Agreement and Plan of Merger with Asian American Bank & Trust Company ("AABT"), a Massachusetts state-chartered banking corporation. As part of the consideration for the purchase of all outstanding stock of AABT, UCBH issued 878,246 shares of common stock to AABT shareholders pursuant to the terms and conditions of the merger agreement. The California Commissioner of Corporations approved the fairness of the terms and conditions of the offer and sale of these shares. Upon completion of the merger on November 28, 2005, UCBH issued these shares in a transaction exempt from registration requirements under Section 3(a)(10) of the Securities Act.

On September 18, 2006, UCBH entered into an Agreement and Plan of Merger with Summit Bank Corporation ("Summit"), a Georgia state-chartered banking corporation. As part of the consideration for the purchase of all outstanding stock of Summit, UCBH issued 4,824,861 shares of common stock to Summit shareholders pursuant to the terms and conditions of the merger agreement. The California Commissioner of Corporations approved the fairness of the terms and conditions of the offer and sale of these shares. Upon completion of the merger on December 29, 2006, UCBH issued these shares in a transaction exempt from registration requirements under Section 3(a)(10) of the Securities Act.

On May 23, 2007, UCBH Holdings, Inc. ("UCBH") completed its acquisition of CAB Holding, LLC (the "Company"), the holding company of Chinese American Bank. In connection with the acquisition, UCBH paid CAB International Holding Limited, the sole member of the Company ("CABI"), an aggregate consideration of approximately \$132.6 million, consisting of 3,711,580 unregistered shares of UCBH common stock (the "UCBH Shares") valued at \$66.1 million and \$66.5 million in cash in exchange for all of the issued and outstanding membership interests of the Company. The UCBH Shares were issued to CABI pursuant to the private placement exemption from registration provided in Rule 506 of Regulation D, promulgated under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

Simultaneously with the execution of the Agreement and Plan of Merger on January 10, 2007 for the acquisition of CAB (the "Merger Agreement"), UCBH entered into a registration rights, lock-up and standstill agreement with CABI and Dr. Paul Shi H. Huang, the sole shareholder of CABI (the "Rights Agreement"). The Rights Agreement provides for certain registration rights and limitations with respect to resale of the UCBH Shares as well as certain limitations on CABI's acquisition of other shares of UCBH common stock. Pursuant to the Merger Agreement and the Rights Agreement, UCBH filed a Securities Act registration statement with respect to CABI's resale of the UCBH Shares.

[Table of Contents](#)

On October 7, 2007, UCBH and China Minsheng Banking Corp., Ltd., a Chinese joint stock commercial bank (“Minsheng”), entered into an Investment Agreement (the “Investment Agreement”), pursuant to which Minsheng has the right to acquire 9.9% (calculated on a post closing basis) of the outstanding shares of UCBH common stock in two phases, with a mutual option to increase Minsheng’s ownership to 20.0% (calculated on a post closing basis).

In the first phase, which is anticipated to close in the first quarter of 2008, UCBH may issue approximately 5.4 million shares of its common stock to Minsheng at a price per share of \$17.79, representing the 90-day average UCBH closing price as of the close on September 28, 2007. In the second phase, which is anticipated to close later in 2008, Minsheng may increase its ownership to 9.9% through, at the discretion of UCBH, a combination of the purchase of secondary shares and/or the issuance of primary shares. By June 30, 2009, conditioned upon mutual agreement and regulatory approvals, Minsheng may increase its share ownership to 20.0% through, at the discretion of UCBH, a combination of the purchase of secondary shares and/or the issuance of primary shares.

[Table of Contents](#)**Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with the UCBH Holdings, Inc. and subsidiaries' consolidated financial statements and the accompanying notes presented elsewhere in this Annual Report on Form 10-K (dollars in thousands, except per share amounts):

	December 31,				
	2007	2006	2005	2004	2003
Financial Condition and Other Data:					
Loans held in portfolio, net	\$ 7,757,502	\$ 6,573,645	\$ 5,774,118	\$ 3,994,269	\$ 3,713,255
Securities purchased under agreements to resell	150,000	175,000	—	—	—
Securities available for sale	2,188,355	2,149,456	1,117,724	1,169,140	1,221,070
Securities held to maturity	271,485	290,673	308,608	325,202	284,712
Total assets	11,803,566	10,346,414	7,965,637	6,319,891	5,592,137
Deposits	7,781,240	7,202,845	6,264,169	5,215,862	4,483,521
Securities sold under agreements to repurchase	650,000	401,600	—	—	—
Subordinated debentures	406,615	240,549	150,520	140,210	140,210
Short-term borrowings	414,532	654,636	279,425	72,310	234,134
Long-term borrowings	1,372,190	906,651	562,033	334,952	271,408
Total liabilities	10,836,463	9,560,343	7,362,123	5,835,879	5,177,671
Stockholders' equity ⁽¹⁾	967,103	786,071	603,514	484,012	414,466
Nonperforming assets ⁽²⁾	57,029	15,198	19,133	12,574	5,857
Ratio of stockholders' equity to total assets	8.19%	7.60%	7.58%	7.66%	7.41%
Asset Quality Data:					
Loan delinquency ratio	1.45%	0.84%	0.48%	0.90%	0.87%
Nonperforming assets to total assets ⁽²⁾	0.48	0.15	0.24	0.20	0.10
Nonperforming loans to loans held in portfolio ⁽²⁾	0.68	0.19	0.33	0.31	0.16
Allowance for loan losses to loans held in portfolio	1.03	0.93	1.11	1.39	1.54
Allowance for loan losses to nonperforming loans	151.52	503.73	337.33	449.12	992.42
Total loan to deposit ratio ⁽⁷⁾	102.93	94.11	95.71	83.91	84.57
Regulatory Capital Ratios:					
United Commercial Bank and subsidiaries:					
Tier 1 risk-based capital	8.55%	9.67%	9.91%	11.42%	10.92%
Total risk-based capital	10.80	10.53	10.98	12.67	12.18
Tier 1 leverage	7.42	9.30	8.26	8.49	7.86
UCBH Holdings, Inc. and subsidiaries:					
Tier 1 risk-based capital	8.51	9.86	10.26	11.98	11.69
Total risk-based capital	10.76	10.72	11.33	13.23	12.94
Tier 1 leverage ratio	7.39	9.50	8.56	8.92	8.42

[Table of Contents](#)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Operating Data:					
Interest and dividend income	\$ 706,348	\$ 535,013	\$ 402,400	\$ 300,064	\$ 260,262
Interest expense	(383,760)	(271,080)	(161,910)	(92,583)	(91,714)
Net interest income	322,588	263,933	240,490	207,481	168,548
Provision for loan losses	(20,181)	(3,842)	(6,091)	(4,201)	(9,967)
Net interest income after provision for loan losses	302,407	260,091	234,399	203,280	158,581
Noninterest income	30,669	47,143	26,684	30,877	23,203
Noninterest expense	(177,820)	(155,420)	(116,913)	(99,153)	(80,208)
Income before income tax expense	155,256	151,814	144,170	135,004	101,576
Income tax expense	(52,948)	(50,937)	(46,344)	(49,401)	(36,938)
Net income	<u>\$ 102,308</u>	<u>\$ 100,877</u>	<u>\$ 97,826</u>	<u>\$ 85,603</u>	<u>\$ 64,638</u>
Per Share Data:					
Basic earnings per share ⁽¹⁾⁽³⁾	\$ 1.00	\$ 1.07	\$ 1.06	\$ 0.95	\$ 0.74
Diluted earnings per share ⁽¹⁾⁽³⁾	0.97	1.03	1.02	0.90	0.71
Dividends declared per share ⁽³⁾	0.12	0.12	0.10	0.08	0.06
Operating Ratios and Other Data:					
Return on average assets	0.97%	1.23%	1.40%	1.44%	1.26%
Return on average equity	11.55	15.59	18.42	18.92	18.84
Efficiency ratio ⁽⁴⁾	50.34	49.96	43.76	41.60	41.83
Noninterest expense to average assets	1.69	1.89	1.68	1.67	1.56
Average equity to average assets	8.41	7.88	7.61	7.62	6.66
Dividend payout ratio ⁽⁵⁾	12.37	11.65	9.80	8.89	8.51
Net loan charge-offs to average loans held in portfolio	0.13	0.17	0.03	0.11	0.06
Interest rate spread ⁽⁶⁾	2.81	2.91	3.25	3.42	3.21
Net interest margin ⁽⁶⁾	3.28	3.37	3.58	3.63	3.41

(1) In conjunction with the acquisitions of CAB Holding, LLC on May 23, 2007, Summit Bank Corporation on December 29, 2006, Asian American Bank & Trust Company on November 28, 2005, Pacifica Bancorp, Inc. on October 31, 2005, and First Continental Bank on July 11, 2003, UCBH issued 3.7 million, 4.8 million, 878,000, 1.2 million, and 2.3 million shares of common stock, respectively.

(2) Nonperforming assets exclude loans held for sale and loans contractually past due 90 days or more but still accruing.

(3) UCBH completed a two-for-one stock split during the years ended December 31, 2005 and 2003. Accordingly, for the years ended December 31, 2004 and 2003, basic earnings per share, diluted earnings per share and dividends per share have been adjusted to reflect the effect of the stock splits.

(4) Represents noninterest expense divided by the total of our net interest income before provision for loan losses and our noninterest income.

(5) Dividends declared per share as a percentage of diluted earnings per share.

(6) Calculated on a nontax equivalent basis.

(7) Total loan includes loans held for sale and loans held in portfolio.

[Table of Contents](#)**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation****EXECUTIVE SUMMARY**

UCBH Holdings, Inc. ("UCBH") and its consolidated subsidiaries (collectively referred to as the "Company", "we", "us" or "our") is a \$11.80 billion bank holding company with headquarters in San Francisco, California. The Company's operations are conducted primarily through its banking subsidiary, United Commercial Bank ("UCB"). UCB operates through seventy-eight offices and branches in the United States and Asia and is a leader in providing financial services to Asians in the United States. At December 31, 2007, we had seventy domestic branches and offices; twenty-nine in Northern California, twenty-two in Southern California, five in the Atlanta metropolitan area, three in the Boston metropolitan area, eight in the New York metropolitan area, two in the Seattle metropolitan area and one branch in Houston. UCB also has offices and branches in Hong Kong, Shanghai and Shantou, China and representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China and Taipei, Taiwan.

In providing its services, UCB has two primary goals:

- To be the best performing commercial bank primarily serving Asian communities in the United States by continuing to expand our franchise in areas of high growth opportunities.
- To further differentiate ourselves from our competitors by providing seamless service to customers doing business across the Pacific Rim by establishing offices in strategic locations in Asia.

Services to Asians

UCB has established and intends to continue establishing branches in areas of high Asian population concentration to attract retail deposits through new branch openings as well as through acquisitions. During 2007, UCB expanded its franchise in areas with high concentrations of Asians by adding one additional branch in California. We also completed the acquisitions of CAB, a \$357.2 million bank holding company with three branches in the New York metropolitan area, and BDB, a \$338.7 million foreign owned bank incorporated in China with branches in Shanghai and Shantou, China and representative offices in Beijing and Guangzhou, China.

Asia Locations

Currently, UCB has offices and branches in Hong Kong, Shanghai and Shantou, China and representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China and Taipei, Taiwan. Our fully operational Hong Kong, Shanghai and Shantou branches are authorized to conduct a complete range of banking operations, including offering deposit, foreign exchange and remittance services, issuing cashier orders, and providing trade finance, commercial banking and lending services. Our representative offices on the other hand, cannot conduct any profit generating banking business and are restricted to the specific activities that have been approved by the local banking authorities of their respective country, such as providing market research and acting in the capacity of a liaison to existing bank customers. As of December 31, 2007, UCB's Hong Kong branch had total loans of \$509.5 million and total deposits of \$1.11 billion. This office has expanded its trade finance services since its opening and the fees associated with those services have also increased over last year. As of December 31, 2007, UCB China Ltd had total loans of \$278.1 million, total deposits of \$38.4 million and interbank borrowings of \$112.1 million.

UCB intends to establish additional overseas offices and branches to facilitate international trade across the Asia Pacific region. In this regard, UCB has focused much of its growth strategies toward the expanding opportunities that have been emerging from China. Trade between China and the United States has increased steadily over the past several years and the trade finance business has followed. We anticipate that the opportunities for growth presented by the expansion of the Chinese economy will continue for some time.

Keys to Success

Success in attaining our goals will be dependent on our adherence to the fundamentals that we believe are vital to our ongoing successful growth. These fundamentals include:

- continued enhancement of UCB's business development capabilities, in terms of both diversification in the development of products and services and in developing new ways to differentiate UCB in the marketplace;

[Table of Contents](#)

- continued development of a strong trade finance platform, which will enable UCB to take advantage of the opportunities as they continue to develop in the Pacific Rim;
- continued maintenance of credit quality at the highest level;
- continued focus on attracting and retaining core deposits;
- continued focus on maintaining and enhancing our risk and compliance management infrastructures;
- continued attention to the design and development of our existing unique delivery networks to ensure that UCB products and services are easily available to its customers;
- continued concentration on maintaining a senior management team with the financial services expertise required by our operations and goals; and
- continued development of UCB's information systems infrastructure to support our planned growth.

In addition, we believe that we have a unique set of capabilities that provide us with an in-depth understanding of the Asian population, our targeted market. These capabilities help to differentiate us and enable us to enhance the service that we provide. These capabilities include:

- trilingual branch staff, lending/relationship officers, marketing team and phone banking service;
- automated teller machines in both Chinese and English;
- product brochures in both Chinese and English;
- seven-days a week banking in selected locations;
- e-business services in both Chinese and English; and
- products other than just loans and deposits, including investment management products and services.

MANAGEMENT'S OVERVIEW OF 2007 PERFORMANCE

We are providing you with an overview of what we believe are the most significant factors and developments that impacted the Company's results for 2007 and that could impact future results. We encourage you to carefully read this full document for more detailed information with regard to the trends, events and uncertainties that have or may affect us in the future.

The Company's primary or "core" business consists of providing commercial and retail banking services to both individuals and companies in markets with high concentration of Asians. We believe that this core banking business performed well in 2007 despite the general economic environment in these markets in the United States. However, the challenges presented by the general interest rate environment that we must work within as well as the credit and liquidity crunch did adversely impact the Company's performance in 2007.

The Company reported earnings for 2007 of \$102.3 million or diluted earnings per share of \$0.97. This compares with \$100.9 million or diluted earnings per share of \$1.03 for 2006 and \$97.8 million or diluted earnings per share of \$1.02 for 2005. Return on average equity ("ROE") was 11.55% and return on average assets ("ROA") was 0.97% in 2007, compared with 15.59% and 1.23% in 2006 and 18.42% and 1.40% in 2005, respectively.

Net interest income before loan loss provision increased \$58.7 million or 22.2% over 2006 levels. However, during the fourth quarter of 2007, the Company recorded an \$11.6 million other than temporary impairment charge on two of its collateralized debt obligations. In addition, as a result primarily of credit deterioration in certain of its construction loans, the Company recorded a \$14.0 million provision for loan losses in the fourth quarter of 2007. Overall, the loan loss provision increased \$16.3 million over 2006. Noninterest expense increased \$22.4 million or 14.4% over 2006 levels.

When we evaluate the Company's performance, we focus on five primary areas: (1) loan and deposit growth, (2) credit quality, (3) net interest margin, (4) expense control and (5) capital adequacy.

[Table of Contents](#)

Loan and Deposit Growth

Since 2003, UCB has experienced steady and strong growth in loans and deposits. This was accomplished in light of a challenging economic and competitive environment that was present during a large portion of this time period. The net loans held in portfolio and total deposits at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Loans held in portfolio, net	\$ 7,751,566	\$ 6,573,645	\$ 5,774,118	\$ 3,994,269	\$ 3,713,255
Deposits	7,781,240	7,202,845	6,264,169	5,215,862	4,483,521

The growth that was experienced in net loans held in portfolio and in deposits was achieved both organically and from acquisitions. Over the past six years, the Company has acquired seven banking companies, which added an aggregate of \$1.83 billion in net loans held in portfolio and \$2.71 billion in deposits as of the respective acquisition dates.

We expect modest growth in both net loans held in portfolio and in deposits, especially in the areas of commercial business and international trade finance loans. However, a continued economic downturn may affect the Company's loan portfolio growth. In addition, as part of its balance sheet management UCB enters into loan sales, which are discussed in later sections of this document.

Credit Quality

While loan growth has been substantial over the past several years, UCB has maintained strong credit quality levels. We believe that this has been accomplished through UCB's conservative credit underwriting criteria and credit risk management processes, which are discussed in more detail in "Credit Risk Management" that follows later in this document. Even with these strong credit management processes, we would expect that if UCB's loan portfolio continues to increase, the related allowance for loan losses would also increase accordingly. In addition, despite strong underwriting standards and a solid credit culture, loan losses may increase due to the state of the economy.

The average loans held in portfolio, total loan charge-offs and the ratios of nonperforming loans to loans held in portfolio, allowance for loan losses to loans held in portfolio and net charge-offs to average loans held in portfolio as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Average loans held in portfolio	\$ 7,235,389	\$ 5,889,301	\$ 4,823,671	\$ 4,070,168	\$ 3,380,121
Total loan charge-offs	10,677	10,694	1,614	4,798	3,349
Nonperforming loans to loans held in portfolio	0.68%	0.19%	0.33%	0.31%	0.16%
Allowance for loan losses to loans held in portfolio	1.03	0.93	1.11	1.39	1.54
Net loan charge-offs to average loans held in portfolio	0.13	0.17	0.03	0.11	0.06

The increase in nonperforming loans and the allowance to loans held in portfolio ratio is primarily the result of the downturn in the economy the last half of 2007 and the resultant impact on primarily the construction portfolio.

Net Interest Margin

The difficult and challenging interest rate environment that has been affecting financial institutions over the past three years, continued to impact our net interest margin. However, we expect to continue our efforts to improve the net interest margin in the future through prudent balance sheet management and emphasis on growth in core deposits. See "Interest Rate and Market Risk Management" later in this document. The Company's net interest

[Table of Contents](#)

margin on a nontax equivalent basis and average federal funds rate for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, were as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net interest margin — nontax equivalent basis	3.28%	3.37%	3.58%	3.63%	3.41%
Average federal funds rate	5.05	4.96	3.19	1.36	1.12

Expense Control

We are continuously monitoring our costs and expenses and seeking new ways to maintain them at acceptable levels. For 2007, we experienced an increase in our noninterest expense. Much of this increase was a result of increased personnel expense as we added staff to support the growth in UCB's commercial banking business, the opening of new branches, the additional staffing resulting from the CAB and BDB acquisitions and the expansion of UCB's infrastructure to support a larger and growing organization. We expect that our noninterest expense may continue to increase as we grow organically and continue with our acquisition strategy.

Capital Adequacy

As regulated financial institutions, the Company and UCB (on a consolidated basis) are required to maintain adequate levels of capital as measured by several regulatory capital ratios. One of our goals is to maintain a "well capitalized" level of regulatory capital as defined by the banking regulators for both the Company and UCB. The Company's and UCB's risk-based capital ratios at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
United Commercial Bank:					
Tier 1 leverage	7.42%	9.30%	8.26%	8.49%	7.86%
Tier 1 risk-based capital	8.55	9.67	9.91	11.42	10.92
Total risk-based capital	10.80	10.53	10.98	12.67	12.18
UCBH Holdings, Inc. and subsidiaries:					
Tier 1 leverage	7.39	9.50	8.56	8.92	8.42
Tier 1 risk-based capital	8.51	9.86	10.26	11.98	11.69
Total risk-based capital	10.76	10.72	11.33	13.23	12.94

The decline in the risk-based capital ratios over the past two years relates primarily to the Company's acquisitions, which increased risk-weighted assets, off-balance sheet exposures and goodwill at a rate that outpaced the growth in equity.

[Table of Contents](#)**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

The notes to the consolidated financial statements contain a summary of the Company's significant accounting policies that are presented elsewhere in this Annual Report on Form 10-K. We believe that an understanding of certain policies, along with the related estimates that we are required to make in recording the financial transactions of the Company, is important to have a complete picture of the Company's financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following is a discussion of these critical accounting policies and significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Company's Board of Directors.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of the losses that are inherent in the loans held in portfolio. UCB continuously monitors the quality of its loans held in portfolio and maintains an allowance for loan losses sufficient to absorb losses inherent in the loans held in portfolio. At December 31, 2007, UCB's total allowance for loan losses was \$80.6 million, which represented 1.03% of loans held in portfolio.

UCB's methodology for assessing the adequacy of the allowance for loan losses includes the evaluation of two distinct components: a general allowance applied to loans held in portfolio categories as a whole and a specific reserve for loans deemed impaired. Loans that are determined to be impaired are excluded from the general allowance analysis of the loans held in portfolio and are assessed individually.

In determining the general allowance, UCB applies loss factors, differentiated by an internal credit risk rating system, to its major loan portfolio categories (based primarily on loan type). UCB's risk rating system is applied at the individual loan level within each of the major loan portfolio categories. The credit quality of the loan portfolio is regularly assessed through ongoing review.

The loss factors are developed from actual historic losses, and reflect comparative analysis with peer group loss rates and expected losses, which are in turn based on estimated probabilities of default and loss given default. Additionally, loss factors incorporate qualitative adjustments that reflect an assessment of internal and external influences on credit quality that have not yet been reflected in the historical loss or risk-rating data. These influences may include elements such as portfolio credit quality trends and changes in concentrations, growth, or credit underwriting. UCB's qualitative adjustments also include an economic surcharge factor to adjust loss factors in recognition of the impact various macro-economic factors have on portfolio performance. The quantitative analysis also resulted in establishing a minimum loss factor for each of the major loan portfolio categories to better reflect minimum inherent loss in all portfolios including those with limited historic loss experience.

UCB regularly assesses the loss factors that are applied to loan portfolio categories on a quarterly basis, and as part of the assessment concluded during the year ended December 31, 2007, UCB effected further refinements in the determination of certain of its historical, qualitative and economic surcharge loss factors. In addition, UCB performs its annual allowance methodology review during the second quarter of each year. The annual methodology review primarily addresses the approaches, assumptions, and data inputs used in the quantitative support for the loss factors, and focused primarily on the continued development of the expected loss approach.

The second component of the allowance for loan losses, the specific reserve, applies to loans that are considered impaired. A loan is considered impaired when it is probable that UCB will not be able to collect all amounts due, including interest payments, in accordance with the loan's contractual terms. Unless the loan is collateral-dependent, loan impairment is measured based on the present value of expected future cash flows that have been discounted at the loan's effective interest rate unless foreclosure is probable, wherein fair value of collateral must be used. If the loan is collateral-dependent, either the observable market price or the current fair value of the collateral, reduced by estimated disposition costs, is used in place of the discounted cash flow analysis.

The allowance for loan losses increased \$18.6 million in 2007, from \$62 million at December 31, 2006 to \$80.6 million at December 31, 2007. The increase is due primarily to a \$20.2 million loan loss provision for 2007, in addition to the \$5.6 million of allowance for losses acquired in connection with the purchases of The Chinese American Bank and Business Development Bank Ltd. This increase was offset primarily by net loan charge-offs amounting to \$9.3 million for 2007. The \$20.2 million loan loss provision is in turn attributable to a net increase of

[Table of Contents](#)

\$9.6 million in specific valuation allowances during 2007, with the remainder associated with the combination of loan growth, loan migrations, changes in the loan portfolio product mix, changes in our historical, qualitative and economic surcharge loss factors within certain portfolios, and the net change in our reserve for unfunded commitments. Year over year loss factors changes did not materially impact the overall reserve.

UCB also estimates a reserve related to unfunded commitments and other off-balance sheet credit exposure. In assessing the adequacy of this reserve, UCB uses an approach similar to the approach used in the development of the allowance for loan losses. The reserve for unfunded commitments is included in other liabilities on the statement of financial position.

The reserve for unfunded commitments decreased \$1.9 million from December 31, 2006. The decrease was primarily a result of the change in the historic loss factor arising from our annual methodology review conducted in the second quarter of 2007.

There are numerous components that enter into the evaluation of the allowance for loan losses. Some are quantitative while others required UCB to make qualitative judgments. Although UCB believes that its processes for determining an appropriate level for the allowance for loan losses adequately address all of the components to estimate inherent credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and UCB's estimates and projections could require an additional allowance for credit losses, which would negatively impact the Company's results of operations in future periods.

Loan Sales, Loan Securitizations and Mortgage Servicing Rights

UCB periodically enters into transactions that transfer loans from UCB to third-party purchasers. In most instances, UCB continues to provide the servicing on these loans as a condition of the transfer. In addition, as part of these transactions, UCB may retain a cash reserve account, overcollateralization or an interest-only strip, all of which are considered to be retained interests in the sold loans.

Whenever UCB initiates a loan transfer, the first determination that it must make in connection with the transaction is whether the transfer constitutes a sale under accounting principles generally accepted in the United States of America. If it does, the assets are removed from UCB's consolidated statement of financial condition with a gain or loss recognized. Otherwise, the transfer is considered to be a financing, resulting in no gain or loss being recognized on the transfer, which is recorded as a liability on UCB's consolidated statement of financial condition. Generally, UCB's loan transfers have been structured to meet the existing criteria for sale treatment.

UCB must also make assumptions to determine the amount of gain or loss resulting from a sale transaction as well as the subsequent carrying amount for the above-discussed servicing rights and retained interests. Initially, the total carrying value of the loans being sold is allocated among the loans themselves, the servicing rights and any retained interests based on their relative fair values. The purchase price is then compared to the amount assigned to the loans, and any difference is recorded as either a gain or a loss on the sale. In determining the fair values of the components of the transaction, UCB uses estimates and assumptions that are based on the facts surrounding each sale. Using different assumptions could affect the amount of gain or loss recognized on the transaction and, in turn, UCB's results of operations.

UCB securitized one commercial real estate loan pool and one multi-family loan pool in 2007, through qualified special purpose entities ("QSPE"). QSPE's are passive entities with limited permitted activities. SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No. 125*, establishes the criteria that an entity must satisfy to be a QSPE. Such criteria include the types of assets held, limits on asset sales, use of financial guarantees and discretion exercised in loan servicing activities. In accordance with SFAS No. 140 and FIN 46(R), *Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51*, we do not consolidate QSPE's.

We have historically not sold any of the resulting securities or retained interests to outside parties. We have reflected the resulting securities in our available-for-sale investment securities portfolio. Initially, the total carrying value of the resulting security is allocated to the various tranches and retained interests based on their relative fair values. The fair value of the securities is then compared to the net carrying value of the underlying loans that have been securitized, along with the related issuance costs. Any excess of carrying value over fair value is charged off

[Table of Contents](#)

against our allowance for loan losses. Subsequently, any changes in fair value are measured and reflected in other comprehensive income. UCB uses estimates and assumptions that take into account prepayment speeds, credit defaults and discount rates, based on the facts surrounding each securitization. In the event that actual prepayments and credit defaults exceed our original assumptions, the resulting cash flows related to the residual tranche could be adversely affected, thereby potentially triggering an other than temporary impairment on such residual tranche.

UCB uses a third-party service to assist in the determination of the ongoing fair values of the servicing rights and retained interests subsequent to the transaction date. In valuing the servicing rights and retained interests, UCB stratifies its mortgage servicing rights based on the risk characteristics of the underlying loan pools. The fair value of mortgage servicing rights is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, ancillary income, adequate compensation and discount rates that UCB believes market participants would use for similar assets. These value estimations require a number of assumptions, including: annualized prepayment speed of the loans, expected annual net credit loss rate, and discount rate for the residual cash flows. We generally determine fair value of retained interests based on valuation models obtained from outsourced service providers. Such valuation models take into account observable inputs if such inputs are available. Observable inputs, however, may not be available, in which case the valuation model estimates fair value using the present value of expected future cash flows using estimates of key assumptions, including forecasted credit default rates, prepayment rates and discount rates commensurate with the rates used by unrelated third parties. If the carrying amounts of the servicing assets are greater than their fair values, impairment is recognized through a valuation allowance. If there has been an adverse cash flow change on residual interests, impairment is recognized. Since the valuations are based upon estimates and assumptions, any unfavorable differences between the actual outcome of the future performance of the sold loans and our estimates and assumptions could result in future impairment in excess of that currently recorded.

Goodwill

Business acquisitions often result in the recognition of goodwill, which represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142. The Company performs this annual test as of September 30 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate that an impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

The first step in this evaluation process is to determine if a potential impairment exists in any of the Company's reporting units, and, if required from the results of this step, a second step measures the amount of any impairment loss. The computations required by both steps one and two call for us to make a number of estimates and assumptions.

In completing step one, we determine the fair value of the reporting unit that is being evaluated. There are a number of methods that we can use in completing this step, including market capitalization and the discounted present value of management's estimates of future cash or income flows.

If step one indicates a potential impairment of a reporting unit, step two requires us to estimate the "implied fair value" of that unit. This process estimates the fair value of the unit's individual assets and liabilities in the same manner as if a purchase of the reporting unit were taking place. To do this, we must determine the fair value of the assets, liabilities and identifiable intangible assets of the reporting unit based upon the best available information. If the value of goodwill calculated in step two is less than the carrying amount of goodwill for the reporting unit, an impairment is indicated and the carrying value of goodwill is written down to the calculated value.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Factors that may significantly affect the estimates include, among others, changes in revenue growth trends, changes in stock prices, market values of mergers and acquisitions, and changes in industry or market sector conditions.

[Table of Contents](#)

As of September 30, 2007, we performed our annual goodwill impairment evaluation for the entire organization. Step one was performed by using a market value approach for the reporting units. In the market value approach, we determined the Company's market capitalization and compared that to the Company's stockholders' equity.

Upon completion of step one of the evaluation process, we concluded that no potential impairment existed for any of the Company's reporting units. In reaching this conclusion, we determined that the fair value of goodwill exceeded the recorded value of goodwill. Since this evaluation process required us to make estimates and assumptions with regard to the fair value of the Company's reporting units, actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Company's results of operations. However, had our estimated fair value of our reporting units been as much as 20% lower, there would still have been no indication of impairment for our reporting units.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*. Under SFAS No. 123(R), the total fair value of the stock options awards is expensed ratably over the service period of the employees receiving the awards. In adopting SFAS No. 123(R), the Company used the modified prospective method of adoption. Under this adoption method, compensation expense recognized subsequent to adoption will include: (a) compensation costs for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and (b) compensation costs for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board (the "APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, as allowed by SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. Under the intrinsic value method, no stock-based employee compensation cost is recorded, provided the stock options are granted with an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. No share-based employee compensation cost has been reflected in the Company's net income prior to the adoption of SFAS No. 123(R).

In estimating the fair value of each stock option award on their respective grant dates, we use the Black-Scholes pricing model. The following are the average assumptions that were incorporated in the model for the years ended December 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	0.58%	0.61%	0.60%
Volatility	29.21%	29.88%	29.03%
Risk-free interest rate	4.76%	4.72%	4.22%
Expected lives (years)	7.87	7.47	7.50

The expected life of the options is based on historical data of UCBH's actual experience with the options it has granted and represents the period of time that the options granted are expected to be outstanding. This data includes employees' expected exercise and post-vesting employment termination behaviors. The expected stock price volatility is estimated using the historical volatility of UCBH's common stock and other factors. The historical volatility covers a period that corresponds to the expected life of the options. The expected dividend yield is based on the estimated annual dividends that UCBH expects to pay over the expected life of the options as a percentage of the market value of UCBH's stock as of the grant date. The risk-free interest rate for the expected life of the options granted is based on the U.S. Treasury yield curve in effect as of the grant date. The decrease in average volatility rate is a result of UCBH's stock price being more stable during the year ended December 31, 2007, as compared to same period in 2006. The increase in the risk free interest rate reflects the higher U.S. Treasury yields for the year ended December 31, 2007, as compared to the same period in 2006.

[Table of Contents](#)

The fair values assigned to UCBH's stock options are based upon estimates and assumptions. In accordance with SFAS No. 123(R), once established, the fair value does not change unless the option grant is modified subsequent to its issuance. If actual results are not consistent with our estimates and assumptions, we may be required to record additional stock-based compensation expense or income tax expense, which could affect our results of operations. However, we believe that given the procedures that we have followed in determining the assumptions used in the estimation process, the fair values of the options are appropriate.

Effective December 27, 2005, UCBH's Board of Directors authorized UCBH to accelerate the vesting of all unvested options associated with grants issued on or prior to October 26, 2005. The decision to accelerate the vesting of the options, which UCBH believes was in the best interests of its stockholders, was made primarily to reduce the impact of recording approximately \$16.4 million of noncash compensation expense, net of taxes, over the period of 2006 through 2008 upon the implementation of SFAS No. 123(R). The options acceleration was treated as a modification of the terms of the existing option grants, thereby requiring a new value measurement as of the acceleration date. Any increase between the newly measured value and the original grant price is viewed as additional intrinsic value and may need to be included in future compensation expense under certain conditions related to prospective employee terminations.

Income Taxes

The provision for income taxes is based on income reported for financial statement purposes and differs from the amount of taxes currently payable, because certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes.

The Company accounts for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is established, when necessary, to reduce the deferred tax assets to the amount that is more likely than not to be realized.

As part of the computation of the income tax provision, estimates and assumptions must be made regarding the deductibility of certain expenses and the treatment of tax contingencies. There is a possibility that these estimates and assumptions may be disallowed as part of an audit by the various taxing authorities that the Company is subject to. Any differences between items taken as deductions in our tax provision computations and those allowed by the taxing authorities could result in additional income tax expense in future periods.

Asset Valuation

A significant number of the Company's financial instruments are measured and carried at fair value. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Wherever possible, we base our fair values on observable market prices or parameters derived from such prices or parameters. Where observable prices or inputs are not available, valuation models from outsourced service providers are utilized to assist the Company. The valuation models involve some level of estimation and judgment, the degree of which is dependent on the price transparency for the respective financial instruments' market and related complexity. Reliance on estimation and judgment increases in adverse market conditions with decreased liquidity, such as those experienced during the latter half of 2007. If such conditions exist through 2008, we would expect continued reliance on these judgments. As a result, the fair values that we have assigned to these assets may not necessarily represent amounts that could be ultimately realized upon their disposal.

Available for Sale Securities. Securities that are held to meet investment objectives, such as interest rate risk and liquidity management, and may be sold to implement management strategies are classified as available for sale. The fair values of a significant portion of securities classified as available for sale are based on observable market prices. If observable market prices are unavailable, fair values are either extrapolated from the observable market prices of similar instruments or are derived based on valuations obtained from outsourced service providers utilized

[Table of Contents](#)

to assist the Company, which generally have as inputs (as applicable) interest rate yield curves, forecasted credit default rates, prepayment rates and discount rates commensurate with the rates used by unrelated third parties. Any declines in fair value that are determined to be other-than-temporary result in a write-down of the security and a corresponding charge to noninterest income. During the fourth quarter of 2007, as a result of market conditions, the company recognized other than temporary impairment totaling \$11.6 million.

Loans Held For Sale. A loan is classified as being held-for-sale when it has been identified as either available to be sold or when it has been included in a pool of loans that are awaiting sale. As of December 31, 2007, only commercial real estate loans, SBA loans and residential mortgages were included in the portfolio. Loans held for sale are valued at the lower of cost or fair market value. Unless otherwise indicated, loans held for sale are not included in any of the disclosures or discussions that address the loan portfolio, including the allowance for loan losses, outstanding balances and portfolio performance indicators for loans held in portfolio.

Whenever UCB determines that a loan is for sale, the loan is transferred from loans held in portfolio to loans held for sale. At that time, UCB computes the market value of the loan and compares that value with the carrying amount of the loan. If the market value is less than the carrying amount, UCB writes down the carrying amount to the market value through a charge against our allowance for loan losses.

UCB uses outside service companies to assist in the determination of the market value of its held for sale loans. For SBA loans, the service performing the valuation uses market prices for similar loans to determine the value of the non-guaranteed portion of each loan. For commercial real estate loans, the outside service uses a collateralized mortgage-backed securities pricing matrix in which loans are converted to an equivalent investment using various key factors associated with the loan. These factors include the contractual interest rate, maturity date, loan to value ratio, and current credit risk rating of the loan, among others. The equivalent investment is then given a market value rating and an associated premium or discount is assigned to the loan. The related estimated selling costs associated with each loan are also included in the valuation calculation.

Core Deposit Intangibles. Core deposit intangibles are created as a result of the Company's acquisition of another financial institution. They represent the value that the acquired deposits have as a source of funding when compared to alternative funding sources, such as borrowings. When acquired, core deposit intangibles are valued by an outside service by computing the present value of the expected cost savings attributable to the core deposit funding relative to an alternative source of funding. Subsequent to the initial recording, core deposit intangibles are amortized based upon the expected runoff rate of the related deposits. In addition, the value of core deposit intangibles is reviewed each quarter for possible impairment by comparing actual deposit runoff to estimated runoff. Should the actual runoff exceed the estimate, the core deposit intangible is written down to the adjusted amount through a charge to noninterest expense. At that point, the runoff estimates are adjusted to reflect the actual runoff and the new estimates are used for subsequent amortization.

Recent Accounting Pronouncements

Accounting for Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP) and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial position or results of operations.

In conjunction with the adoption of SFAS 157, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides an irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and financial liabilities, on a contract-by-contract basis, with changes in fair value reported in results of operations. The Company did not

[Table of Contents](#)

elect the fair value option for any of its financial assets or financial liabilities on the adoption date. As such, the adoption of SFAS 159 will not have a material impact on the Company's financial position or results of operations.

Accounting for Business Combinations

Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, was issued in December 2007. SFAS No. 141R replaces SFAS No. 141, *Business Combinations*. SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS No. 141R will have on its financial statements.

Accounting for Noncontrolling Interests in Consolidated Financial Statements

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*, was issued in December 2007 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The Company is currently evaluating the impact that adopting SFAS 160 will have on its financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company has no defined benefit pension plan and the adoption of SFAS No. 158 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement

[Table of Contents](#)

that, when all relevant quantitative and qualitative factors considered, is material. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. The adoption of SAB No. 108 did not have a material effect on its consolidated financial position, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. As a result of the implementation of Interpretation 48, the Company recorded approximately a \$2.6 million decrease in the liability for uncertain tax positions, which was accounted for as a reduction to the January 1, 2007 goodwill.

As of January 1, 2007, the Company had approximately \$3.0 million of total gross unrecognized tax benefits, including those benefits for which we established a reserve upon adoption of FIN 48. Of this total, \$1.2 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in any future periods.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense associated with unrecognized tax benefits is classified as other interest expense in the consolidated statement of income. Penalties associated with unrecognized tax benefits are classified as other expense in the consolidated statement of income.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*. SFAS No. 156 permits entities to choose either to measure servicing rights subsequent to initial valuation at fair value and report changes in fair value in earnings or to amortize the servicing rights in proportion to and over the estimated net servicing income or loss and assess the servicing rights for impairment or the need for an increased obligation. SFAS No. 156 also clarifies when a servicer should separately recognize servicing assets and liabilities, requires that all separately recognized assets and liabilities be initially measured at fair value, if practicable, permits a one-time reclassification of available for sales securities to trading securities by an entity with recognized servicing rights and requires additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective as of the beginning of an entity's fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 did not have a material impact on its consolidated financial position, results of operations or cash flows.

[Table of Contents](#)***Accounting for Certain Hybrid Financial Instruments***

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The new standard is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on its consolidated financial position, results of operations or cash flows.

[Table of Contents](#)**RESULTS OF OPERATIONS****Financial Highlights** (Dollars in Thousands, Except Per Share Data)

	Year Ended December 31,				Year Ended December 31,				
	2007	2006	Increase (Decrease)		2006	2005	Increase (Decrease)		
			Amount	%			Amount	%	
Operating Data:									
Interest & dividend income:									
Loans	\$ 575,805	\$ 448,650	\$ 127,155	28.34	\$ 448,650	\$ 333,159	\$ 115,491	34.67	
Investment & mortgage-backed securities:									
Taxable	88,043	62,418	25,625	41.05	62,418	55,369	7,049	12.73	
Tax-exempt	14,907	10,717	4,190	39.10	10,717	10,617	100	0.94	
FHLB stock	3,825	3,006	819	27.25	3,006	1,134	1,872	165.08	
Funds sold	2,781	522	2,259	432.76	522	377	145	38.46	
Due from bank	10,354	5,185	5,169	99.69	5,185	1,744	3,441	197.31	
Securities purchased under agreements to resell	10,633	4,515	6,118	—	4,515	—	4,515	—	
Total interest & dividend income	706,348	535,013	171,335	32.02	535,013	402,400	132,613	32.96	
Interest expense:									
Deposits	276,331	210,059	66,272	31.55	210,059	123,317	86,742	70.34	
Securities sold under agreements to repurchase	15,308	5,313	9,995	188.12	5,313	—	5,313	—	
Short-term borrowings and federal funds purchased	16,557	10,178	6,379	62.67	10,178	10,605	(427)	(4.03)	
Subordinated debentures	23,333	12,106	11,227	92.74	12,106	9,353	2,753	29.43	
Long-term borrowings	52,231	33,424	18,807	56.27	33,424	18,635	14,789	79.36	
Total interest expense	383,760	271,080	112,680	41.57	271,080	161,910	109,170	67.43	
Net interest income	322,588	263,933	58,655	22.22	263,933	240,490	23,443	9.75	
Provision for loan losses	20,181	3,842	16,339	425.27	3,842	6,091	(2,249)	(36.92)	
Net interest income after provision for loan losses	302,407	260,091	42,316	16.27	260,091	234,399	25,692	10.96	
Noninterest income:									
Commercial banking fees	19,972	15,444	4,528	29.32	15,444	10,607	4,837	45.60	
Service charges on deposits	6,969	3,722	3,247	87.24	3,722	3,038	684	22.51	
Gain (loss) on sale of securities, net	5,321	206	5,115	2,483.01	206	(5)	211	4,220.00	
Gain on sale of SBA loans, net	2,500	2,930	(430)	(14.68)	2,930	3,356	(426)	(12.69)	
Gain on sale of commercial & multifamily real estate loans, net	5,702	17,812	(12,110)	(67.99)	17,812	12,207	5,605	45.92	
Lower of cost or market adjustment on loans held for sale, net	(303)	76	(379)	(498.68)	76	(1,152)	1,228	106.60	
Impairment on available for sale securities, net	(11,593)	—	(11,593)	—	—	—	—	—	
Equity loss in other equity investments, net	(3,023)	(1,106)	(1,917)	(173.33)	(1,106)	(2,296)	1,190	51.83	
Acquisition termination fee	—	5,000	(5,000)	(100.00)	5,000	—	5,000	—	
Other fees	5,124	3,059	2,065	67.51	3,059	929	2,130	229.28	
Total noninterest income	30,669	47,143	(16,474)	(34.94)	47,143	26,684	20,459	76.67	
Noninterest expense:									
Personnel	98,048	88,616	9,432	10.64	88,616	60,152	28,464	47.32	
Occupancy	21,209	16,189	5,020	31.01	16,189	12,238	3,951	32.28	
Data processing	9,173	9,890	(717)	(7.25)	9,890	6,847	3,043	44.44	
Furniture & equipment	8,644	7,100	1,544	21.75	7,100	6,534	566	8.66	
Professional fees & contracted services	7,369	9,855	(2,486)	(25.23)	9,855	10,763	(908)	(8.44)	
Deposit insurance	1,800	784	1,016	129.59	784	742	42	5.66	
Communication	3,074	1,071	2,003	187.02	1,071	955	116	12.15	
Core deposit intangible amortization	4,566	2,342	2,224	94.96	2,342	1,345	997	74.13	
Loss (gain) on extinguishment of subordinated debentures & borrowings	—	(360)	360	(100.00)	(360)	1,246	(1,606)	(128.89)	
Other general & administrative	23,937	19,933	4,004	20.09	19,933	16,091	3,842	23.88	
Total noninterest expense	177,820	155,420	22,400	14.41	155,420	116,913	38,507	32.94	
Income before income tax expense	155,256	151,814	3,442	2.27	151,814	144,170	7,644	5.30	
Income tax expense	52,948	50,937	2,011	3.95	50,937	46,344	4,593	9.91	
Net income	\$ 102,308	\$ 100,877	\$ 1,431	1.42	\$ 100,877	\$ 97,826	\$ 3,051	3.12	
Per Share Data:									
Basic earnings per share	\$ 1.00	\$ 1.07	\$ (0.07)	(6.54)	\$ 1.07	\$ 1.06	\$ 0.01	0.94	
Diluted earnings per share	0.97	1.03	(0.06)	(5.83)	1.03	1.02	0.01	0.98	
Dividends declared per share	0.12	0.120	—	—	0.120	0.100	0.020	20.00	

[Table of Contents](#)

	Year Ended December 31,				Year Ended December 31,			
	Increase (Decrease)				Increase (Decrease)			
	2007	2006	Amount	%	2006	2005	Amount	%
Operating Ratios and Other Data:								
Return on average assets	0.97%	1.23%	(22)bp*	(18.02)	1.23%	1.40%	(17)bp*	(12.14)
Return on average equity	11.55	15.59	(360)	(23.08)	15.59	18.42	(283)	(15.36)
Efficiency ratio(1)	50.34	49.96	20	0.40	49.96	43.76	620	14.17
Noninterest expense to average assets	1.69	1.89	(21)	(10.97)	1.89	1.68	21	12.50
Average equity to average assets	8.41	7.88	53	6.73	7.88	7.61	27	3.55
Dividend payout ratio(2)	12.37	11.65	72	6.18	11.65	9.80	185	18.88
Net loan charge-offs to average loans held in portfolio	0.13	0.17	(4)	(24.71)	0.17	0.03	14	466.67
Interest rate spread(3)	2.89	2.98	(9)	(3.02)	2.98	3.33	(35)	(10.51)
Net interest margin(3)	3.36	3.45	(9)	(2.61)	3.45	3.66	(21)	(5.74)

(1) Represents noninterest expense divided by the total of our net interest income before provision for loan losses and our noninterest income.

(2) Dividends declared per share as a percentage of diluted earnings per share.

(3) Calculated on a tax equivalent basis. Interest income from tax-exempt investment securities calculated on a tax equivalent basis was \$22.9 million, \$16.5 million and \$15.8 million for the years ended December 31, 2007, 2006 and 2005, respectively.

* Basis point

Year Ended December 31, 2007, Compared to Year Ended December 31, 2006

The consolidated net income of the Company for the year ended December 31, 2007, increased modestly by \$1.4 million, or 1.4%, to \$102.3 million, compared to \$100.9 million for the same period in 2006. The modest increase in net income was the result of increase in loan loss provision and realized losses on certain collateralized debt obligations that were deemed impaired in the fourth quarter of 2007 as a result of credit downgrades. The ROE and ROA ratios for the year ended December 31, 2007, were 11.55% and 0.97%, respectively. These amounts compare with the ROE ratio of 15.59% and the ROA ratio of 1.23% for the year ended December 31, 2006. During the fourth quarter of 2007, the Company recorded an \$11.6 million other than temporary impairment charge on two of its collateralized debt obligations. In addition, as a result of credit deterioration in certain of its construction loans, the Company recorded a \$14.0 million provision for loan losses in the fourth quarter of 2007. The declines in the ratios are reflective of the growth rates of assets and equity that exceeded the growth in net income, primarily as a result of the Company's expansion and acquisitions that were consummated in the latter part of 2007 as well as a result of the CDO writedown and increase loan loss provisions recorded in the fourth quarter of 2007. The efficiency ratio was 50.34% for the year ended December 31, 2007, compared with 49.96% for the same period in 2006. The higher efficiency ratio is reflective of the growth in noninterest expense that exceeded the growth in net interest income and noninterest income, resulting from the Company's expansion and acquisitions. Diluted earnings per share were \$0.97 and \$1.03 for the years ended December 31, 2007 and 2006, respectively.

Net Interest Income and Net Interest Margin. The increase in net interest income for the year ended December 31, 2007, compared to the same period in 2006 was principally due to a \$2.02 billion increase in average interest-earning assets, which resulted primarily from organic loan growth along with the CAB acquisition. The average cost of deposits increased 36 basis points from 3.37% for the year ended December 31, 2006, to 3.73% for the year ended December 31, 2007, as a result of an increase in market interest rates during the past twelve months, the change in the composition of deposits and the procurement of certificates of deposit from brokers. These factors were partially offset by a 44 basis point increase in average loan yields reflecting the repricing of adjustable-rate loans as market interest rate indices rose during parts of 2007. The yield on taxable securities also increased for the year ended December 31, 2007, compared to the same period in 2006 as a result of purchases of higher-yielding securities during 2007.

[Table of Contents](#)

The following table reflects the distribution of average assets, liabilities and stockholders' equity, as well as the amounts of interest income and resultant yields earned from average interest-earning assets, and the amounts of interest expense and resultant rates paid on average interest-bearing liabilities for the year ended December 31, 2007 and 2006 (dollars in thousands):

	2007			2006		
	Average Balance	Interest Income/ Expense	Average Yields Earned/ Rates Paid	Average Balance	Interest Income/ Expense	Average Yields Earned/ Rates Paid
Nontaxable equivalent basis:						
Interest-earning assets						
Loans(1)(2)	\$ 7,363,435	\$ 575,805	7.82%	\$ 6,079,574	\$ 448,650	7.38%
Taxable securities(3)	1,727,075	88,043	5.10	1,296,231	62,418	4.82
Tax-exempt securities(3)	304,342	14,907	4.90	224,295	10,717	4.78
FHLB Stock	72,820	3,825	5.25	48,645	3,006	6.18
Securities purchased under agreements to resell	159,657	10,633	6.66	60,822	4,515	7.42
Other	214,651	13,135	6.12	117,096	5,707	4.87
Total interest-earning assets	9,841,980	706,348	7.18	7,826,663	535,013	6.84
Noninterest-earning assets	688,180	—		382,187	—	
Total assets	<u>\$ 10,530,160</u>	<u>\$ 706,348</u>		<u>\$ 8,208,850</u>	<u>\$ 535,013</u>	
Interest-bearing liabilities:						
Deposits:						
NOW, checking and money market accounts	\$ 1,531,449	\$ 51,535	3.37	\$ 1,300,150	\$ 41,282	3.18
Savings accounts	726,168	7,117	0.98	713,068	9,527	1.34
Time deposits	4,380,809	217,679	4.97	3,677,491	159,250	4.33
Total interest-bearing deposits	6,638,426	276,331	4.16	5,690,709	210,059	3.69
Securities sold under agreements to repurchase	400,614	15,308	3.82	152,059	5,313	3.49
Short-term borrowings and federal funds purchased	324,962	16,557	5.10	224,883	10,178	4.53
Long-term borrowings	1,113,881	52,231	4.69	683,978	33,424	4.89
Subordinated debentures	312,889	23,333	7.46	152,136	12,106	7.96
Total interest-bearing liabilities	8,790,772	383,760	4.37	6,903,765	271,080	3.93
Noninterest-bearing deposits	767,641	—		544,910	—	
Other noninterest-bearing liabilities	86,316	—		113,089	—	
Stockholders' equity	885,431	—		647,086	—	
Total liabilities and stockholders' equity	<u>\$ 10,530,160</u>	<u>\$ 383,760</u>		<u>\$ 8,208,850</u>	<u>\$ 271,080</u>	
Net interest-earning assets/net interest income/net interest rate spread(4)	<u>\$ 1,051,208</u>	<u>\$ 322,588</u>	<u>2.81%</u>	<u>\$ 922,898</u>	<u>\$ 263,933</u>	<u>2.91%</u>
Net interest margin(5)			<u>3.28%</u>			<u>3.37%</u>
Ratio of interest-earning assets to interest-bearing liabilities	<u>1.12x</u>			<u>1.13x</u>		
Tax equivalent basis:						
Total interest-earning assets(6)	\$ 9,841,980	\$ 714,374	7.26%	\$ 7,826,663	\$ 540,784	6.91%
Total interest-bearing liabilities	8,790,772	383,760	4.37	6,903,765	271,080	3.93
Net interest-earning assets/net interest income/net interest rate spread(4)	<u>\$ 1,051,208</u>	<u>\$ 330,614</u>	<u>2.89%</u>	<u>\$ 922,898</u>	<u>\$ 269,704</u>	<u>2.98%</u>
Net interest margin(5)			<u>3.36%</u>			<u>3.45%</u>
Average cost of deposits:						
Total interest-bearing deposits	\$ 6,638,426	\$ 276,331	4.16%	\$ 5,690,709	\$ 210,059	3.69%
Noninterest-bearing deposits	767,641	—		544,910	—	
Total deposits	<u>\$ 7,406,067</u>	<u>\$ 276,331</u>	<u>3.73%</u>	<u>\$ 6,235,619</u>	<u>\$ 210,059</u>	<u>3.37%</u>

(1) Nonaccrual loans are included in the table for computation purposes; however, interest for such loans is recognized on a cash basis.

[Table of Contents](#)

- (2) Average loans include loans held for sale.
- (3) Average yield on investment securities is computed using historical cost balances; the yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity.
- (4) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income divided by average interest-earning assets.
- (6) Interest income from tax-exempt securities has been adjusted to a tax equivalent basis using a statutory federal income tax rate of 35.0%. Interest income from tax-exempt investment securities calculated on a tax equivalent basis was \$22.9 million and \$16.5 million for the years ended December 31, 2007 and 2006, respectively.

The decline in the net interest margin for the year ended December 31, 2007, compared to same period in 2006 reflects the impact of increased costs of money market accounts and certificates of deposit resulting from higher market interest rates, the runoff of savings accounts due to the current market interest rates, the change in the composition of deposits and the procurement of costlier certificates of deposit from brokers, all of which were partially offset by higher loan yields.

The net interest margin, calculated on a tax equivalent basis, was 3.36% for the year ended December 31, 2007, as compared to 3.45% for 2006. Certain interest-earning assets of the Company qualify for federal tax exemptions or credits. The net interest margin, calculated on a tax equivalent basis, considers the tax benefit derived from these assets. The net interest margin decline reflects the impact of increased costs of money market accounts and certificates of deposit resulting from higher market interest rates, the change in the composition of deposits and the procurement of costlier certificates of deposit from brokers partially offset by higher loan yields, and decreases in interest rates causing deposits to reprice faster than loans.

Average interest-earning assets for the year ended December 31, 2007, increased 25.8% compared to the year ended December 31, 2006, primarily as a result of organic construction and business loan growth and the assets acquired from the CAB and BDB acquisitions. Average outstanding loans increased by \$1.28 billion for the year ended December 31, 2007, from the year ended December 31, 2006, principally as a result of UCB's continued focus on commercial lending activities. Average commercial loan balances increased 24.8% compared to the corresponding period of 2006, primarily due to UCB's past emphasis on commercial real estate, continued emphasis on commercial business loans, expansion of its Hong Kong branch and from the CAB and BDB acquisitions. Average consumer loans for the year ended December 31, 2007, decreased \$73.8 million, or 12.1%, compared to the same period in 2006. As of December 31, 2007, total loans represented 67.8% of total assets. New loan commitments of \$4.12 billion for the year ended December 31, 2007, were comprised of \$3.91 billion in commercial loan commitments and \$201.8 million in consumer loan commitments.

Average investment and mortgage-backed securities for the year ended December 31, 2007, increased \$510.9 million, or 33.6%, from the year ended December 31, 2006. In preparation for the closing of the acquisitions of Summit and The Chinese American Bank, the Company increased its securities portfolio in the fourth quarter of 2006. The Company experienced a reduction in the securities portfolio during the first and early second quarter of 2007 as Summit was integrated into UCB and as The Chinese American Bank acquisition closed. One of the Company's long-term goals is to reduce the investment and mortgage-backed securities portfolio to a range of 10% to 15% of total assets.

Average total deposits increased \$1.17 billion, or 18.8%, for the year ended December 31, 2007, from the year ended December 31, 2006, reflecting UCB's ongoing focus on the generation of commercial and consumer demand deposits and from the CAB and BDB acquisitions. In addition, UCB also had \$163.5 million in brokered deposits at December 31, 2007. Average interest-bearing deposits increased to \$6.64 billion for the year ended December 31, 2007, up 16.7% from the year ended December 31, 2006, and average noninterest-bearing deposits increased to \$767.6 million, up 40.9% for the year ended December 31, 2007, compared to the year ended December 31, 2006.

[Table of Contents](#)

The changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities, and the amount of change that is attributable to volume and rate changes by comparing the years ended December 31, 2007 to 2006, are as follows (dollars in thousands):

	Year Ended December 31, 2007 Compared to 2006		
	Changes due to		Total
	Volume	Rate	
Interest income:			
Loans	\$ 94,744	\$ 32,411	\$ 127,155
Taxable securities	20,747	4,878	25,625
Tax-exempt securities	3,825	365	4,190
FHLB stock	1,494	(675)	819
Securities purchased under agreements to resell	7,337	(1,219)	6,118
Other	4,755	2,673	7,428
Total interest income on interest-earning assets	132,902	38,433	171,335
Interest expense:			
Deposits:			
NOW, checking, and money market accounts	7,344	2,909	10,253
Savings accounts	175	(2,585)	(2,410)
Time deposits	30,456	27,973	58,429
Securities sold under agreements to repurchase	8,685	1,310	9,995
Short-term borrowings and federal funds purchased	4,529	1,850	6,379
Long-term borrowings	21,008	(2,201)	18,807
Subordinated debentures	12,792	(1,565)	11,227
Total interest expense on interest-bearing liabilities	84,989	27,691	112,680
Increase (decrease) in net interest income	\$ 47,913	\$ 10,742	\$ 58,655

Provision for Loan Losses. The provision for loan losses was \$20.2 million for 2007, as compared to \$3.8 million for 2006. Of the total 2007 provision, \$14.0 million was recorded in the fourth quarter of 2007. While the Company is not directly involved in sub-prime lending activities, current economic pressures on housing and land values in certain California markets such as the Inland Empire, Central Valley and Sacramento area have impacted a certain segment of the overall loan portfolio. Approximately 10% of the loan portfolio is concentrated in these stressed California markets, and the Company has noted an increase in loan delinquencies and some migration to criticized credit categories that are predominately related to construction lending. Therefore, in the fourth quarter of 2007, the Company increased its specific valuation allowances by \$4.4 million, and increased its economic surcharge factors by \$4.3 million, which included \$3.3 million specifically related to the construction portfolio. However, year over year changes in loss factors did not materially impact the provision for loan losses. The increase was the result of an increase in classified loans and specific reserves on impaired loans.

For the year ended December 31, 2007, net charge-offs were \$9.26 million, a decrease of \$0.96 million from the \$10.22 million of net charge-offs for the year ended December 31, 2006. Net charge-offs as a percentage of average loans held in portfolio was 0.13% for the year ended December 31, 2007, as compared to 0.17% for the year ended December 31, 2006, a decrease of 4 basis points as compared to 2006. The provision for loan losses was \$10.9 million greater than net charge-offs for the year December 31, 2007, which resulted in a corresponding increase in the Company's allowance for loan losses.

See "Credit Risk Management" for more information on how we determine the appropriate level for the allowances for loan losses and unfunded lending commitments.

Noninterest Income. Noninterest income decreased by \$16.5 million, or 34.9%, for the year ended December 31, 2007, compared to the same period in 2006. Noninterest income in 2007 included an \$11.6 million charge for realized losses on two of our collateralized debt obligations. Noninterest income in 2006 included a \$5.0 million acquisition termination fee from Great Eastern Bank and \$1.6 million of interest

[Table of Contents](#)

income related to refunds from amended income tax returns. Commercial banking fees increased to \$20.0 million for the year ended December 31, 2007, compared to \$15.4 million for the same period in 2006. The increase reflects the growth in trade finance activity, merchant card activity, other commercial banking fees and fees from UCB Investment Services, Inc. Gain on sale of multifamily and commercial real estate loans decreased to \$5.7 million for the year ended December 31, 2007, from \$17.8 million for the same period in 2006. The lower of cost or market adjustment related to loans held for sale reflects a \$303,000 loss related to loans transferred from held for sale to held in portfolio for the year ended December 31, 2007, compared to a \$76,000 recovery related to previously recognized write down of loans held for sale to market for the same period in 2006. Additionally, UCB had an increase for equity losses in other equity investments to \$3.0 million for the year ended December 31, 2007, from \$1.1 million for the same period in 2006.

Noninterest Expense. Noninterest expense increased \$22.4 million, or 14.4%, for the year ended December 31, 2007, compared to the same period in 2006. For the year ended December 31, 2007, personnel expenses increased \$9.4 million, or 10.6%, from the same period in 2006 due to additional staffing required to support the growth of UCB's commercial banking business, the opening of new branches, the additional staffing resulting from the Summit Bank, CAB and BDB acquisitions and the expansion of UCB's infrastructure to support a larger and growing organization. Occupancy expenses increased \$5.0 million, or 31.0%, for the year ended December 31, 2007, compared to the same period in 2006 as a result of the opening of new branches and the operations of Summit Bank, CAB and BDB. Core deposit intangible amortization increased \$2.2 million, or 95.0%, for the year ended December 31, 2007, compared to the same period in 2007 as a result of the additional amortization of the core deposit intangibles associated with the Summit Bank and CAB acquisitions. Other general and administrative expenses increased by \$4.0 million, or 20.1%, for the year ended December 31, 2007, compared to the same period in 2006 primarily as a result of increased advertising expenses related to UCB's expansion, market promotions, merchant card expenses and foreign exchange losses.

Income Tax Expense. The effective tax rate for the year ended December 31, 2007, was 34.1% compared with 33.6% for the year ended December 31, 2006. The effective tax rate for the year ended December 31, 2006, reflects an income tax benefit of \$4.0 million related to additional Enterprise Zone tax benefits realized in 2006. The effective tax rates are generally lower than the combined federal and state statutory rate of 42.0%, primarily due to federal and state tax credits and incentives, and tax-exempt income.

Year Ended December 31, 2006, Compared to Year Ended December 31, 2005

The consolidated net income of the Company for the year ended December 31, 2006, increased by \$3.1 million, or 3.1%, to \$100.9 million, compared to \$97.8 million for the same period in 2005. The ROE and ROA ratios for the year ended December 31, 2006, were 15.59% and 1.23%, respectively. These amounts compare with the ROE ratio of 18.42% and the ROA ratio of 1.40% for the year ended December 31, 2005. The declines in the ratios are reflective of the growth rates of assets and equity that exceeded the growth in net income, primarily as a result of the Company's expansion and acquisitions that were consummated in the latter part of 2006. Additionally, a tax benefit of \$3.9 million associated with the repatriation of earnings from a foreign subsidiary contributed to a higher ROE and ROA for 2005. The efficiency ratio was 49.96% for the year ended December 31, 2006, compared with 43.76% for the same period in 2005. The higher efficiency ratio increase is reflective of the growth in noninterest expense that exceeded the growth in net interest income and noninterest income, resulting from the Company's expansion and acquisitions. Diluted earnings per share were \$1.03 and \$1.02 for the years ended December 31, 2006 and 2005, respectively.

Net Interest Income and Net Interest Margin. The increase in net interest income for the year ended December 31, 2006, compared to the same period in 2005 was principally due to a \$1.1 billion increase in average interest-earning assets, which resulted primarily from organic loan growth along with the Pacifica Bancorp, Inc. ("Pacifica") and Asian American Bank & Trust Company ("AABT") acquisitions. The average cost of deposits increased 115 basis points from 2.22% for the year ended December 31, 2005, to 3.37% for the year ended December 31, 2006, as a result of an increase in market interest rates during the past twelve months, the change in the composition of deposits and the procurement of certificates of deposit from brokers. These factors were partially offset by a 91 basis point increase in average loan yields reflecting the repricing of adjustable-rate loans as market interest rate indices continued to rise. The yield on taxable securities also increased for the year ended December 31, 2006, compared to the same period in 2005 as a result of purchases of higher-yielding securities during 2006.

[Table of Contents](#)

The following table reflects the distribution of average assets, liabilities and stockholders' equity, as well as the amounts of interest income and resultant yields earned from average interest-earning assets, and the amounts of interest expense and resultant rates paid on average interest-bearing liabilities for the year ended December 31, 2006 and 2005 (dollars in thousands):

	2006			2005		
	Average Balance	Interest Income/ Expense	Average Yields Earned/ Rates Paid	Average Balance	Interest Income/ Expense	Average Yields Earned/ Rates Paid
Nontaxable equivalent basis:						
Interest-earning assets						
Loans ⁽¹⁾⁽²⁾	\$ 6,079,574	\$ 448,650	7.38%	\$ 5,148,952	\$ 333,159	6.47%
Taxable securities ⁽³⁾	1,296,231	62,418	4.82	1,220,897	55,369	4.54
Tax-exempt securities ⁽³⁾	224,295	10,717	4.78	222,196	10,617	4.78
FHLB Stock	48,645	3,006	6.18	67,611	1,134	1.68
Securities purchased under agreements to resell	60,822	4,515	7.42	—	—	—
Other	117,096	5,707	4.87	56,179	2,121	3.78
Total interest-earning assets	7,826,663	535,013	6.84	6,715,835	402,400	5.99
Noninterest-earning assets	382,187	—		259,142	—	
Total assets	<u>\$ 8,208,850</u>	<u>\$ 535,013</u>		<u>\$ 6,974,977</u>	<u>\$ 402,400</u>	
Interest-bearing liabilities:						
Deposits:						
NOW, checking and money market accounts	\$ 1,300,150	\$ 41,282	3.18	\$ 1,095,964	\$ 20,572	1.88
Savings accounts	713,068	9,527	1.34	841,271	9,336	1.11
Time deposits	3,677,491	159,250	4.33	3,169,956	93,409	2.95
Total interest-bearing deposits	5,690,709	210,059	3.69	5,107,191	123,317	2.41
Securities sold under agreements to repurchase	152,059	5,313	3.49	—	—	—
Short-term borrowings and federal funds purchased	224,883	10,178	4.53	304,251	10,605	3.49
Long-term borrowings	683,978	33,424	4.89	361,411	18,635	5.16
Subordinated debentures	152,136	12,106	7.96	131,901	9,353	7.09
Total interest-bearing liabilities	6,903,765	271,080	3.93	5,904,754	161,910	2.74
Noninterest-bearing deposits	544,910	—		448,301	—	
Other noninterest-bearing liabilities	113,089	—		90,800	—	
Stockholders' equity	647,086	—		531,122	—	
Total liabilities and stockholders' equity	<u>\$ 8,208,850</u>	<u>\$ 271,080</u>		<u>\$ 6,974,977</u>	<u>\$ 161,910</u>	
Net interest-earning assets/net interest income/net interest rate spread ⁽⁴⁾	<u>\$ 922,898</u>	<u>\$ 263,933</u>	<u>2.91%</u>	<u>\$ 811,081</u>	<u>\$ 240,490</u>	<u>3.25%</u>
Net interest margin ⁽⁵⁾			<u>3.37%</u>			<u>3.58%</u>
Ratio of interest-earning assets to interest-bearing liabilities	<u>1.13x</u>			<u>1.14x</u>		
Tax equivalent basis:						
Total interest-earning assets ⁽⁶⁾	\$ 7,826,663	\$ 540,784	6.91%	\$ 6,715,835	\$ 407,562	6.07%
Total interest-bearing liabilities	6,903,765	271,080	3.93	5,904,754	161,910	2.74
Net interest-earning assets/net interest income/net interest rate spread ⁽⁴⁾	<u>\$ 922,898</u>	<u>\$ 269,704</u>	<u>2.98%</u>	<u>\$ 811,081</u>	<u>\$ 245,652</u>	<u>3.33%</u>
Net interest margin ⁽⁵⁾			<u>3.45%</u>			<u>3.66%</u>
Average cost of deposits:						
Total interest-bearing deposits	\$ 5,690,709	\$ 210,059	3.69%	\$ 5,107,191	\$ 123,317	2.41%
Noninterest-bearing deposits	544,910	—		448,301	—	
Total deposits	<u>\$ 6,235,619</u>	<u>\$ 210,059</u>	<u>3.37%</u>	<u>\$ 5,555,492</u>	<u>\$ 123,317</u>	<u>2.22%</u>

[Table of Contents](#)

- (1) Nonaccrual loans are included in the table for computation purposes; however, interest for such loans is recognized on a cash basis.
- (2) Average loans include loans held for sale.
- (3) Average yield on investment securities is computed using historical cost balances; the yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity.
- (4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income divided by average interest-earning assets.
- (6) Interest income from tax-exempt securities has been adjusted to a tax equivalent basis using a statutory federal income tax rate of 35.0%. Interest income from tax-exempt investment securities calculated on a tax equivalent basis was \$16.5 million and \$15.8 million for the years ended December 31, 2006 and 2005, respectively.

The decline in the net interest margin for the year ended December 31, 2006, compared to same period in 2005 reflects the impact of increased costs of money market accounts and certificates of deposit resulting from higher market interest rates, the runoff of savings accounts due to the current market interest rates, the change in the composition of deposits and the procurement of costlier certificates of deposit from brokers, all of which were partially offset by higher loan yields.

The net interest margin, calculated on a tax equivalent basis, was 3.45% for the year ended December 31, 2006, as compared to 3.66% for 2005. Certain interest-earning assets of the Company qualify for federal tax exemptions or credits. The net interest margin, calculated on a tax equivalent basis, considers the tax benefit derived from these assets. The net interest margin decline reflects the impact of increased costs of money market accounts and certificates of deposit resulting from higher market interest rates, the change in the composition of deposits and the procurement of costlier certificates of deposit from brokers partially offset by higher loan yields.

Average interest-earning assets for the year ended December 31, 2006, increased 16.5% compared to the year ended December 31, 2005, primarily as a result of organic construction and business loan growth and the assets acquired from the Pacifica and AABT acquisitions. Average outstanding loans increased by \$930.6 million for the year ended December 31, 2006, from the year ended December 31, 2005, principally as a result of UCB's continued focus on commercial lending activities. Average commercial loan balances increased 19.2% compared to the corresponding period of 2005, primarily due to UCB's past emphasis on commercial real estate, continued emphasis on commercial business loans and expansion of its Hong Kong branch. Average consumer loans for the year ended December 31, 2006, increased \$48.9 million, or 8.7%, compared to the same period in 2005. As of December 31, 2006, total loans represented 65.5% of total assets. New loan commitments of \$3.51 billion for the year ended December 31, 2006, were comprised of \$3.38 billion in commercial loan commitments and \$128.6 million in consumer loan commitments.

Average investment and mortgage-backed securities for the year ended December 31, 2006, increased \$77.4 million, or 5.4%, from the year ended December 31, 2005. In preparation for the closing of the acquisitions of Summit and The Chinese American Bank, the Company increased its securities portfolio in the fourth quarter of 2006. The Company anticipates a reduction in the securities portfolio during the first and early second quarter of 2007 as Summit is integrated into UCB and as The Chinese American Bank acquisition closes. One of the Company's long-term goals is to reduce the investment and mortgage-backed securities portfolio to a range of 10% to 15% of total assets.

Average total deposits increased \$680.1 million, or 12.2%, for the year ended December 31, 2006, from the year ended December 31, 2005, reflecting UCB's ongoing focus on the generation of commercial and consumer demand deposits. In addition, UCB also had \$179.3 million in brokered deposits at December 31, 2006. Average interest-bearing deposits increased to \$5.69 billion for the year ended December 31, 2006, up 11.4% from the year ended December 31, 2005, and average noninterest-bearing deposits increased to \$544.9 million, or 21.6%, for the year ended December 31, 2006, compared to the year ended December 31, 2005.

[Table of Contents](#)

The changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities, and the amount of change that is attributable to volume and rate changes by comparing the years ended December 31, 2006 to 2005, are as follows (dollars in thousands):

	Year Ended December 31, 2006 Compared to 2005		
	Changes due to		Total
	Volume	Rate	
Interest income:			
Loans	\$ 60,215	\$ 55,276	\$ 115,491
Taxable securities	3,416	3,633	7,049
Tax-exempt securities	100	—	100
FHLB stock	(318)	2,190	1,872
Securities purchased under agreements to resell	—	4,515	4,515
Other	2,300	1,286	3,586
Total interest income on interest-earning assets	65,713	66,900	132,613
Interest expense:			
Deposits:			
NOW, checking, and money market accounts	3,833	16,877	20,710
Savings accounts	(1,423)	1,614	191
Time deposits	14,956	50,885	65,841
Securities sold under agreements to repurchase	—	5,313	5,313
Short-term borrowings and federal funds purchased	(2,766)	2,339	(427)
Long-term borrowings	16,632	(1,843)	14,789
Subordinated debentures	1,435	1,318	2,753
Total interest expense on interest-bearing liabilities	32,667	76,503	109,170
Increase (decrease) in net interest income	\$ 33,046	\$ (9,603)	\$ 23,443

Provision for Loan Losses. The provision for loan losses for 2006 is reflective of the general improvements in credit quality, loan growth, changes in the mix of the loan portfolio, reductions in classified loans, and charge-offs, all of which combined resulted in a net reduction in the provision compared with 2005. See “Credit Risk Management” for more information on how we determine the appropriate level for the allowances for loan losses and unfunded lending commitments.

Noninterest Income. Noninterest income increased by \$20.5 million, or 76.7%, for the year ended December 31, 2006, compared to the same period in 2005. The increase included a \$5.0 million acquisition termination fee from Great Eastern Bank and \$1.6 million of interest income related to refunds from amended income tax returns. Commercial banking fees increased to \$15.4 million for the year ended December 31, 2006, compared to \$10.6 million for the same period in 2005. The increase reflects the growth in trade finance activity, merchant card activity, other commercial banking fees and fees from UCB Investment Services, Inc. Gain on sale of multifamily and commercial real estate loans increased to \$17.8 million for the year ended December 31, 2006, from \$12.2 million for the same period in 2005 as a result of increased sales volume and higher pricing spreads. The lower of cost or market adjustment related to loans held for sale reflects a \$76,000 recovery related to previously recognized write down of loans held for sale to market for the year ended December 31, 2006, compared to a \$1.2 million loss related to multifamily real estate loans transferred from held for sale to held in portfolio for the same period in 2005. Additionally, UCB had a reduction of equity losses in other equity investments to \$1.1 million for the year ended December 31, 2006, from \$2.3 million for the same period in 2005 primarily attributable to \$998,000 of equity income from CRA qualified investments.

Noninterest Expense. Noninterest expense increased \$38.5 million, or 32.9%, for the year ended December 31, 2006, compared to the same period in 2005. For the year ended December 31, 2006, personnel expenses increased \$28.5 million, or 47.3%, from the same period in 2005 due to additional staffing required to

[Table of Contents](#)

support the growth of UCB's commercial banking business, the opening of new branches, the additional staffing resulting from the Pacifica and AABT acquisitions and the expansion of UCB's infrastructure to support a larger and growing organization. Additionally, severance and retention bonuses related to the Pacifica and AABT acquisitions and other incentive bonuses totaling \$5.5 million were recognized during the year ended December 31, 2006. Personnel expenses also included \$2.2 million in stock compensation expense related to the January 1, 2006, adoption of SFAS No. 123(R). Occupancy expenses increased \$4.0 million, or 32.3%, for the year ended December 31, 2006, compared to the same period in 2005 as a result of the opening of new branches and the operations of Pacifica and AABT. Data processing expenses increased \$3.0 million, or 44.4%, for the year ended December 31, 2006, compared to same period in 2005 primarily as a result of \$714,000 related to the conversion of the loan and deposit systems at Pacifica and AABT. Core deposit intangible amortization increased \$997,000, or 74.1%, for the year ended December 31, 2006, compared to the same period in 2005 as a result of the additional amortization of the core deposit intangibles associated with the Pacifica and AABT acquisitions. Other general and administrative expenses increased by \$3.8 million, or 23.9%, for the year ended December 31, 2006, compared to the same period in 2005 primarily as a result of increased advertising expenses related to UCB's expansion, market promotions, merchant card expenses and foreign exchange losses. All of these increases were partially offset by a gain on extinguishment of borrowings of \$360,000 for the year ended December 31, 2006, as compared to a loss on extinguishment of subordinated debentures and borrowings of \$1.2 million for the year ended December 31, 2005, which was primarily from the write-off of unamortized subordinated debenture issuance costs.

Income Tax Expense. The effective tax rate for the year ended December 31, 2006, was 33.6%, compared with 32.1% for the year ended December 31, 2005. The effective tax rate for the year ended December 31, 2006, reflects an income tax benefit of \$4.0 million related to additional Enterprise Zone tax benefits realized during 2006. The effective tax rate for the year ended December 31, 2005, reflects an income tax benefit of \$3.9 million related to UCB's decision to repatriate earnings from a foreign subsidiary. The effective tax rates are generally lower than the combined federal and state statutory rate of 42.0%, primarily due to federal and state tax credits and incentives, and tax-exempt income.

BUSINESS SEGMENT RESULTS

Currently, UCB comprises substantially all of the Company's operations. In addition, no portion of UCB meets the thresholds designated by generally accepted accounting principles for separate segment disclosures. As a result, the previous discussion of the results of operations and the subsequent balance sheet analyses are applicable to UCB as well as to the Company. See Note 29 to the Consolidated Financial Statements for additional information on the Company's segments.

BALANCE SHEET ANALYSIS

Investment Securities

UCB maintains an investment and mortgage-backed securities portfolio ("Investment Securities Portfolio") to provide both liquidity and to enhance the income of the organization. The Investment Securities Portfolio is comprised of two segments: Available for Sale ("AFS") and Held to Maturity ("HTM"). UCB's AFS Investment Securities Portfolio is recorded at fair value, with unrealized changes in the fair value of the securities reflected as accumulated other comprehensive income (loss). At the end of each month, UCB adjusts the carrying value of its AFS Investment Securities Portfolio to reflect the current fair value of each security. The HTM Investment Securities Portfolio is carried at amortized cost. At the time a security is purchased, UCB classifies the security as either AFS or HTM. The securities are classified as HTM if UCB has the positive intent and ability to hold such securities to maturity.

UCB's Investment Securities Portfolio investments are governed by an Asset/Liability Policy ("A/L Policy"), which was approved by UCB's Board of Directors. The A/L Policy sets exposure limits for selected investments, as a function of total assets, total securities and Tier 1 capital, as well as the maximum maturity and duration limits. The A/L Policy also limits the concentration in a particular investment as a function of the total issue. Finally, the A/L Policy sets goals for each type of investment with respect to ROA, ROE and total risk-based capital ratio and also sets limits for interest rate sensitivity for each type of investment.

[Table of Contents](#)

Investments permitted by the A/L Policy include United States Government obligations, United States Government sponsored enterprises securities, municipal obligations, investment grade securities, commercial paper, corporate debt and money market mutual funds. Other securities include residual interests in a CRE securitization, private-label residential mortgage-backed securities, collateralized debt obligations backed by trust preferred securities, collateralized loan obligation, FNMA and FHLMC preferred stock, and interest-only strips from SBA loans. UCB's Board of Directors has directed management to invest in securities with the objective of optimizing the yield on investments that appropriately balances the risk-based capital utilization and interest rate sensitivity. The A/L Policy requires that all securities be of investment grade at the time of purchase.

The amortized cost and market value of the Investment Securities Portfolio at December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	2007		2006		2005	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Investment securities available for sale:						
Agency preferred stock	\$ 23,466	\$ 20,149	\$ —	\$ —	\$ —	\$ —
Collateralized debt obligations	31,433	28,731	38,445	38,134	—	—
Trust preferred securities	—	—	—	—	33,443	32,946
U.S. Government sponsored enterprises notes	446,916	447,227	588,621	583,040	159,655	155,185
U.S. Government sponsored enterprises discount notes	—	—	249,024	249,085	—	—
U.S. Treasury Bill	—	—	73,183	73,200	—	—
Municipals	246,632	244,409	58,325	58,325	—	—
Commercial paper	—	—	49,952	49,952	—	—
Other	10,000	8,950	10,000	9,875	11,012	10,911
Total investment securities available for sale	758,447	749,466	1,067,550	1,061,611	204,110	199,042
Mortgage-backed securities available for sale:						
FNMA	559,979	556,138	515,711	502,697	355,135	344,190
GNMA	77,478	75,733	87,866	84,605	88,184	85,033
FHLMC	241,243	235,874	313,991	304,284	302,540	292,316
CMBS	390,112	385,448	—	—	—	—
Other	188,006	185,696	200,832	196,259	202,264	197,143
Total mortgage-backed securities available for sale	1,456,818	1,438,889	1,118,400	1,087,845	948,123	918,682
Total investment and mortgage-backed securities available for sale	2,215,265	2,188,355	2,185,950	2,149,456	1,152,233	1,117,724
Investment securities held to maturity:						
Municipals	212,647	218,631	222,638	229,358	225,573	232,279

[Table of Contents](#)

	2007		2006		2005	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Mortgage-backed securities held to maturity:						
FNMA	4,090	3,989	4,372	4,200	5,112	4,923
GNMA	54,326	53,255	63,122	61,367	77,261	76,133
FHLMC	422	411	541	521	662	639
Total mortgage-backed securities held to maturity	58,838	57,655	68,035	66,088	83,035	81,695
Total investment and mortgage-backed securities held to maturity	271,485	276,286	290,673	295,446	308,608	313,974
Total investment and mortgage-backed securities	<u>\$ 2,486,750</u>	<u>\$ 2,464,641</u>	<u>\$ 2,476,623</u>	<u>\$ 2,444,902</u>	<u>\$ 1,460,841</u>	<u>\$ 1,431,698</u>

As of December 31, 2007, the amortized cost and the market value of the AFS Investment Securities Portfolio were \$2.22 billion and \$2.19 billion, respectively. The total net of tax unrealized loss on these securities was \$15.6 million and is reflected as accumulated other comprehensive loss in stockholders' equity. The difference between the carrying value and market value of securities that are held to maturity, aggregating a net gain of \$4.8 million, has not been recognized in the financial statements as of December 31, 2007. Additionally, certain securities that UCB holds have unrealized losses that extend for periods in excess of twelve months. These securities are comprised primarily of U.S. Government sponsored enterprise notes, mortgage-backed securities and municipal securities. The U.S. Government sponsored enterprise notes are issued by one of the several government sponsored enterprises, such as FNMA, Government National Mortgage Association ("GNMA") or Federal Home Loan Bank. The unrealized losses associated with these securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach maturity.

Mortgage-backed securities consist primarily of securities guaranteed by FNMA, GNMA and Federal Home Loan Mortgage Corporation ("FHLMC"), as well as certain collateralized mortgage obligations. These securities are collateralized by commercial real estate, multi-family mortgage and residential mortgage loans and may be prepaid at par prior to maturity. The unrealized losses on our mortgage-backed securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach contractual or expected maturity.

The municipal securities are issued by states and their political subdivisions in the U.S. These securities either have bond insurance or guarantees that provide investment grade ratings of AAA, AA, or A. Although certain securities were downgraded by credit rating agencies during the latter half of 2007, management has performed additional analysis on a security by security basis and has concluded that there is no other than temporary impairment associated with these securities. The unrealized losses on our municipal securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach contractual or expected maturity. The ratings downgrades of certain monoline insurers and uncertainties of ratings of monoline insurers in general have contributed to a decline in the fair value of certain municipal bonds.

Other investment securities available for sale is comprised of one collateralized loan obligation. Other mortgage-backed securities available for sale are comprised of private-label residential mortgage-backed securities, collateralized debt obligations backed by trust preferred securities, FNMA and FHLMC preferred stock, and interest-only strips from SBA loans.

Collateralized debt obligations ("CDO") with an amortized cost basis of \$31.4 million and carrying value of \$28.7 million at December 31, 2007, include REIT TPS and bank TPS and which are included in our available-for-sale investment securities. The carrying value at December 31, 2007 reflects the \$11.6 million other than temporary impairment charge that was recognized on two CDO's and which was reflected in our fourth quarter 2007 results of operations.

[Table of Contents](#)

UCB has the intent and ability to hold its available-for-sale securities until recovery of the par amount, which could be maturity. As such, with the exception of the two CDO's cited in the previous paragraph, UCB has concluded that the decline in value on such available-for-sale securities is temporary.

The carrying value, weighted average yields and contractual maturities of the Investment Securities Portfolio at December 31, 2007, were as follows (dollars in thousands):

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Investment securities available for sale:										
Agency preferred stock	\$ —	—%	\$ —	—%	\$ —	—%	\$ 20,149	7.22%	\$ 20,149	7.22%
Collateralized debt obligations	—	—	—	—	—	—	28,731	6.44%	28,731	6.44
U.S. Government sponsored enterprises notes	3,972	3.35	47,839	4.11	345,562	5.04	49,854	5.20	447,227	4.94
Municipals	310	4.80	—	—	2,972	4.04	241,127	4.56	244,409	4.55
Other	—	—	—	—	—	—	8,950	5.87	8,950	5.87
Total investment securities available for sale	<u>4,282</u>	<u>3.46</u>	<u>47,839</u>	<u>4.11</u>	<u>348,534</u>	<u>5.03</u>	<u>348,811</u>	<u>5.03</u>	<u>749,466</u>	<u>4.96</u>
Mortgage-backed securities available for sale:										
FNMA	—	—	4,262	3.91	180,148	5.72	371,728	4.82	556,138	5.11
GNMA	—	—	—	—	—	—	75,733	4.38	75,733	4.38
FHLMC	—	—	4,572	3.50	29,177	4.69	202,125	4.53	235,874	4.53
CMBS	—	—	—	—	—	—	385,448	4.99	385,448	4.99
Other	—	—	—	—	—	—	185,696	5.31	185,696	5.31
Total mortgage-backed securities available for sale	<u>—</u>	<u>—</u>	<u>8,834</u>	<u>3.69</u>	<u>209,325</u>	<u>5.58</u>	<u>1,220,730</u>	<u>4.87</u>	<u>1,438,889</u>	<u>4.97</u>
Total investment and mortgage-backed securities available for sale	<u>4,282</u>	<u>3.46</u>	<u>56,673</u>	<u>4.05</u>	<u>557,859</u>	<u>5.24</u>	<u>1,569,541</u>	<u>4.91</u>	<u>2,188,355</u>	<u>4.97</u>
Investment securities held to maturity:										
Municipals ⁽¹⁾	—	—	—	—	6,783	4.12	205,864	4.75	212,647	4.73
Mortgage-backed securities held to maturity:										
FNMA	—	—	—	—	—	—	4,090	4.75	4,090	4.75
GNMA	—	—	—	—	—	—	54,326	4.94	54,326	4.94
FHLMC	—	—	—	—	—	—	422	4.50	422	4.50
Total mortgage-backed securities held to maturity	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>58,838</u>	<u>4.93</u>	<u>58,838</u>	<u>4.93</u>
Total investment and mortgage-backed securities held to maturity	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,783</u>	<u>4.12</u>	<u>264,702</u>	<u>4.79</u>	<u>271,485</u>	<u>4.77</u>
Total investment and mortgage-backed securities	<u>\$ 4,282</u>	<u>3.46%</u>	<u>\$ 56,673</u>	<u>4.05%</u>	<u>\$ 564,642</u>	<u>5.22%</u>	<u>\$ 1,834,243</u>	<u>4.89%</u>	<u>\$ 2,459,840</u>	<u>4.94%</u>

(1) Weighted average yield is calculated on a nontax equivalent basis.

[Table of Contents](#)**Loans**

The components of UCB's loans held in portfolio by amount and percentage of gross loans held in portfolio for each major loan category at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:										
Secured by real estate — nonresidential	\$ 2,317,501	29.59	\$ 2,341,572	35.29	\$ 2,307,381	39.52	\$ 1,943,868	47.99	\$ 1,704,138	45.18
Secured by real estate — multifamily	1,186,177	15.14	1,275,594	19.22	1,506,848	25.81	866,079	21.38	1,161,512	30.80
Construction	1,666,550	21.28	1,054,302	15.89	494,841	8.47	289,936	7.16	292,563	7.76
Business	2,076,597	26.51	1,461,322	22.02	863,935	14.80	468,128	11.56	296,026	7.85
Total commercial	<u>7,246,825</u>	<u>92.52</u>	<u>6,132,790</u>	<u>92.42</u>	<u>5,173,005</u>	<u>88.60</u>	<u>3,568,011</u>	<u>88.09</u>	<u>3,454,239</u>	<u>91.59</u>
Consumer:										
Residential mortgage (one-to-four family)	518,674	6.62	448,895	6.76	613,988	10.52	434,423	10.72	273,431	7.25
Other	66,651	0.86	53,975	0.82	51,667	0.88	48,307	1.19	43,711	1.16
Total consumer	<u>585,325</u>	<u>7.48</u>	<u>502,870</u>	<u>7.58</u>	<u>665,655</u>	<u>11.40</u>	<u>482,730</u>	<u>11.91</u>	<u>317,142</u>	<u>8.41</u>
Loans held in portfolio ⁽¹⁾	<u>7,832,150</u>	<u>100.00</u>	<u>6,635,660</u>	<u>100.00</u>	<u>5,838,660</u>	<u>100.00</u>	<u>4,050,741</u>	<u>100.00</u>	<u>3,771,381</u>	<u>100.00</u>
Allowance for loan losses	(80,584)		(62,015)		(64,542)		(56,472)		(58,126)	
Net loans held in portfolio	<u>\$ 7,751,566</u>		<u>\$ 6,573,645</u>		<u>\$ 5,774,118</u>		<u>\$ 3,994,269</u>		<u>\$ 3,713,255</u>	

(1) Amounts reflect net unamortized deferred loan fees, purchase premiums and discounts of \$17.9 million, \$25.8 million, \$7.4 million, \$7.3 million and \$8.6 million at December 31, 2007, 2006, 2005, 2004 and 2003, respectively.

During the year ended December 31, 2007, loans held in portfolio increased by \$1.20 billion. This increase resulted primarily from organic growth in commercial construction and business loans and \$402.0 million of loans from the CAB and BDB acquisitions, which was offset by a transfer of commercial real estate loans of \$183.6 million from held in portfolio to held for sale, securitization of \$402.4 million of commercial real estate loans and \$176.9 million of multifamily loans. Commercial loans at December 31, 2007, increased 18.2% from the December 31, 2006, balance. Consumer loans increased 16.4% at December 31, 2007, from the December 31, 2006, balance. At December 31, 2007 and 2006, UCB had cash secured loans of \$284.5 million and \$292.0 million, respectively, which were primarily commercial business loans.

In connection with its credit risk management efforts, UCB will periodically sell and securitize commercial real estate loans to help manage its loan concentrations. As a result, UCB periodically identifies certain loans that it intends to sell. When such a determination is made, these loans are classified as held for sale. During the year ended December 31, 2007, UCB transferred \$207.0 million of loans from held in portfolio to held for sale. UCB also transferred at market value, \$79.1 million of loans that did not attract a potential buyer or meet our pricing requirements from held for sale to held in portfolio during the year ended December 31, 2007. The components of

[Table of Contents](#)

the loans held for sale by amount and percentage of gross loans held for sale for each major loan category at December 31, 2007, 2006, 2005 and 2004, are as follows (dollars in thousands):

	2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:								
Secured by real estate —								
nonresidential	\$ 175,101	98.85	\$ 141,348	98.94	\$ 154,087	98.31	\$ 26,882	8.25
Secured by real estate — multifamily	—	—	—	—	—	—	295,788	90.73
Business	1,109	0.63	1,203	0.84	2,653	1.69	3,337	1.02
Total commercial	<u>176,210</u>	<u>99.48</u>	<u>142,551</u>	<u>99.78</u>	<u>156,740</u>	<u>100.00</u>	<u>326,007</u>	<u>100.00</u>
Consumer:								
Residential mortgage (one-to-four family)	927	0.52	310	0.22	—	—	—	—
Loans held for sale ⁽¹⁾	<u>\$ 177,137</u>	<u>100.00</u>	<u>\$ 142,861</u>	<u>100.00</u>	<u>\$ 156,740</u>	<u>100.00</u>	<u>\$ 326,007</u>	<u>100.00</u>

(1) Amounts reflect net unamortized deferred loan fees, purchase premiums and discounts of \$322,000, \$213,000 and \$372,000 at December 31, 2007, 2006 and 2005, respectively, and net unamortized deferred loan costs of \$535,000 at December 31, 2004.

Consistent with UCB's stated long-term objectives for the next five years, UCB intends to continue to systematically reduce its concentration in commercial real estate loans while increasing its concentration in commercial business loans.

During the fourth quarter of 2007, we completed our first commercial real estate loan securitization. The loan securitization was executed through a newly established trust, United Commercial Mortgage Securities, LLC, to allow us to reduce our concentration in commercial real estate loans, as well as to reduce our loan to deposit ratio and enhance our liquidity position. The commercial real estate securitization amounted to \$402.4 million, with the resultant securities being included in our available-for-sale investment securities portfolio. In connection with this securitization, we charged off approximately \$1.6 million against the allowance for loan losses in the fourth quarter of 2007. In addition to our commercial real estate securitization, we securitized \$176.9 million in multi-family loans during 2007, with the resultant securities included in our available-for-sale investment securities portfolio.

As a result of changing the loan origination focus to commercial business loans, UCB is originating more loans that reprice in shorter periods. Construction loans, commercial business loans and SBA loans generally have monthly repricing terms. Commercial real estate loans generally reprice monthly or are intermediate fixed, meaning that the loans have interest rates that are fixed for a period, typically five years, after which the loans generally reprice monthly or become due and payable. Multifamily real estate loans are generally intermediate fixed. Residential mortgage (one-to-four family) loans may be adjustable rate that reprice semiannually or annually; fixed rate, meaning that the loans have interest rates that are fixed over the term of the loans, typically 15 or 30 years; or have interest rates that are fixed for a period, typically five years, and then generally reprice semiannually or annually, thereafter. The components of gross loans held in portfolio by interest rate type and percentage of gross loans held in portfolio at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Adjustable-rate loans	\$ 5,000,318	63.70	\$ 3,749,132	56.28	\$ 2,951,945	50.50	\$ 2,603,889	64.17	\$ 2,679,428	70.88
Hybrid rate loans	1,280,340	16.31	1,444,072	21.68	1,711,915	29.28	881,744	21.73	563,570	14.91
Fixed-rate loans	1,569,427	19.99	1,468,275	22.04	1,182,198	20.22	572,419	14.10	537,027	14.21
Gross loans held in portfolio ⁽¹⁾	<u>\$ 7,850,085</u>	<u>100.00</u>	<u>\$ 6,661,479</u>	<u>100.00</u>	<u>\$ 5,846,058</u>	<u>100.00</u>	<u>\$ 4,058,052</u>	<u>100.00</u>	<u>\$ 3,780,025</u>	<u>100.00</u>

(1) Amounts do not reflect net deferred loan fees, purchase premiums and discounts of \$17.9 million, \$25.8 million, \$7.4 million, \$7.3 million, and \$8.6 million at December 31, 2007, 2006, 2005, 2004, and 2003, respectively.

[Table of Contents](#)

The components of gross loans held in portfolio by interest type for each major loan category at December 31, 2007, were as follows (dollars in thousands):

	<u>Adjustable</u>	<u>Hybrid</u>	<u>Fixed</u>	<u>Total</u>
Commercial:				
Secured by real estate — nonresidential	\$ 963,116	\$ 365,919	\$ 1,001,411	\$ 2,330,446
Secured by real estate — multifamily	421,672	667,331	94,451	1,183,454
Construction	1,620,910	—	52,525	1,673,435
Business	1,864,266	6,522	206,015	2,076,803
Total commercial	4,869,964	1,039,772	1,354,402	7,264,138
Consumer:				
Residential mortgage (one-to-four family)	67,078	240,568	211,552	519,198
Other	63,276	—	3,473	66,749
Total consumer	130,354	240,568	215,025	585,947
Gross loans held in portfolio ⁽¹⁾	<u>\$ 5,000,318</u>	<u>\$ 1,280,340</u>	<u>\$ 1,569,427</u>	<u>\$ 7,850,085</u>

(1) Amounts do not reflect net deferred loan fees, purchase premiums and discounts of \$17.9 million at December 31, 2007.

Adjustable-rate loans increased \$1.3 billion from December 31, 2006, to December 31, 2007. The decrease of \$163.7 million in hybrid loans from December 31, 2006, to December 31, 2007, is a result of decreased market demand for that loan product. Fixed-rate loans increased \$101.2 million from December 31, 2006, to December 31, 2007.

The estimated impact of repricing of loans held in portfolio at December 31, 2007, is as follows (dollars in thousands):

	<u>Within One Year</u>	<u>After One Year Through Three Years</u>	<u>After Three Years Through Five Years</u>	<u>After Five Years Through Ten Years</u>	<u>After Ten Years Through Twenty Years</u>	<u>After Twenty Years</u>	<u>Total</u>
Commercial:							
Secured by real estate — nonresidential	\$ 1,048,008	\$ 321,107	\$ 302,630	\$ 79,155	\$ 42,506	\$ 537,040	\$ 2,330,446
Secured by real estate — multifamily	423,339	287,957	351,901	89,148	31,109	—	1,183,454
Construction	1,643,098	30,337	—	—	—	—	1,673,435
Business	1,975,429	30,032	32,586	8,234	7,788	22,734	2,076,803
Total commercial	5,089,874	669,433	687,117	176,537	81,403	559,774	7,264,138
Consumer:							
Residential mortgage (one-to-four family)	67,610	103,731	78,354	71,069	101,061	97,373	519,198
Other	65,309	551	391	—	—	498	66,749
Total consumer	132,919	104,282	78,745	71,069	101,061	97,871	585,947
Gross loans held in portfolio	<u>\$ 5,222,793</u>	<u>\$ 773,715</u>	<u>\$ 765,862</u>	<u>\$ 247,606</u>	<u>\$ 182,464</u>	<u>\$ 657,645</u>	\$ 7,850,085
Net deferred loan fees, purchase premiums and discounts							(17,935)
Loans held in portfolio							7,832,150
Allowance for loan losses							(80,584)
Net loans held in portfolio							<u>\$ 7,751,566</u>

[Table of Contents](#)

Adjustable-rate mortgages are shown in the period in which they reprice, rather than when they become due, with the exception of adjustable-rate loans that have reached a contractual floor. Loans that are at the floor level and fixed-rate loans are shown in the period they become due. The table does not include the effects of possible prepayments. The rate of loan prepayment varies from time to time, depending upon various factors, including market interest rates.

The contractual maturity of loans held in portfolio at December 31, 2007, is as follows (dollars in thousands):

	<u>Within One Year</u>	<u>After One Year Through Three Years</u>	<u>After Three Years Through Five Years</u>	<u>After Five Years Through Ten Years</u>	<u>After Ten Years Through Twenty Years</u>	<u>After Twenty Years</u>	<u>Total</u>
Commercial:							
Secured by real estate — nonresidential	\$ 415,544	\$ 328,113	\$ 169,488	\$ 196,537	\$ 136,541	\$ 1,084,223	\$ 2,330,446
Secured by real estate — multifamily	11,174	7,731	9,380	1,039,669	72,814	42,686	1,183,454
Construction	1,298,747	347,132	4,585	22,971	—	—	1,673,435
Business	1,698,352	169,584	93,340	69,449	19,255	26,823	2,076,803
Total commercial	<u>3,423,817</u>	<u>852,560</u>	<u>276,793</u>	<u>1,328,626</u>	<u>228,610</u>	<u>1,153,732</u>	<u>7,264,138</u>
Consumer:							
Residential mortgage (one-to-four family)	307	1,558	1,121	18,197	114,977	383,038	519,198
Other	15,400	809	2,471	1,982	7,323	38,764	66,749
Total consumer	<u>15,707</u>	<u>2,367</u>	<u>3,592</u>	<u>20,179</u>	<u>122,300</u>	<u>421,802</u>	<u>585,947</u>
Gross loans held in portfolio	<u>\$ 3,439,524</u>	<u>\$ 854,927</u>	<u>\$ 280,385</u>	<u>\$ 1,348,805</u>	<u>\$ 350,910</u>	<u>\$ 1,575,534</u>	<u>\$ 7,850,085</u>
Net deferred loan fees, purchase premium and discounts							(17,935)
Loans held in portfolio							7,832,150
Allowance for loan losses							(80,584)
Net loans held in portfolio							<u>\$ 7,751,566</u>

The table does not include the effects of possible prepayments. The rate of loan prepayment varies from time to time, depending upon various factors, including market interest rates.

The contractual maturity of loans held in portfolio by interest type at December 31, 2007, is as follows (dollars in thousands):

	<u>Within One Year</u>	<u>After One Year Through Three Years</u>	<u>After Three Years Through Five Years</u>	<u>After Five Years Through Ten Years</u>	<u>After Ten Years Through Twenty Years</u>	<u>After Twenty Years</u>	<u>Total</u>
Adjustable-rate loans	\$ 3,217,048	\$ 650,171	\$ 120,476	\$ 527,325	\$ 121,359	\$ 363,939	\$ 5,000,318
Hybrid rate loans	—	3,123	7,403	667,537	47,786	554,491	1,280,340
Fixed-rate loans	222,476	201,633	152,206	153,943	181,765	657,104	1,569,427
Gross loans held in portfolio	<u>\$ 3,439,524</u>	<u>\$ 854,927</u>	<u>\$ 280,385</u>	<u>\$ 1,348,805</u>	<u>\$ 350,910</u>	<u>\$ 1,575,534</u>	<u>\$ 7,850,085</u>
Net deferred loan fees, purchase premium and discounts							(17,935)
Loans held in portfolio							7,832,150
Allowance for loan losses							(80,584)
Net loans held in portfolio							<u>\$ 7,751,566</u>

The table does not include the effects of possible prepayments. The rate of loan prepayment varies from time to time, depending upon various factors, including market interest rates.

[Table of Contents](#)

Loan commitments related to loans held for sale and held in portfolio for years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Loans held for sale:			
Commercial:			
Secured by real estate — nonresidential	\$ 55,047	\$ 45,602	\$ 62,027
Secured by real estate — multifamily	—	—	489,968
Total commercial loans	<u>55,047</u>	<u>45,602</u>	<u>551,995</u>
Consumer:			
Residential mortgage (one-to-four family)	<u>2,504</u>	<u>3,904</u>	<u>325</u>
Total loans held for sale commitments ⁽¹⁾	<u>57,551</u>	<u>49,506</u>	<u>552,320</u>
Loans held in portfolio:			
Commercial:			
Secured by real estate — nonresidential	998,831	857,735	1,080,502
Secured by real estate — multifamily	380,287	241,067	591,449
Construction	1,292,327	1,064,113	694,472
Business	<u>1,186,963</u>	<u>1,176,155</u>	<u>763,701</u>
Total commercial loans	<u>3,858,408</u>	<u>3,339,070</u>	<u>3,130,124</u>
Consumer:			
Residential mortgage (one-to-four family)	156,596	90,914	188,309
Other	<u>42,714</u>	<u>33,768</u>	<u>40,376</u>
Total consumer loans	<u>199,310</u>	<u>124,682</u>	<u>228,685</u>
Total loans held in portfolio commitments ⁽¹⁾	<u>4,057,718</u>	<u>3,463,752</u>	<u>3,358,809</u>
Total loan commitments ⁽¹⁾	<u>\$ 4,115,269</u>	<u>\$ 3,513,258</u>	<u>\$ 3,911,129</u>

(1) Amounts do not reflect commitments related to loan participations.

Foreign Outstandings

Foreign outstandings include loans, acceptances, interest bearing deposits with other banks, other interest bearing investments and related accrued interest receivable. Country distributions are based on the location of the obligor. Foreign assets are subject to the general risks of conducting business in each foreign country, including economic uncertainty and government regulations. In addition, foreign assets may be impacted by changes in demand or pricing resulting from movements in exchange rates or other factors. Other than China, there was no other foreign country with cross-border exposure greater than 0.75%. The cross-border exposure exceeding 1.00% of our total assets as of December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	<u>Governments and Official Institutions</u>	<u>Banks and Other Financial Institutions</u>	<u>Commercial and Industrial</u>	<u>Other Loans</u>	<u>Total</u>	<u>% of Total Assets</u>
China:						
December 31, 2007	\$ 10,885	\$ 50,470	\$ 791,457	\$ 12,578	\$ 865,390	7.33
December 31, 2006	6,510	16,111	470,847	19,052	512,520	4.95
December 31, 2005	14,446	15,304	277,698	12,822	320,270	4.02

[Table of Contents](#)**Deposits**

The balances and rates paid for categories of deposits at December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	2007		2006		2005	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
NOW, checking and money market accounts	\$ 2,417,630	1.91%	\$ 2,194,176	2.18%	\$ 1,784,065	1.65%
Savings accounts	986,664	1.94	942,672	2.14	946,714	1.85
Time deposits:						
Less than \$100,000	1,423,935	4.48	1,410,162	4.60	1,203,001	2.69
\$100,000 or greater	2,953,011	4.60	2,655,835	4.91	2,330,389	3.98
Total time deposits	4,376,946	4.56	4,065,997	4.80	3,533,390	3.54
Total deposits	<u>\$ 7,781,240</u>	3.40%	<u>\$ 7,202,845</u>	3.66%	<u>\$ 6,264,169</u>	2.75%

Deposits have traditionally been UCB's primary source of funding to use in its lending and investment activities. At December 31, 2007, 56.2% of UCB's deposits were time deposits, 31.1% were negotiable order of withdrawal ("NOW") accounts, checking and money market accounts, and 12.7% were savings accounts. By comparison, at December 31, 2006, 56.4% of UCB's deposits were time deposits, 30.5% were NOW accounts, demand deposits and money market accounts, and 13.1% were savings accounts. With the exception of state and federal government entities contributing 6.8% to total deposits, no other material portion of UCB's deposits were from or were dependent upon any one customer, source or industry.

Included in time deposits at December 31, 2007, are \$2.95 billion of deposits of \$100,000 or greater, compared to \$2.66 billion at December 31, 2006. Such deposits made up 38.0% of total deposits at December 31, 2007, compared to 36.9% at December 31, 2006. Also included in time deposits are \$163.51 million and \$179.3 million of brokered deposits at December 31, 2007 and 2006, respectively.

Our average cost of deposits for the year ended December 31, 2007, was 3.73% as compared to 3.37% for 2006 and 2.22% for 2005. Our average interest rate paid on deposits was 3.40%, 3.66% and 2.75% at December 31, 2007, 2006 and 2005, respectively.

Core deposits increased 8.5% to \$3.40 billion at December 31, 2007, compared to \$3.14 billion at December 31, 2006. Core deposits include NOW accounts, checking and money market accounts, and savings accounts. This growth in core deposits resulted primarily from the acquisition of CAB, which added a total of \$30.5 million in core deposits, and also from UCB's continued focus on developing new commercial customer relationships and further expansion into UCB's niche market, which are areas with high concentrations of Asians. Time deposits increased 7.7% to \$4.38 billion at December 31, 2007, from \$4.07 billion at December 31, 2006, primarily as a result of the CAB and BDB acquisitions, which added a total of \$191.1 million, and further expansion that UCB has made in its niche markets.

The remaining maturities on time deposits of \$100,000 or greater as of December 31, 2007, are as follows (dollars in thousands):

Three months or less	\$ 1,847,068
Over three months through six months	826,160
Over six months through twelve months	246,059
Over twelve months	33,724
Total	<u>\$ 2,953,011</u>

[Table of Contents](#)

The average balances and rates paid for categories of deposits in U.S. banking offices for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	2007		2006		2005	
	Average Balance	Average Rates Paid	Average Balance	Average Rates Paid	Average Balance	Average Rates Paid
NOW, checking and money market accounts	\$ 1,515,832	3.38%	\$ 1,290,636	3.18%	\$ 1,085,608	1.88%
Savings accounts	604,777	1.10	626,058	1.19	806,315	1.15
Time deposits	3,641,268	4.86	3,110,865	4.23	2,805,296	2.85
Noninterest-bearing demand deposits	767,877	—	545,092	—	448,409	—
Total deposits	<u>\$ 6,529,754</u>	3.60%	<u>\$ 5,572,651</u>	3.23%	<u>\$ 5,145,628</u>	2.13%

The average balances and rates paid for categories of deposits in foreign banking offices for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	2007		2006		2005	
	Average Balance	Average Rates Paid	Average Balance	Average Rates Paid	Average Balance	Average Rates Paid
NOW, checking and money market accounts	\$ 15,381	2.05%	\$ 9,332	2.61%	\$ 10,248	1.20%
Time deposits and savings accounts	860,932	4.84	653,636	4.56	399,616	3.40
Total deposits	<u>\$ 876,313</u>	4.79%	<u>\$ 662,968</u>	4.54%	<u>\$ 409,864</u>	3.34%

Time deposits of \$100,000 or greater at foreign banking offices were \$705.5 million, \$551.6 million and \$365.1 million at December 31, 2007, 2006 and 2005, respectively. Additionally, domestic banking offices had \$509.9 million, \$433.9 million and \$334.7 million of deposits from foreign depositors at December 31, 2007, 2006 and 2005, respectively.

[Table of Contents](#)**Borrowings**

Borrowings for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	2007	2006	2005
Securities sold under agreements to repurchase:			
Average balance outstanding	\$ 400,615	\$ 162,124	—
Maximum amount outstanding at any month end period	650,000	401,600	—
Balance outstanding at end of period	650,000	401,600	—
Weighted average interest rate during the period	4.21%	3.56%	—%
Weighted average interest rate at end of period	4.04%	3.71%	—%
Weighted average remaining term to maturity at end of period (in years)	8.63	6.1	—
Short-term borrowings:			
FHLB advances and other short-term borrowings:			
Average balance outstanding	\$ 299,713	\$ 224,234	\$ 301,400
Maximum amount outstanding at any month end period	637,787	654,636	566,169
Balance outstanding at end of period	414,532	654,636	279,425
Weighted average interest rate during the period	5.15%	4.52%	3.51%
Weighted average interest rate at end of period	4.05%	5.21%	4.09%
Weighted average remaining term to maturity at end of period (in years)	0.1	—	—
Long-term borrowings:			
FHLB advances:			
Average balance outstanding	\$ 1,113,881	\$ 683,978	\$ 361,677
Maximum amount outstanding at any month end period	1,372,190	906,651	562,033
Balance outstanding at end of period	1,372,190	906,651	562,033
Weighted average interest rate during the period	4.69%	4.89%	5.15%
Weighted average interest rate at end of period	4.57%	4.72%	4.76%
Weighted average remaining term to maturity at end of period (in years)	5.2	5.4	5.0

UCB maintains borrowing lines with certain correspondent banks and brokers and with the Federal Home Loan Banks of San Francisco, Atlanta, Boston and Seattle (collectively referred to as the “FHLB”) to supplement its supply of lendable funds and to help manage liquidity. Such borrowings are generally secured with mortgage loans and/or

securities with a market value at least equal to outstanding borrowings. In addition to loans and securities, advances from the FHLB are typically secured by a pledge of FHLB stock owned by UCB. UCB had \$1.57 billion and \$1.43 billion of FHLB advances outstanding at December 31, 2007 and 2006, respectively. At December 31, 2007, UCB had \$1.02 billion of additional FHLB borrowings available for future borrowing capacity. UCB recorded certain loan sale transactions as secured borrowings as of December 31, 2007 and 2006, since these transactions did not qualify for sales treatment under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The secured borrowings amounted to \$2.9 million and \$6.1 million at December 31, 2007 and 2006, respectively.

Subordinated Debentures

UCBH formed or acquired special purpose trusts in 1997, 2001, 2002, 2005, 2006, and 2007 for the purpose of issuing guaranteed preferred beneficial interests in its junior subordinated debentures (the “Capital Securities”) and investing the proceeds thereof in the junior subordinated debentures issued by UCBH. Payment of distributions out of the monies held by the trusts and payments on liquidation of the trusts or the redemption of the Capital Securities are guaranteed by UCBH to the extent the trusts have funds available. The obligations of UCBH under the guarantees and the junior subordinated debentures are subordinate and junior in right of payment to all indebtedness

[Table of Contents](#)

of UCBH and will be structurally subordinated to all liabilities and obligations of UCBH's subsidiaries. UCBH had \$406.6 million and \$240.5 million of subordinated debentures outstanding at December 31, 2007 and 2006, respectively.

On December 15, 2006, UCBH issued \$51.5 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VII. The junior subordinated debentures bear interest at a fixed rate of 6.51% until December 15, 2011, after which date the rate will automatically convert to a floating rate equal to the three month London Interbank Offered Rate ("LIBOR") plus 1.67% and will adjust quarterly until maturity. The junior subordinated debentures will mature on December 15, 2036, but may be redeemed by UCBH at its option in whole or in part at anytime on or after December 15, 2011. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events.

On December 28, 2006, UCBH issued \$25.8 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VI. The junior subordinated debentures bear interest at a fixed rate of 6.73% until January 30, 2012, after which date the rate will automatically convert to a floating rate equal to the three month LIBOR plus 1.65% and will adjust quarterly until maturity. The junior subordinated debentures will mature on January 30, 2037, but may be redeemed by UCBH at its option in whole or in part at anytime on or after January 30, 2012. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events.

With the acquisition of Summit, UCBH assumed \$12.7 million in junior subordinated debentures of Summit Bank Corporation Trust I. The junior subordinated debentures bear interest of three-month LIBOR plus 3.10% and will adjust quarterly until maturity. The junior subordinated debentures will mature on September 30, 2033, but may be redeemed by UCBH at its option in whole or in part at anytime on or after September 30, 2008. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events. UCBH has the ability to defer interest and redemption date.

On April 30, 2007, UCBH issued \$41.2 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VIII. The junior subordinated debentures bear interest at a fixed rate of 6.59% until July 1, 2007, after which date the rate will automatically convert to a floating rate equal to the three month London Interbank offered Rate ("LIBOR") plus 1.52% and will adjust quarterly until maturity. The junior subordinated debentures will mature on July 1, 2037, but may be redeemed by UCBH at its option in whole or in part at anytime on or after July 1, 2012. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole or part at anytime upon certain events.

On June 21, 2007, UCB issued \$50.0 million aggregate principal amount of junior subordinated debentures due September 15, 2022. The debentures were issued pursuant to Floating Rate Junior Subordinated Debentures (the Debentures), dated June 21, 2007 between UCB, as issuer, and Wilmington Trust Company, as Trustee. The Debentures bear interest at a variable rate per annum equal to the 3-month LIBOR plus 1.34%.

Under applicable regulatory guidelines, the Debentures qualify as Tier 2 capital. The Debentures have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). The Debentures are subordinated to claims of depositors and all other creditors of UCB, are unsecured and are ineligible as collateral for a loan by UCB.

On September 28, 2007, UCB issued \$75.0 million aggregate principal amount of subordinated debentures due September 30, 2017. The purchase agreement is dated as of September 28, 2007 and is made between United Commercial Bank, as borrower, and USB Capital Funding Corp., as lender. The subordinated debentures bear interest at a variable rate per annum equal to the 3-month LIBOR plus 1.50%. The Subordinated Debt is intended to qualify as Tier 2 capital under applicable rules and regulations promulgated by the State of California and the FDIC.

OFF-BALANCE SHEET ARRANGEMENTS

As previously discussed, the Company has established or acquired special purpose trusts for the sole purpose of issuing guaranteed preferred beneficial interests, investing in the junior subordinated debentures issued by the Company, and securitizing certain of the Company's commercial real estate loans. The Company's consolidated results exclude these special purpose trusts pursuant to FIN 46R, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, since UCBH is not deemed to be the primary beneficiary of these trusts.

[Table of Contents](#)

With respect to our internal securitizations, in accordance with SFAS No. 140, the Company recognizes transfers of financial assets that relinquish control as sales when all of the following conditions are met:

- The transferred assets have been legally isolated from the transferor, even in bankruptcy or other receivership.
- The transferee has the right to pledge or exchange the assets it received, or if the entity is a QSPE the beneficial interest holders have that right.
- The transferor does not maintain effective control over the transferred assets.

RISK ELEMENTS

Since risk is inherent in substantially all of the Company's operations, management of risk is integral to its successful operations and is also a key determinant of its overall performance. We manage all major aspects of our business through an integrated risk infrastructure that includes planning and review processes. We evaluate our risk and returns to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. As part of this evaluation, we apply various strategies to identify, manage and reduce the risks to which the Company's operations are exposed, namely credit, operational, interest rate and market, and liquidity risks.

We evaluate risk through various management committees with the oversight of the Board of Directors. The key risk management committees of the Company are:

- Enterprise Risk Management Committee, which reviews credit, operational, market and liquidity risk;
- Portfolio Review and Credit Risk Management Committees, which review credit policies, products and problem assets risk;
- Market Risk Management Committee, which reviews securities, loans and borrowings to assess yield, and interest rate and market risk; and
- Operational Risk Management Committee, which reviews those risks not covered by the Credit Risk Management and Market Risk Management Committees.

Management has established control processes and procedures to align risk-taking and risk management throughout our organization. Each of our business groups is responsible for identifying, quantifying, mitigating and managing all risks associated with their operations. In addition, each business unit prepares and executes business plans, which must address the changing nature of these risks making them best able to take actions to manage and mitigate those risks.

Credit Risk Management

Credit risk is the possibility of loss from the failure of a borrower or contractual counterparty to fully perform under the terms of a credit-related contract. Credit risk arises primarily from UCB's lending activities, as well as from other on- and off-balance-sheet credit instruments.

Effective management of credit risk is essential in maintaining a safe and sound financial institution. We have in place a set of formal loan policies and procedures, which provide UCB with a framework for consistent loan underwriting and a basis for sound credit decisions. In addition, UCB has a well-defined set of standards for evaluating its loan portfolio and management utilizes a comprehensive loan grading system to identify the risk potential in the portfolio. Loans are periodically reviewed with regard to the borrower's ability to repay the loan during which a risk grade is assigned to the loan. The reviews include evaluations of various factors including, the borrower's debt capacity and financial flexibility, the borrower's earnings, the sources of repayment, the level and nature of any contingencies, the quality of any collateral, and the industry in which the borrower operates. The reviews also address an evaluation of historical information as well as subjective assessments and interpretations. Further, an independent internal credit review function periodically conducts reviews of UCB's lending operations and loan portfolios. These reviews are designed to place an emphasis on the early detection of problem credits so that action plans can be developed and implemented on a timely basis to mitigate any potential losses.

[Table of Contents](#)

UCB also assigns a loss rating to each credit facility. These loss ratings are determined by borrower and by type of collateral, based principally upon our own historical loss experience or on independent verifiable data that help to estimate these ratings. The ratings are used as a tool to monitor a loan's performance and also in estimating any potential loss associated with it.

Another aspect of UCB's credit risk management strategy is to maintain diversification in loans held in portfolio. The components of UCB's loans held in portfolio by amount and percentage of gross loans held in portfolio for each major loan category at December 31, 2007 and 2006, were as follows (dollars in thousands):

	2007		2006	
	Amount	%	Amount	%
Commercial:				
Secured by real estate — nonresidential	\$ 2,317,501	29.59	\$ 2,341,572	35.29
Secured by real estate — multifamily	1,186,177	15.14	1,275,594	19.22
Construction	1,666,550	21.28	1,054,302	15.89
Business	2,076,597	26.51	1,461,322	22.02
Total commercial	7,246,825	92.52	6,132,790	92.42
Consumer:				
Residential mortgage (one-to-four family)	518,674	6.62	448,895	6.76
Other	66,651	0.86	53,975	0.82
Total consumer	585,325	7.48	502,870	7.58
Loans held in portfolio ⁽¹⁾	<u>\$ 7,832,150</u>	<u>100.00</u>	<u>\$ 6,635,660</u>	<u>100.00</u>

(1) Amounts reflect net unamortized deferred loan fees, purchase premiums and discounts of \$17.9 million and \$25.8 million at December 31, 2007 and 2006, respectively.

UCB actively monitors the levels of loans as a percentage of its loans held in portfolio and of its risk-based capital. Consistent with our planned long-term objectives, UCB will continue to systematically reduce the concentration in commercial and multifamily real estate loans, while increasing the portfolio of construction and commercial business loans. However, in the short term, given the current economic environment, UCB will be more selective in the origination of construction and commercial business loans in the U.S. During the year ended December 31, 2007, \$186.7 million in commercial real estate loans were sold. Additionally, \$183.6 million of commercial real estate loans were transferred from held in portfolio to held for sale, in an effort to further reduce UCB's concentration of commercial real estate loans. As more fully described below, the Company securitized certain commercial real estate and multifamily loans to manage this concentration risk.

UCB also manages its loans held in portfolio to avoid the risk of undue concentration of credits in a particular industry, trade group or property type. UCB has no significant exposure to highly leveraged transactions or to any individual customer or counterparty.

Loan Securitizations. UCB may also use loan securitizations to reduce its exposure to credit risk and loan to deposit ratio and improve its liquidity position. In such securitizations, UCB has exchanged either multifamily or residential (one-to-four family) mortgage loans for securities issued by FNMA, thus transferring the credit risk on the loans to FNMA. The average yield that UCB earns on the FNMA securities is lower than the yield on the underlying loans. This difference is the guarantee fee that is retained by FNMA as compensation for assuming the credit risk. On certain occasions, UCB has securitized commercial real estate loans through a qualified special purpose entity ("QSPE"). QSPE's are passive entities with limited permitted activities. UCB will exchange the commercial real estate loans for commercial mortgage backed securities ("CMBS"). Since we typically retain all of the securities in these exchanges, no gain or loss is recognized on the transactions unless the fair value of the underlying securities created is less than the carrying value of the loans. During the fourth quarter of 2007, UCB charged off \$1.6 million against the allowance for loan losses in connection with this securitization. UCB continues to service the securitized loans under a subservicing arrangement. Residential mortgage (one-to-four family) loans are generally included in the 50% risk weight for risk-based capital purposes, whereas multifamily real estate loans may fall either into the 50% or 100% risk weight depending on the specific criteria of each individual loan.

[Table of Contents](#)

Commercial real estate mortgages are included in the 100% risk weighted category. FNMA securities, however, are classified at a 20% risk weight and CMBS securities are classified based on the external rating of the securities, which could range from a 20% risk weight for AAA and AA rated securities to 200% for below-investment grade securities.

These loan securitizations do not have a significant cash flow impact to UCB, since selected loans from its loans held in portfolio are exchanged for securities. The securities are generally held as AFS in UCB's Investment Securities Portfolio.

UCB internally securitized \$402.4 million of commercial real estate loans and \$176.9 million of multifamily loans for the year ended December 31, 2007, and \$176.1 million of residential mortgage (one-to-four family) loans for the year ended December 31, 2006. There were no securitizations for the year ended December 31, 2005.

Nonperforming Assets

Nonperforming assets in the following table include nonaccrual and restructured loans from loans held in portfolio and other real estate owned ("OREO"), but exclude any loans held for sale and accruing loans contractually past due 90 days or more. Loans are generally placed on nonaccrual status when a loan becomes 90 days past due as to principal and interest, unless the loan is both well secured and in the process of collection. Loans may be placed on nonaccrual earlier if, in management's opinion, the full and timely collection of principal or interest becomes uncertain. When a loan is placed on nonaccrual status, any accrued but unpaid interest is reversed and charged against interest income. UCB charges off loans when it determines that collection becomes unlikely. OREO is acquired primarily through or in lieu of foreclosure on loans secured by real estate.

[Table of Contents](#)

UCB's nonperforming assets from loans held in portfolio and OREO as of December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Commercial loans:					
Secured by real estate — nonresidential	\$ 18,086	\$ 5,604	\$ 12,792	\$ 8,085	\$ —
Secured by real estate — multifamily	4,032	—	—	—	—
Construction	15,799	—	—	4,353	5,102
Business	14,713	6,339	5,903	136	631
Total commercial loans	<u>52,630</u>	<u>11,943</u>	<u>18,695</u>	<u>12,574</u>	<u>5,733</u>
Consumer loans:					
Residential mortgage (one-to-four family)	349	368	388	—	124
Other	206	—	50	—	—
Total consumer loans	<u>555</u>	<u>368</u>	<u>438</u>	<u>—</u>	<u>124</u>
Total nonaccrual loans from loans held in portfolio	53,185	12,311	19,133	12,574	5,857
Other real estate owned	3,844	2,887	—	—	—
Total nonperforming assets(1)	<u>\$ 57,029</u>	<u>\$ 15,198</u>	<u>\$ 19,133</u>	<u>\$ 12,574</u>	<u>\$ 5,857</u>
Nonperforming assets to total assets	0.48%	0.15%	0.24%	0.20%	0.10%
Nonaccrual loans to loans held in portfolio	0.68	0.19	0.33	0.31	0.16
Nonperforming assets to loans held in portfolio and other real estate owned	0.73	0.23	0.33	0.31	0.16
Loans held in portfolio	\$ 7,832,150	\$ 6,635,660	\$ 5,838,660	\$ 4,050,741	\$ 3,771,381
Gross interest income recognized on impaired loans	139	80	183	—	—
Gross interest income not recognized on nonaccrual loans	1,877	676	790	699	363
Accruing loans contractually past due 90 days or more	43,820	4,339	5,374	3,101	1,469
Loans classified as troubled debt restructurings and not included above	8,466	8,614	10,827	11,329	9,094

(1) Nonperforming assets exclude loans held for sale and loans contractually past due 90 days or more but still accruing.

The level of UCB's nonperforming assets increased \$41.8 million as of December 31, 2007, compared to December 31, 2006. The increase was a result of additional loans being moved to nonaccrual status, twelve loans in commercial real estate, four loans in multifamily, four loans in construction and thirty-nine loans in commercial business. Partially offsetting these increases were the various payoffs and charge-offs of nonperforming assets.

Loans classified as troubled debt restructurings reflected in the table above at December 31, 2007, represents one commercial real estate loan and one commercial business loan. The commercial real estate loan has been classified as a performing restructured loan as a result of UCB making interest rate concessions on a separate loan for \$1.1 million to the same obligor and is secured by the same property.

Included in nonaccrual loans are loans that we have determined to be impaired. Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered to be impaired when, based on current information and events, it is probable that UCB will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. The amount of a loan's impairment is measured based on either the present value of expected cash flows, the observable market price of the loan, or the fair value of the collateral securing the loan.

[Table of Contents](#)

At December 31, 2007 and 2006, UCB's loans that were considered to be impaired were \$83.2 million and \$12.0 million, respectively. Estimated losses on impaired loans are added to the allowance for loan losses through the provision for loan losses. At December 31, 2007, the allowance for loan losses included \$7.9 million for impaired loans with a \$32.4 million recorded investment. At December 31, 2006, the allowance included \$1.4 million for impaired loans with a recorded investment of \$6.9 million. See Notes 1 and 11 to the Consolidated Financial Statements for additional information on impaired loans.

At December 31, 2007, there were three loans with outstanding principal balances totaling approximately \$29 million, which have been performing in accordance with the contractual terms, but for which there were serious doubts as to the ability of the respective borrowers to comply with the terms.

Management cannot predict the extent to which economic conditions in UCB's market areas may change or the full impact that such changes may have on UCB's loan portfolio. Accordingly, there can be no assurance that additional loans will not become 90 days or more past due, be placed on nonaccrual status, or become impaired or restructured loans or OREO in the future.

The increase in OREO resulted primarily from the Summit acquisition. These properties have been listed for sale and UCB intends to dispose of them as quickly as possible.

Allowances for Credit Losses

Allowance for Loan Losses. The allowance for loan losses represents our estimate of the losses that are inherent in the loan portfolio, exclusive of loans held for sale. UCB continuously monitors the quality of its loan portfolio and maintains an allowance for loan losses sufficient to absorb losses inherent in the portfolio.

UCB's methodology for assessing the adequacy of the allowance for loan losses includes the evaluation of two distinct components: a general allowance applied to loan portfolio categories as a whole and a specific reserve for loans deemed impaired. Loans that are determined to be impaired are excluded from the general allowance analysis of the loan portfolio and are assessed individually.

In determining the general allowance, UCB applies loss factors, differentiated by an internal credit risk rating system, to its major loan portfolio categories (based primarily on loan type). UCB's risk rating system is applied at the individual loan level within each of the major loan portfolio categories. The credit quality of the loan portfolio is regularly assessed through ongoing review.

The loss factors are developed from actual historic losses, and reflect comparative analysis with peer group loss rates and expected losses, which are in turn based on estimated probabilities of default and loss given default. Additionally, loss factors incorporate qualitative adjustments that reflect an assessment of internal and external influences on credit quality that have not yet been reflected in the historical loss or risk-rating data. These influences may include elements such as portfolio credit quality trends and changes in concentrations, growth, or credit underwriting. UCB's qualitative adjustments also include an economic surcharge factor to adjust loss factors in recognition of the impact various macro-economic factors have on portfolio performance. The quantitative analysis also resulted in establishing a minimum loss factor for each of the major loan portfolio categories to better reflect minimum inherent loss in all portfolios including those with limited historic loss experience.

UCB regularly assesses the loss factors that are applied to loan portfolio categories on a quarterly basis, and as part of the assessment concluded during the year ended December 31, 2007, UCB effected further refinements in the determination of certain loss factors. In addition, UCB performs its annual allowance methodology review during the second quarter of each year. The annual methodology review primarily addresses the approaches, assumptions, and data inputs used in the quantitative support for the loss factors, and focused primarily on the continued development of the expected loss approach.

The second component of the allowance for loan losses, the specific reserve, applies to loans that are considered impaired. A loan is considered impaired when it is probable that UCB will not be able to collect all amounts due, including interest payments, in accordance with the loan's contractual terms. Unless the loan is collateral-dependent, loan impairment is measured based on the present value of expected future cash flows that have been discounted at the loan's effective interest rate. If the loan is collateral-dependent, either the observable

[Table of Contents](#)

market price or the current fair value of the collateral, reduced by estimated disposition costs, is used in place of the discounted cash flow analysis.

The components of the allowance for loan losses and allowance for losses related to unfunded commitments for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at beginning of year:					
Allowance for loan losses	\$ 62,015	\$ 64,542	\$ 56,472	\$ 58,126	\$ 48,865
Allowance for losses — unfunded commitments	<u>6,833</u>	<u>3,402</u>	<u>3,940</u>	<u>2,737</u>	<u>—</u>
Total allowance for losses at beginning of year	68,848	67,944	60,412	60,863	48,865
Acquired allowance for loan losses	5,784	7,279	2,932	—	4,028
Provision for loan losses	20,181	3,842	6,091	4,202	9,967
Charge-offs:					
Commercial:					
Secured by real estate — nonresidential	(1,706)	(791)	(838)	(1,577)	(87)
Secured by real estate — multifamily	(59)	—	—	(127)	—
Construction	(1,288)	—	—	—	(170)
Business	<u>(7,593)</u>	<u>(9,765)</u>	<u>(750)</u>	<u>(2,985)</u>	<u>(2,713)</u>
Total commercial	<u>(10,646)</u>	<u>(10,556)</u>	<u>(1,588)</u>	<u>(4,689)</u>	<u>(2,970)</u>
Consumer:					
Residential mortgage (one-to-four family)	—	(74)	—	—	—
Other	<u>(31)</u>	<u>(64)</u>	<u>(26)</u>	<u>(109)</u>	<u>(379)</u>
Total consumer	<u>(31)</u>	<u>(138)</u>	<u>(26)</u>	<u>(109)</u>	<u>(379)</u>
Total charge-offs	<u>(10,677)</u>	<u>(10,694)</u>	<u>(1,614)</u>	<u>(4,798)</u>	<u>(3,349)</u>
Recoveries:					
Commercial:					
Secured by real estate — nonresidential	997	128	—	—	30
Secured by real estate — multifamily	—	—	—	—	—
Construction	—	—	—	—	300
Business	<u>418</u>	<u>313</u>	<u>63</u>	<u>119</u>	<u>952</u>
Total commercial	<u>1,415</u>	<u>441</u>	<u>63</u>	<u>119</u>	<u>1,282</u>
Consumer:					
Residential mortgage (one-to-four family)	—	—	34	—	—
Other	<u>3</u>	<u>36</u>	<u>26</u>	<u>26</u>	<u>70</u>
Total consumer	<u>3</u>	<u>36</u>	<u>60</u>	<u>26</u>	<u>70</u>
Total recoveries	<u>1,418</u>	<u>477</u>	<u>123</u>	<u>145</u>	<u>1,352</u>
Total allowance for losses at end of year	<u>\$ 85,554</u>	<u>\$ 68,848</u>	<u>\$ 67,944</u>	<u>\$ 60,412</u>	<u>\$ 60,863</u>
Allowance for loan losses	\$ 80,584	\$ 62,015	\$ 64,542	\$ 56,472	\$ 58,126
Allowance for losses — unfunded commitments	<u>4,970</u>	<u>6,833</u>	<u>3,402</u>	<u>3,940</u>	<u>2,737</u>
Total allowance for losses at end of year	<u>\$ 85,554</u>	<u>\$ 68,848</u>	<u>\$ 67,944</u>	<u>\$ 60,412</u>	<u>\$ 60,863</u>
Allowance for loan losses to loans held in portfolio	1.03%	0.93%	1.11%	1.39%	1.54%
Net charge-offs to average loans held in portfolio	0.13	0.17	0.03	0.11	0.06

[Table of Contents](#)

The allocation of the allowance for loan losses analysis and the percentage of gross loans held in portfolio at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows (dollars in thousands):

	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Allocated:										
Commercial:										
Secured by real estate — nonresidential	\$ 20,687	25.67	\$ 21,408	35.29	\$ 30,778	39.52	\$ 30,885	47.99	\$ 26,702	45.18
Secured by real estate — multifamily	2,474	3.07	2,187	19.22	1,075	25.81	629	21.38	5,263	30.80
Construction	21,858	27.12	12,623	15.89	9,412	8.47	8,929	7.16	9,274	7.76
Business	34,012	42.21	24,468	22.02	22,406	14.80	14,971	11.56	6,011	7.85
Total commercial	79,031	98.07	60,686	92.42	63,671	88.60	55,414	88.09	47,250	91.59
Consumer:										
Residential mortgage (one-to-four family)	1,373	1.70	918	6.76	697	10.52	728	10.72	292	7.25
Other	180	0.23	141	0.82	174	0.88	330	1.19	465	1.16
Total consumer	1,553	1.93	1,059	7.58	871	11.40	1,058	11.91	757	8.41
Total allocated	80,584	100.00	61,745	100.00	64,542	100.00	56,472	100.00	48,007	100.00
Non-loan category specific ⁽¹⁾	—		270		—		—		10,122	
Allowance for loan losses	\$ 80,584		\$ 62,015		\$ 64,542		\$ 56,472		\$ 58,129	
Allowance for losses - unfunded commitments	\$ 4,970		\$ 6,833		\$ 3,402		\$ 3,940		\$ 2,737	

(1) During 2004 the portion of the allowance previously presented as “non loan category specific” was allocated to specific loan portfolios, to align the potential imprecision arising from the accuracy of the risk rating process and general economic and business conditions affecting our key lending areas with the underlying loan portfolio.

The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict our use of the allowance to absorb losses in other categories.

The provision for loan losses was \$20.2 million for 2007, as compared to \$3.8 million for 2006. Of the total 2007 provision, \$14.0 million was recorded in the fourth quarter of 2007. While the Company is not directly involved in sub-prime lending activities, current economic pressures on housing and land values in certain California markets such as the Inland Empire, Central Valley and Sacramento area have impacted a certain segment of the overall loan portfolio. Approximately 10% of the loan portfolio is concentrated in these stressed California markets, and the Company has noted an increase in loan delinquencies and some migration to criticized credit categories that are predominately related to construction lending. Therefore, in the fourth quarter of 2007, the Company increased its specific valuation allowances by \$4.4 million, and increased its economic surcharge factors by \$4.3 million, which included \$3.3 million specifically related to the construction portfolio. However, year over year changes in loss factors did not materially impact the provision for loan losses. The increase was the result of an increase in classified loans and specific reserves on impaired loans.

In the U.S., the moderate pace of economic growth that occurred during the first half of fiscal 2007 slowed during the second half of fiscal 2007, primarily reflecting the significant and broad-based illiquidity in the residential real estate and credit markets. Concerns about the impact of sub-prime loans caused the sub-prime-related and broader credit markets to deteriorate considerably over the course of the third and fourth quarters of fiscal 2007, with increased volatility, significant spread widening and lower levels of liquidity and price transparency for certain products. Subprime mortgages are loans secured by real property made to a borrower (or borrowers) with a diminished or impaired credit rating or with a limited credit history. UCB currently does not have sub-prime loans on its balance sheet and has not engaged in any sub-prime loan originations.

[Table of Contents](#)

Reserve for Unfunded Commitments. UCB also estimates a reserve related to unfunded commitments and other off-balance sheet credit exposure. In assessing the adequacy of this reserve, UCB uses an approach similar to the approach used in the development of the allowance for loan losses. The reserve for unfunded commitments is included in other liabilities on the statement of financial position. Commitments to extend credit at December 31, 2007 and 2006, were \$2.7 billion and \$2.12 billion, respectively.

The reserve for unfunded commitments decreased \$1.9 million from December 31, 2006. The decrease was primarily a result of the change in the historic loss factor arising from our annual methodology review conducted in the second quarter of 2007.

Operational Risk Management

Operational risk is the potential for unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures. Successful operational risk management is particularly important to a diversified financial services company like ours because of the nature, volume and complexity of our various businesses.

We classify operational risk into two major categories: business specific and corporate-wide affecting all business lines. Management of operational risk requires a different strategy for each category. For business-specific risks, the Operational Risk Management Committee works with the divisions to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Operational Risk Management Committee assesses the risks, develops a consolidated corporate view and communicates that view to the business groups.

In addition, to help manage company-wide risks, we have specialized support groups, such as the Legal Department, Information Security, Business Recovery, Corporate Finance, Corporate Compliance, Information Technology and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups.

Interest Rate and Market Risk Management

Interest rate risk is the potential for loss resulting from adverse changes in the level of interest rates on UCB's net interest income. Market risk is the potential for loss arising from adverse changes in the prices of UCB's financial instruments as a result of changes in interest rates or other factors. As a financial institution that engages in transactions involving an array of financial products, UCB is constantly exposed to both interest rate risk and market risk.

Interest rate risk is one of the most significant risks to which UCB is regularly exposed and is managed centrally in the Corporate Treasury function. It is the primary driver behind our market risk exposure and affects both the values of our financial assets and the interest we earn and pay out. A sudden and substantial change in interest rates could negatively affect our earnings if the rates of interest UCB earns on its loans and investments do not change at the same speed, to the same extent, or on the same basis as the interest rates UCB pays on its deposits and borrowings.

One of UCB's highest priorities is to actively monitor and manage its exposure to interest rate risk. UCB accomplishes this by first evaluating the interest rate risk and, in turn, market risk that is inherent in the makeup of its assets and liabilities. UCB then determines an appropriate level of risk that it is willing to assume considering its business strategy, current operating environment, capital and liquidity requirements, as well as our current performance objectives.

Interest rate risk is managed in a number of ways. UCB actively manages the rates on the various types of loans and deposits that it offers its customers. These offering rates are a primary tool for encouraging or discouraging the production of loans with specific characteristics such as repricing frequency, amortization term and maturity; certificates of deposits with longer or shorter terms; and the mix of deposits. Nevertheless, banking is a competitive industry and although we endeavor to influence the types of loans and deposits that we produce, market conditions ultimately govern the outcome of those efforts.

[Table of Contents](#)

UCB also manages market risk through changing the composition of its assets by selling loans with specific repricing characteristics, adjusting the relative size of its investment securities portfolio, which are predominately fixed-rate, and replenishing the investment securities portfolio with securities of specific durations and final maturities. UCB also manages the composition of its liabilities by choosing borrowings with longer or shorter expected maturities.

UCB monitors its interest rate and market sensitivities through the use of a model, which estimates the change in our net portfolio value ("NPV") and net interest income in the event of a range of assumed changes in market interest rates. NPV is defined as the current market value of our assets, less the current market value of our liabilities, plus or minus the current value of off-balance-sheet items. As market interest rates decline, the average expected lives of our fixed-rate loans and investment securities shorten due to quicker prepayments, causing a relatively moderate increase in their value. The value of our deposit portfolio exhibits only relatively minor movements in a declining interest rate environment, since they are primarily short term in nature. This results in the value of deposits decreasing more quickly than the value of assets increasing. As market interest rates rise, the average expected life of our fixed-rate loans and securities lengthens as prepayments decrease, causing a decline in value. The value of our deposits decreases slowly in a rising rate environment, due to the concentration of time deposits in our deposit base, which have terms of one year or less.

UCB may use certain derivative financial instruments for hedging purposes, such as interest rate swaps, caps and floors as part of our hedging program, to help mitigate our interest rate risk. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount that is presented on our balance sheet. See the "Contractual Obligation and Off-Balance-Sheet Arrangements" section for additional information.

The percentage change in UCB's NPV and net interest income, assuming an immediate change in interest rates of plus or minus 100 and 200 basis points, from the levels at December 31, 2007 and 2006, and sustained through the projected forward rates are as follows (dollars in thousands):

Change in Interest Rates in Basis Points:	Net Portfolio Value			Net Interest Income		
	Amount	Change	% Change	Amount	Change	% Change
December 31, 2007:						
200	\$ 955,975	\$ (192,604)	(16.77)	\$ 345,228	\$ (16,804)	(4.64)
100	1,069,212	(79,366)	(6.91)	356,925	(5,107)	(1.41)
0	1,148,579	—	—	362,032	—	—
(100)	1,067,502	(81,076)	(7.06)	355,049	(6,983)	(1.93)
(200)	945,062	(203,517)	(17.72)	340,272	(21,760)	(6.01)
December 31, 2006:						
200	\$ 1,074,052	\$ (127,162)	(10.59)	\$ 326,194	\$ (503)	(0.15)
100	1,136,260	(64,955)	(5.41)	327,998	1,301	0.40
0	1,201,215	—	—	326,697	—	—
(100)	1,222,214	20,999	1.75	321,829	(4,867)	(1.49)
(200)	1,215,494	14,279	1.19	311,995	(14,702)	(4.50)

All loans and investments presented in the above table are classified as held to maturity or available for sale. We had no trading securities at those dates.

Like all models that are dependent upon future interest rate movements and other variables, the interest rate risk model that we use has certain shortcomings. We are required to make certain assumptions, such as estimated prepayment rates, which may or may not actually reflect how actual yields and costs will react to market interest rates. For example, the interest rate risk model assumes that the makeup of our interest rate-sensitive assets and liabilities will remain constant over the period being measured. Thus, although using such a model can be instructive in providing an indication of UCB's exposure to interest rate risk, we cannot precisely forecast the effects of a change in market interest rates and the results indicated by the model are likely to differ from actual results.

[Table of Contents](#)**Liquidity Risk**

Overview. Liquidity risk is the possibility that UCB's cash flows may not be adequate to fund its ongoing operations and meet its commitments in a timely cost-effective manner. Since liquidity risk is closely tied to both credit risk and market risk, many of the previously discussed risk control mechanisms also apply to the monitoring and management of liquidity risk. UCB manages its liquidity to provide adequate funds to meet its anticipated financial and contractual obligations, including withdrawals by depositors, debt service requirements and lease obligations, as well as to fund customers' needs for credit. In addition, UCB's liquidity may be adversely affected by unexpected withdrawals of deposits, excessive interest rates paid by our competitors and other factors. However, UCB continuously reviews its liquidity positions in light of its actual and expected growth in loans and deposits to ensure that its liquidity needs are met.

Maintaining liquidity is the responsibility of the Market Risk Management Committee, which has established corporate liquidity guidelines by which liquidity and funding are managed. These guidelines address maintaining liquidity needs, diversifying funding positions, monitoring liquidity needs at both the Company and UCB levels, and anticipating future funding needs. Liquidity and funding are managed by UCB's Treasury Department under the direction of the Treasurer.

[Table of Contents](#)

Contractual Obligations. The Company's contractual obligations at December 31, 2007, were as follows (dollars in thousands):

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	More Than Five Years	Total
Deposits:					
Demand and savings accounts ⁽¹⁾	\$ 3,404,294	\$ —	\$ —	\$ —	\$ 3,404,294
Time deposits	4,270,935	88,429	17,550	32	4,376,946
Securities sold under agreements to repurchase	—	—	50,000	600,000	650,000
Borrowings	662,415	283,714	33,490	807,103	1,786,722
Subordinated debentures	—	—	—	406,615	406,615
Unfunded CRA investment commitments	10,986	—	—	—	10,986
Total balance sheet arrangements	<u>8,348,630</u>	<u>372,143</u>	<u>101,040</u>	<u>1,813,750</u>	<u>10,635,563</u>
Off-balance-sheet arrangements:					
Commitments to extend credit:					
Consumer (including residential mortgage)	101,978	—	—	—	101,978
Commercial (excluding construction)	1,488,733	—	—	—	1,488,733
Construction	1,101,515	—	—	—	1,101,515
Letters of credit					
Commercial	89,898	—	—	—	89,898
Standby	70,350	1,310	19,180	3,054	93,894
Derivative financial instruments:					
Foreign exchange contracts receivable	(806,310)	—	—	—	(806,310)
Foreign exchange contracts payable	806,380	—	—	—	806,380
Interest rate floor contract	—	25,000	—	—	25,000
Put option to sell	(7,600)	—	—	—	(7,600)
Put option to buy	7,600	—	—	—	7,600
Unfunded CRA investment commitments	6,996	—	—	—	6,996
Other	1,893	35	—	—	1,928
Noncancelable operating lease obligations	<u>11,212</u>	<u>18,560</u>	<u>12,938</u>	<u>20,044</u>	<u>62,754</u>
Total off-balance sheet arrangements	<u>2,872,645</u>	<u>44,905</u>	<u>32,118</u>	<u>23,098</u>	<u>2,972,766</u>
Total contractual obligations	<u>\$ 11,221,275</u>	<u>\$ 417,048</u>	<u>\$ 133,158</u>	<u>\$ 1,836,848</u>	<u>\$ 13,608,329</u>

(1) Accounts with indeterminate maturities, such as savings and checking, are included in one year or less category.

In addition to the commitments specifically noted in the previous table, the Company enters into a number of contractual commitments in the ordinary course of business. These include systems licensing and maintenance, telecommunications services, facilities maintenance and management, equipment servicing, supplies purchasing, and other goods and services used in the operation of our business. Generally, these contracts are renewable or cancelable at least annually, although in some cases to secure favorable pricing concessions, the Company has committed to contracts that may extend to several years. The Company has no pension or other post-employment benefit obligations.

[Table of Contents](#)

Liquidity Management. Liquidity is managed centrally for both UCBH and UCB. UCBH's cash requirements consist primarily of debt service, operating expenses, income taxes and dividends to stockholders. UCBH's cash needs are routinely met through dividends from UCB, investment income and debt issuances. UCB's cash requirements consist primarily of funding loans and deposit maintenance such as interest payments and deposit withdrawals. UCB's primary source of funding is its core deposits.

Operational cash flows, while constituting a potential funding source for the Company, are typically not large enough to provide funding in the amounts that fulfill the needs of UCBH and UCB. As a result, the Company utilizes other sources at its disposal to manage its liquidity needs.

For the year ended December 31, 2007, UCBH received \$21.5 million in dividends from UCB. At December 31, 2007, \$277.1 million of dividend capacity was available for UCB to pay UCBH without obtaining regulatory approval. The dividend capacity is dependent upon the continued profitability of UCB and on no significant changes taking place in the current regulatory environment. While we have no current expectation that these two conditions will change, should a change take place in the future, the source of funding to UCBH may become more limited or even unavailable. See Note 19 to the Consolidated Financial Statements for the details related to dividend capacities and limitations, as well as the risk factors included in pages 15 through 19 that may affect future dividend paying capabilities.

As mentioned earlier, UCB's primary source of funding is its deposits. For the year ended December 31, 2007, deposit increases resulted in net cash inflows of \$575.4 million. Our liquidity may be adversely affected by unexpected withdrawals of deposits, which would require us to seek alternative funding sources, such as federal funds and other borrowings.

UCB maintains borrowing lines with numerous correspondent banks and brokers, and several agreements to repurchase securities sold with major brokerage houses to supplement its supply of lendable funds and to manage liquidity. In addition, the FHLB allows member banks to borrow against their eligible loans to help meet liquidity requirements. These borrowings are generally secured with mortgage loans and/or securities with a market value at least equal to outstanding balances. In addition to loans and securities, advances from the FHLB are typically secured by a pledge of FHLB stock that UCB holds. UCB had \$1.57 billion and \$1.43 billion of FHLB advances outstanding at December 31, 2007 and 2006, respectively. At December 31, 2007, UCB had \$1.02 billion of additional FHLB borrowings available for future borrowing capacity. At December 31, 2007, UCB had \$650.0 million of securities sold under agreements to repurchase. The Company also has a \$35.0 million unsecured borrowing line with Wells Fargo Bank. As of December 31, 2007, \$35.0 million had been drawn against this line.

At December 31, 2007, the Company had \$236.0 million of FHLB short-term, fixed-rate advances that mature within one year. The \$1.33 billion in FHLB long-term advances mature between January 2, 2008, and November 30, 2020. As of December 31, 2007, \$1.02 billion of these advances may be terminated at the option of the FHLB. For the year ended December 31, 2007, the activity in short-term FHLB borrowings resulted in a net cash outflow of \$298.2 million, and activity in FHLB long-term borrowings resulted in net cash inflows of \$429.6 million. Borrowings from the FHLB may increase in the future depending on availability of funds from other sources. However, UCB must maintain its FHLB membership to continue to access this source of funding. In addition, the FHLB may terminate the advances at quarterly intervals at specified periods ranging from three to five years beyond the original advance dates. In the event the FHLB decides to exercise this option, UCB would need to repay the advances using other funding sources.

UCB periodically sells loans that it has originated, which sales may provide an alternative source of funding. During the year ended December 31, 2007, loan sales provided \$401.8 million in cash inflows. We expect that loan sales will continue to be a tool that we use for liquidity management purposes, as well as to manage our geographical loan concentrations. Also during 2007, UCB securitized \$402.4 million of commercial real estate loans and \$176.9 million of multi-family loans. The securities are included in the available for sale investment securities portfolio. The internal securitizations do not have a significant cash flow impact on UCB, but do improve our liquidity position.

While not considered a primary source of funding, the Company's investment securities activities can also provide or use cash, depending on the investment strategy being used for the portfolio. During the year ended December 31, 2007, investment securities activities, excluding loan securitizations, resulted in a decrease in investment securities holdings and a net cash inflow of \$569.5 million.

[Table of Contents](#)

Maturing balances in the various loan portfolios also provide additional flexibility in managing cash flows. In most situations, however, loan growth has resulted in cash outflows from a funding standpoint. For the year ended December 31, 2007, loan growth resulted in a net cash outflow of \$4.33 billion. With the loan growth that we have experienced over the past year, we expect that our lending operations will continue to be a use of funds rather than a source.

CAPITAL MANAGEMENT

The Company's Board of Directors is ultimately responsible for approving the policies associated with capital management. The primary goal of our capital management program is to maintain UCB (on a consolidated basis) and the Company at the "well capitalized" level under the regulatory framework for prompt corrective action. As of December 31, 2007, both UCB and the Company exceeded the minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios to be considered "well capitalized".

UCB also manages its risk-based capital levels through loan securitizations. In such securitizations, UCB will exchange either multifamily or residential (one-to-four family) mortgage loans for securities issued by FNMA. On certain occasions, UCB will securitize commercial real estate loans through a qualified special purpose entity ("QSPE"). QSPE's are passive entities with limited permitted activities. UCB will exchange the commercial real estate loans for commercial mortgage backed securities ("CMBS"). Residential (one-to-four family) mortgages are generally included in the 50% risk weighted category for risk-based capital purposes. Multifamily loans may receive either a 50% or 100% risk weighing depending on specific loan criteria. Commercial real estate mortgages are included in the 100% risk weighted category. FNMA securities, however, are classified at a 20% risk weight and CMB securities are classified based on the external rating of the securities, which could range from a 20% risk weight for AAA and AA rated securities to 200% for below-investment grade securities.

These securitizations do not have a cash flow impact on UCB, since selected loans from its loan portfolio are exchanged for securities. Such securities are supported by exactly the same loans that were held in UCB's portfolio. The securities are generally included in the available for sale investment securities portfolio.

Total stockholders' equity at December 31, 2007, was \$967.1 million, an increase of 23.0% over the \$786.1 million at December 31, 2006. The increase reflects the retention of earnings and the issuances of new shares of stock in connection with the Company's recent acquisitions. UCB's and the Company's total risk-based, Tier 1 risk-based and Tier 1 leverage ratios at December 31, 2007, 2006, 2005, 2004 and 2003, were as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
United Commercial Bank:					
Tier 1 leverage	7.42%	9.30%	8.26%	8.49%	7.86%
Tier 1 risk-based capital	8.55	9.67	9.91	11.42	10.92
Total risk-based capital	10.80	10.53	10.98	12.67	12.18
UCBH Holdings, Inc. and subsidiaries:					
Tier 1 leverage	7.39%	9.50%	8.56%	8.92%	8.42%
Tier 1 risk-based capital	8.51	9.86	10.26	11.98	11.69
Total risk-based capital	10.76	10.72	11.33	13.23	12.94

The decline in the risk-based capital ratios over the past two years as compared to years prior to 2006, relates primarily to the Company's acquisitions, which increased risk — weighted assets, off-balance sheet exposures and goodwill at a rate that outpaced the growth in equity. The risk-based capital ratio for United Commercial Bank at December 31, 2007 takes into account the infusion of \$35.0 million from the Company during the fourth quarter of 2007.

UCBH has continuously paid quarterly dividends on its common stock since 2000. UCBH paid out dividends of \$0.12 per share for a total payment of \$12.2 million in 2007, compared to \$0.12 per share or \$10.8 million in 2006. The payment of dividends during 2007 had the effect of reducing the Company's Tier 1 leverage ratio by 12 basis points and the total risk-based capital ratio by 13 basis points.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

For quantitative and qualitative disclosures regarding market risks in our portfolio, see the discussion under "Market Risk Management" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

Item 8. *Financial Statements and Supplemental Data***UCBH HOLDINGS, INC. AND SUBSIDIARIES**
Index to Consolidated Financial Statements

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	75
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	77
<u>Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005</u>	78
<u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the years ended December 31, 2007, 2006 and 2005</u>	79
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005</u>	80
<u>Notes to Consolidated Financial Statements</u>	81

[Table of Contents](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of UCBH Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of UCBH Holdings, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 1 and 21 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

[Table of Contents](#)

As described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, management has excluded Business Development Bank Ltd. ("BDB") from its assessment of internal control over financial reporting as of December 31, 2007 because it was acquired by the Company in a purchase business combination during the fourth quarter of 2007. We have also excluded BDB from our audit of internal control over financial reporting. BDB is a wholly-owned subsidiary whose total assets and total revenues represent 2.9% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.



San Francisco, California
February 28, 2008

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share and Par Value Amounts)

	December 31,	
	2007	2006
ASSETS		
Noninterest bearing cash	\$ 117,141	\$ 112,343
Interest bearing cash	202,258	92,049
Federal funds sold	26,028	150,027
Cash and cash equivalents	345,427	354,419
Securities purchased under agreements to resell	150,000	175,000
Investment and mortgage-backed securities available for sale, at fair value	2,188,355	2,149,456
Investment and mortgage-backed securities held to maturity, at cost (fair value of \$276,286 and \$295,446 at December 31, 2007 and 2006, respectively)	271,485	290,673
Federal Home Loan Bank stock, Federal Reserve Bank stock and other equity investments	138,877	110,775
Loans held for sale, net of valuation allowance	177,137	142,861
Loans held in portfolio	7,832,150	6,635,660
Allowance for loan losses	(80,584)	(62,015)
Loans held in portfolio, net	7,751,566	6,573,645
Accrued interest receivable	61,111	50,803
Premises and equipment, net	144,630	115,610
Goodwill	436,606	226,780
Core deposit intangibles, net	22,526	28,325
Mortgage servicing rights, net	12,783	13,273
Other assets	103,063	114,794
Total assets	<u>\$ 11,803,566</u>	<u>\$ 10,346,414</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	\$ 860,338	\$ 767,714
Interest bearing deposits	6,920,902	6,435,131
Total deposits	7,781,240	7,202,845
Securities sold under agreements to repurchase	650,000	401,600
Short-term borrowings and federal funds purchased	492,532	654,636
Subordinated debentures	406,615	240,549
Accrued interest payable	28,169	21,018
Long-term borrowings	1,372,190	906,651
Other liabilities	105,717	133,044
Total liabilities	10,836,463	9,560,343
Commitments and contingencies (Notes 23 and 24)	—	—
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par value, 180,000,000 shares authorized at December 31, 2007 and 2006; 104,397,988 and 99,448,181 shares issued and outstanding at December 31, 2007 and 2006, respectively	1,044	994
Additional paid-in capital	427,474	341,616
Retained earnings	554,568	464,616
Accumulated other comprehensive loss	(15,983)	(21,155)
Total stockholders' equity	967,103	786,071
Total liabilities and stockholders' equity	<u>\$ 11,803,566</u>	<u>\$ 10,346,414</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31,		
	2007	2006	2005
Interest and dividend income:			
Loans	\$ 575,805	\$ 448,650	\$ 333,159
Investment and mortgage-backed securities:			
Taxable	88,043	62,418	55,369
Tax-exempt	14,907	10,717	10,617
FHLB stock	3,825	3,006	1,134
Federal funds sold	2,781	522	377
Deposits with banks	10,354	5,185	1,744
Securities purchased under agreements to resell	10,633	4,515	—
Total interest and dividend income	<u>706,348</u>	<u>535,013</u>	<u>402,400</u>
Interest expense:			
Deposits	276,331	210,059	123,317
Securities sold under agreements to repurchase	15,308	5,313	—
Short-term borrowings	16,557	10,178	10,605
Subordinated debentures	23,333	12,106	9,353
Long-term borrowings	52,231	33,424	18,635
Total interest expense	<u>383,760</u>	<u>271,080</u>	<u>161,910</u>
Net interest income	322,588	263,933	240,490
Provision for loan losses	20,181	3,842	6,091
Net interest income after provision for loan losses	<u>302,407</u>	<u>260,091</u>	<u>234,399</u>
Noninterest income:			
Commercial banking fees	19,972	15,444	10,607
Service charges on deposits	6,969	3,722	3,038
Gain (loss) on sale of securities, net	5,321	206	(5)
Gain on sale of SBA loans, net	2,500	2,930	3,356
Gain on sale of commercial and multifamily real estate loans, net	5,702	17,812	12,207
Lower of cost or market adjustment on loans held for sale, net	(303)	76	(1,152)
Impairment on available for sale securities, net	(11,593)	—	—
Equity loss in other equity investments, net	(3,023)	(1,106)	(2,296)
Acquisition termination fee	—	5,000	—
Other fees	5,124	3,059	929
Total noninterest income	<u>30,669</u>	<u>47,143</u>	<u>26,684</u>
Noninterest expense:			
Personnel	98,048	88,616	60,152
Occupancy	21,209	16,189	12,238
Data processing	9,173	9,890	6,847
Furniture and equipment	8,644	7,100	6,534
Professional fees and contracted services	7,369	9,855	10,763
Deposit insurance	1,800	784	742
Communication	3,074	1,071	955
Core deposit intangible amortization	4,566	2,342	1,345
Loss (gain) on extinguishment of subordinated debentures and borrowings	—	(360)	1,246
Other general and administrative	23,937	19,933	16,091
Total noninterest expense	<u>177,820</u>	<u>155,420</u>	<u>116,913</u>
Income before income tax expense	155,256	151,814	144,170
Income tax expense	52,948	50,937	46,344
Net income	<u>\$ 102,308</u>	<u>\$ 100,877</u>	<u>\$ 97,826</u>
Earnings per share:			
Basic	\$ 1.00	\$ 1.07	\$ 1.06
Diluted	\$ 0.97	\$ 1.03	\$ 1.02
Dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.10

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME
(Dollars in Thousands, Except Share and Per Share Amounts)

	Common Stock		Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Other	Stockholders'	Income
			Capital		Comprehensive	Equity	
					Loss(1)		
Balance at December 31, 2004	91,131,824	456	203,432	286,622	(6,498)	484,012	
Net income	—	—	—	97,826	—	97,826	\$ 97,826
Other comprehensive income, net of tax benefit of \$9,899	—	—	—	—	(13,488)	(13,488)	(13,488)
Comprehensive income	—	—	—	—	—	—	<u>\$ 84,338</u>
Stock options exercised, including related tax benefit	786,614	6	7,670	—	—	7,676	
Cash dividend of \$0.10 per share	—	—	—	(9,228)	—	(9,228)	
Shares issued in connection with acquisition of:							
Pacifica Bancorp, Inc.	1,241,194	12	21,080	—	—	21,092	
Asian American Bank & Trust Company	878,246	9	15,615	—	—	15,624	
Stock split	—	457	(457)	—	—	—	
Balance at December 31, 2005	94,037,878	940	247,340	375,220	(19,986)	603,514	
Net income	—	—	—	100,877	—	100,877	\$ 100,877
Other comprehensive income, net of tax benefit of \$813	—	—	—	—	(1,169)	(1,169)	(1,169)
Comprehensive income	—	—	—	—	—	—	<u>\$ 99,708</u>
Stock options exercised, including related tax benefit	585,442	6	6,375	—	—	6,381	
Stock compensation charge	—	—	2,163	—	—	2,163	
Cash dividend of \$0.12 per share	—	—	—	(11,481)	—	(11,481)	
Shares issued in connection with acquisition of Summit Bank Corporation	4,824,861	48	85,738	—	—	85,786	
Balance at December 31, 2006	99,448,181	\$ 994	\$ 341,616	\$ 464,616	\$ (21,155)	\$ 786,071	
Net income	—	—	—	102,308	—	102,308	\$ 102,308
Other comprehensive income, net of tax liability of \$4,090	—	—	—	—	5,172	5,172	5,172
Comprehensive income	—	—	—	—	—	—	<u>\$ 107,480</u>
Stock options exercised, including related tax benefit	1,238,227	13	15,674	—	—	15,687	
Stock compensation charge	—	—	4,075	—	—	4,075	
Cash dividend of \$0.12 per share	—	—	—	(12,356)	—	(12,356)	
Shares issued in connection with acquisition of CAB Holding, LLC	3,711,580	37	66,109	—	—	66,146	
Balance at December 31, 2007	104,397,988	\$ 1,044	\$ 427,474	\$ 554,568	\$ (15,983)	\$ 967,103	

(1) Accumulated Other Comprehensive Loss arises solely from net unrealized losses on investment and mortgage-backed securities available for sale, presented net of tax.

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 102,308	\$ 100,877	\$ 97,826
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	20,181	3,842	6,091
Amortization of net deferred loan fees, purchase premiums and discounts	(12,961)	(9,061)	(6,262)
Amortization of net securities premiums and discounts	290	(847)	103
Federal Home Loan Bank stock dividend	(3,391)	(2,348)	(1,351)
Amortization of intangibles	8,147	5,341	3,642
Depreciation and amortization of premises and equipment	10,730	8,995	8,543
Gain on sale of loans originated in held in portfolio, securities, and other assets, net	(11,023)	(17,888)	(9,987)
Impairment on available for sale securities	11,593	—	—
Lower of cost or market adjustment on loans held for sale	32	(76)	1,152
Equity loss in other equity investments	2,988	1,106	2,296
Stock compensation expense, net of tax benefit related to nonqualified stock option grants	3,453	1,876	—
Excess tax benefit from stock option exercises	(5,115)	(2,007)	—
Loss (gain) on extinguishment of subordinated debentures and borrowings	—	(360)	1,246
Other, net	935	1,185	(2,037)
Changes in operating assets and liabilities:			
Decrease (increase) in loans originated in held for sale	8,119	27,113	(240,721)
Decrease (increase) in accrued interest receivable	(6,324)	(9,459)	(11,971)
Decrease (increase) in other assets	19,663	13,037	4,283
Increase (decrease) in accrued interest payable	1,763	4,450	5,065
Increase (decrease) in other liabilities	(40,463)	(10,143)	14,472
Net cash provided by (used in) operating activities	<u>110,925</u>	<u>115,633</u>	<u>(127,610)</u>
Cash flows from investing activities:			
Payment for purchase of Business Development Bank Ltd. net of cash acquired	(168,419)	—	—
Net cash acquired from purchase of CAB Holding, LLC	33,647	—	—
Payment for purchase of Summit Bank Corporation, net of cash acquired	(734)	(137,119)	—
Payment for purchase of Pacifica Bancorp, Inc., net of cash acquired	—	(116)	(2,312)
Payment for purchase of Asian American Bank & Trust Company, net of cash acquired	—	(322)	(4,993)
Purchase of securities purchased under agreements to resell	(200,000)	(175,000)	—
Proceeds from maturity of securities purchased under agreements to resell	225,000	—	—
Investment and mortgage-backed securities, available for sale:			
Principal payments and maturities	1,468,224	708,525	418,294
Purchases	(2,197,811)	(1,424,927)	(486,062)
Sales	1,225,153	96,777	114,991
Called	112,980	20,000	22,000
Investment and mortgage-backed securities, held to maturity:			
Principal payments and maturities	9,105	14,859	26,296
Purchases	—	(1,600)	(9,892)
Called	10,192	4,625	—
Proceeds from redemption of Federal Home Loan Bank stock	14,730	19,098	9,725
Purchase of Federal Home Loan Bank stock	(28,230)	(44,607)	(20,623)
Proceeds from redemption of Federal Reserve Bank stock	1,267	—	—
Funding of other equity investments	(10,484)	(3,303)	(12,529)
Proceeds from sale of other equity investment	—	2,000	—
Proceeds from the sale of loans originated in held in portfolio	361,194	851,597	442,776
Proceeds from the sale of real estate owned	648	—	—
Loans originated in held in portfolio funded and purchased, net of principal collections	(1,762,293)	(1,360,561)	(1,566,134)
Purchases of premises and other equipment	(9,236)	(9,502)	(6,915)
Other investing activities, net	<u>1,424</u>	<u>495</u>	<u>201</u>
Net cash used in investing activities	<u>(913,643)</u>	<u>(1,439,081)</u>	<u>(1,075,177)</u>
Cash flows from financing activities:			
Net increase in demand deposits, NOW, money market and savings accounts	116,551	188,410	155,806
Net increase in time deposits	116,729	205,200	631,701
Net increase (decrease) in short-term borrowings	(284,081)	502,439	156,214
Proceeds from securities sold under agreements to repurchase	499,267	300,000	—
Payments of securities sold under agreements to repurchase	(250,867)	—	—
Proceeds from issuance of subordinated debentures	166,238	77,321	40,000
Redemption of subordinated debentures	—	—	(30,000)
Proceeds from long-term borrowings	496,821	256,072	266,520
Principal payments of long-term borrowings	(70,411)	(50,172)	(17,916)
Proceeds from stock option exercises	10,572	4,374	3,863
Excess tax benefit from stock option exercises	5,115	2,007	—
Payment of cash dividend on common stock	(12,208)	(10,849)	(8,700)
Net cash provided by financing activities	<u>793,726</u>	<u>1,474,802</u>	<u>1,197,488</u>
Net increase (decrease) in cash and cash equivalents	(8,992)	151,354	(5,299)
Cash and cash equivalents at beginning of year	<u>354,419</u>	<u>203,065</u>	<u>208,364</u>
Cash and cash equivalents at end of year	<u>\$ 345,427</u>	<u>\$ 354,419</u>	<u>\$ 203,065</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies

Organization

UCBH Holdings, Inc. ("UCBH") is a bank holding company organized under the laws of Delaware that conducts its business through its principal subsidiary, United Commercial Bank ("UCB"; UCBH, UCB and UCB's wholly owned subsidiaries are collectively referred to as the "Company", "we", "us" and "our"), a California state-chartered commercial bank. Additionally, UCBH owns all of the common stock of ten special purpose trusts, which were created for issuing guaranteed preferred beneficial interests in UCBH's junior subordinated debentures.

UCB offers a full range of commercial and consumer banking products through its retail branches and other banking offices in the states of California, Georgia, Massachusetts, New York, Texas and Washington, and internationally through its fully operational branches in Hong Kong and mainland China. UCB also has representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China, and Taipei, Taiwan. United Commercial Bank (China) Limited was acquired during the fourth quarter of 2007. United Commercial Bank (China) Limited is a foreign owned bank incorporated in China whose primary business efforts are on the small and medium size enterprise corporate sector in China, which include private companies and businesses with annual revenues in the \$7 million to \$70 million revenue range. UCBSC, a Washington corporation, formed in 2006, manages the investment securities portfolio of UCB. California Canton International Bank (Cayman) Ltd. which was acquired as part of the BCC transaction in 2002 provides banking services and has deposits of \$352.0 million as of December 31, 2007, and assets consisting of cash and investment securities. UCBIS is a registered broker-dealer with the United States Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. UCBAM provides professional investment management services to high-net-worth clients. United Commercial Bank Building Corporation was also acquired in the BCC transaction and holds real property located in San Francisco, California. SBGA California Investments, Inc. is the holding company of SBGA Investments, Inc., which is a real estate investment trust. Newston Investments, Inc. owns the office building that houses UCB's branch in Houston, Texas. Of the remaining four subsidiaries of UCB, two are inactive, a third, U.F. Service Corporation acts as a trustee under deeds of trust securing promissory notes held by UCB and a fourth, United Commercial Mortgage Securities, LLC is a Delaware limited liability company organized for the purpose of serving as a private secondary mortgage market conduit.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. The consolidated results exclude the eleven special purpose trusts referred to above that are owned by UCBH. In accordance with Financial Accounting Standards Board (the "FASB") Interpretation No. ("FIN") 46R, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, these special purpose trusts are excluded from the consolidated results of operations and financial condition of UCBH, as UCBH is not considered to be the primary beneficiary of these trusts.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the December 31, 2007, presentation.

Use of Estimates and Valuations in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make various estimates that affect reported amounts and disclosures in our financial statements. These estimates are used in measuring the fair value of certain financial instruments, accounting for goodwill and identifiable intangibles, establishing our provision for loan losses, valuing equity-based compensation awards and assessing the realizability of deferred income taxes. Such estimates are

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)**

based on available information and on judgments by management of the Company. As such, actual results could differ from these estimates.

Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuations from outsourced service providers are generally obtained to assist the company. The valuations performed by the service providers to assist the Company involve some level of estimation and judgment, the degree of which is dependent on the price transparency of the financial instrument being valued and the financial instruments' complexity. In particular, the residual tranche on our collateralized mortgage backed securities arising from our commercial real estate loan securitization, certain collateralized debt obligations and mortgage related asset backed securities, and certain other investments have no direct observable prices, and as a result, the related valuations require significant estimation and judgment and are therefore subject to significant subjectivity. Reliance on the estimation and judgment process increases in adverse market conditions with decreased liquidity, such as those experienced during the second half of 2007. If such conditions exist in 2008, management of the Company would expect continued reliance on these judgments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and noninterest-bearing deposits, federal funds sold and securities purchased under agreements to resell. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less when purchased to be cash equivalents.

Securities Purchased Under Agreements to Resell

UCB periodically purchases securities under agreements to resell (repurchase agreements). The amounts advanced under such agreements represent loans with generally 10-year terms. During the agreement period, the securities are maintained in a tri-party arrangement with a third-party custodian under a written custodial agreement that explicitly recognizes UCB's interest in the securities.

Investment and Mortgage-Backed Securities

UCB classifies its investment and mortgage-backed securities according to their purpose and holding period. Gains and losses on the sale of securities are recognized on a trade-date basis using the specific identification method and recorded in noninterest income. UCB does not maintain a trading account for securities.

Investment and mortgage-backed securities that have been classified as held to maturity are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Cost is determined on a specific identification basis. Upon purchase, UCB has the ability and intent to hold the held to maturity securities in its portfolio until maturity.

Investment and mortgage-backed securities that are held to meet investment objectives, such as interest rate risk and liquidity management, and may be sold to implement management strategies are classified as available for sale. Investment and mortgage-backed securities that might be sold prior to maturity are classified as available for sale and are carried at fair value. Fair value is generally determined based on the observable market price of the investment security. If an observable market price is not available, the fair value is either extrapolated from the observable prices of similar instruments or fair value is derived based on valuations obtained from outsourced service providers, which generally have as inputs (as applicable) interest rate yield curves, forecasted credit default rates, prepayment rates and discount rates commensurate with the rates used by unrelated third parties. Unrealized holding gains or losses, net of applicable taxes, are recorded as a component of comprehensive income. Declines in fair values that are deemed other-than-temporary impairment, if any, are reported in noninterest income. For securities with a rating below AA, the Company considers the guidance included in Emerging Issues Task Force

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)

(“EITF”) No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*.

Premiums and discounts on investment and mortgage-backed securities are amortized against interest income, using the interest method, with the amortization period based on the expected lives of the underlying securities.

Loans Held for Sale

Loans that are originated with the intent to sell, as well as loans that were originated with the intent and ability to hold for the foreseeable future (loans held in portfolio) but which have been subsequently designated as being held for sale for risk management or liquidity needs are carried at the lower of cost or fair market value.

Loans Held in Portfolio

Loans held in portfolio are carried at their principal balance outstanding, net of premiums and discounts and unearned income. Premiums and discounts are recognized generally as an adjustment of loan yield by the interest method based on the contractual term of the loans. Unearned income, which includes deferred fees net of deferred direct incremental loan origination costs, is amortized to interest income generally over the expected life of the loan using the interest method. Amortization of net deferred loan fees is discontinued on nonperforming loans. Interest is accrued as earned.

Nonaccrual Loans

Loans are generally placed on nonaccrual status when the payments of principal and interest become 90 days past due, or earlier if, in management’s opinion, the full and timely collection of principal or interest becomes uncertain. Any accrued and unpaid interest on such loans is reversed and charged against current interest income. A loan may be returned to accrual status when all delinquent interest and principal becomes current in accordance with the terms of the loan agreement or when the loan becomes both well secured and in the process of collection.

UCB generally recognizes interest income on nonaccrual loans to the extent received in cash. However, where there is doubt regarding the ultimate collectibility of the loan principal, cash receipts, whether designated as principal or interest, are applied to reduce the carrying value of the loan.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of the losses that are inherent in the loans held in portfolio. Similarly, loans held for sale are excluded from any of the information included in Note 11, “Loans Held in Portfolio and Allowance for Loan Losses”. UCB continuously monitors the quality of its loan portfolio and maintains an allowance for loan losses sufficient to absorb losses inherent in the portfolio.

In determining the general allowance, UCB applies loss factors, differentiated by an internal credit risk rating system, to its major loan portfolio categories (based primarily on loan type). The loss factors are developed from actual historic losses, and reflect comparative analysis with peer group loss rates and expected losses, which is in turn based on estimated probabilities of default and loss given default. Additionally, loss factors incorporate qualitative adjustments that reflect an assessment of internal and external influences on credit quality that have not yet been reflected in the historical loss or risk-rating data. These influences may include elements such as portfolio credit quality trends and changes in concentrations, growth, or credit underwriting. UCB’s qualitative adjustments also include an economic surcharge factor to adjust loss factors in recognition of the impact various macro-economic factors have on portfolio performance. The quantitative analysis also resulted in establishing a minimum loss factor for each of the major loan portfolio categories to better reflect minimum inherent loss in all portfolios including those with limited historic loss experience.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)

UCB also estimates a reserve related to unfunded commitments and other off-balance sheet credit exposure. In assessing the adequacy of this reserve, UCB uses an approach similar to the approach used in the development of the allowance for loan losses. The reserve for unfunded commitments is included in other liabilities on the statement of financial position.

Impaired and Restructured Loans

UCB considers a loan to be impaired when, based on current information and events, it is probable that UCB will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. In evaluating whether a restructured loan has been impaired, the contractual terms used in the evaluation are the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. Performing restructured loans are not placed on nonaccrual status.

When evaluating loans for possible impairment, UCB makes a loan-by-loan assessment for impairment when and while such loans are on nonaccrual status or whether the loan has been restructured. When a loan has been identified as being impaired, the amount of impairment is measured by using the loan's discounted cash flows, except in situations where it is determined that the primary remaining source of repayment is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by estimated costs to sell, is used in place of discounted cash flows. UCB does not apply the loan-by-loan evaluation process described above to large groups of smaller balance homogeneous loans that are evaluated collectively for impairment, such as residential mortgage (one-to-four family) loans, home equity loans, and other consumer loans.

If the measurement of an impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses. UCB's charge-off policy with respect to impaired loans is similar to its charge-off policy for all loans. Specifically, loans are charged off at the point where they are considered uncollectible.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment are determined on a straight-line basis over the estimated useful lives. Terms range from three to ten years for furniture, equipment and computer software, and from forty to fifty years for premises. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. The cost of assets retired or otherwise disposed of and the related accumulated depreciation and amortization are removed from the accounts with any resulting gain or loss recorded to the statement of operations.

Other Real Estate Owned

Other real estate owned ("OREO") consists of properties acquired through, or in lieu of, foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Cost includes the unpaid loan balance adjusted for applicable accrued interest, unamortized deferred loan fees and acquisition costs. In the event that the fair value less estimated selling costs is less than cost at the time of foreclosure, the shortfall is charged to the allowance for loan losses. Subsequent write-downs, if any, and disposition gains and losses are reflected as charges to current operations.

Investments in Federal Home Loan Bank Stock and Federal Reserve Bank Stock

Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") are carried at cost and may be sold back to the FHLB and FRB, respectively, at its carrying value. Both cash and stock dividends received are reported as dividend income.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)

Other Equity Investments

Affordable housing investments are accounted for using the equity method of accounting. Similarly, other limited partnership and limited liability investments in which UCB's ownership is 5% or greater are accounted for under the equity method of accounting; minor interests less than 5% are accounted for under the cost basis of accounting. Under the equity method of accounting, UCB adjusts its cost basis by recognizing its share of the earnings or losses of the underlying investment. Under cost basis accounting, UCB's cost basis in each investment is reduced by dividends or other distributions received until the cost of the individual investment is fully recovered. None of these investments meet the criteria of FIN 46 as referred to above and, therefore, are not consolidated.

Acquisitions of Certain Financial Institutions

Acquisitions are accounted for using the purchase method of accounting. Under the purchase method, net assets of the acquired business are recorded at their estimated fair values as of the date of the acquisition. Any excess of cost over the fair value of the net assets and other identifiable intangible assets acquired is recorded as goodwill. Results of operations of the acquired business are included in the consolidated statement of operations from the date of acquisition forward.

Goodwill and Core Deposit Intangibles

Goodwill resulting from the Company's acquisitions is tested annually for impairment or more frequently if conditions arise that might indicate that an impairment has taken place. Identifiable intangible assets, namely core deposit intangibles, are amortized over their estimated period of benefit. Core deposit intangibles are also tested for impairment on a quarterly basis.

Transfers of Financial Assets and Mortgage Servicing Rights

UCB primarily sells loans on a whole loan basis with UCB either releasing or retaining the right to service the loans. When UCB does not retain the servicing rights to the loans, the gain or loss on the sale is equal to the difference between the proceeds received and the carrying value of the loans sold. If the loans are sold with UCB retaining the servicing rights, the gain or loss depends in part on the fair value attributed to the servicing rights. In calculating the gain or loss on such a sale, UCB allocates the cost basis of the loans sold between the assets sold and retained interests based on their relative fair values at the date of sale. Servicing rights are calculated and recorded at fair value. A gain or loss is recognized as the difference between the cash proceeds from the sale and the allocated cost basis of the loans sold. Since market quotes are generally not available for servicing assets or other retained interests, UCB estimates fair value based upon modeling techniques, which are based on the assumptions that UCB believes market participants would use for similar assets and liabilities.

Additionally, UCB securitizes commercial real estate, multi-family and residential (one to four) loans. The Company will typically retain all of the resulting securities that are issued, including senior interests, principal and interest only strips, and overcollateralization bonds, which are considered retained interests in the transferred assets. At the time of the transaction, these securitizations do not have a significant cash flow impact to UCB, since UCB loans are exchanged for securities. Since UCB retains all of the securities, no gain or loss is recognized on the securitization transaction. Retained interests in securitized assets are classified as available-for-sale securities and are recorded and reflected at their allocated carrying amounts based on the relative fair values of the assets sold and retained. Retained interests are subsequently carried at fair value with unrealized gains and losses, net of tax effect, reflected in other comprehensive income. To the extent that the cost basis of residual securities exceeds the fair value and an unrealized loss position is determined to be other than temporary, an impairment charge is recognized in results of operations. Interest income on residual securities is recognized in accordance with EITF No. 99-20.

In accordance with the standard, UCB updates its estimates of expected cash flows at each reporting date and recognizes changes in the calculated effective yield on a prospective basis. The estimated expected cash flows

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)

change based on assumptions in discount rates, credit default rates and prepayment rates being updated. If there has been a negative change in expected cash flows, UCB will recognize an impairment.

Mortgage servicing rights are carried at the lower of cost or fair value and are amortized in proportion to and over the period of the estimated net servicing revenue. Mortgage servicing rights are tested for impairment on a quarterly basis. In determining fair value, UCB stratifies its mortgage servicing rights based on the risk characteristics of the underlying loan pools. The fair value of mortgage servicing rights is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, ancillary income, servicing costs and discount rates that UCB believes market participants would use for similar assets. UCB evaluates other-than-temporary impairment of mortgage servicing rights by considering both historical and projected trends in interest rates, pay off activity and whether the impairment could be recovered through interest rate increases. If UCB determines that an impairment for a stratum is other-than-temporary, the value of the mortgage servicing rights and any related valuation allowance is written down.

Securities Sold Under Agreements to Repurchase

UCB periodically enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Fixed-coupon reverse repurchase agreements are treated as financings. Accordingly, the securities underlying the agreements remain in the asset accounts, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are delivered to the dealers who arrange the transactions. Under some agreements, the dealers may sell, lend, or otherwise dispose of the securities to other parties and agree to resell to UCB substantially identical securities at the maturities of the agreements.

Derivative Instruments and Hedging Activities

Financial derivatives are instruments where a notional principal amount is tied to an underlying interest rate, currency exchange rate or other financial asset, index or pricing measure. Examples of derivative financial instruments are foreign exchange contracts (swaps and forwards), interest rate swaps, options, caps, floors, forwards and similar instruments. In addition, certain financial instruments may contain embedded derivatives that must be evaluated to determine whether the derivative should be accounted for separately from the host instrument.

UCB does not speculate on the future direction of interest or exchange rates. Nonetheless, UCB may from time to time enter into financial derivative transactions to mitigate interest rate exposures inherent in its assets, liabilities, or its net interest position and/or to hedge various market or foreign exchange risks. UCB may also engage in financial derivative transactions on behalf of customers and to facilitate their transactions.

UCB's derivatives not accounted for as hedges, including embedded derivatives that must be accounted for separately from the host instrument, are carried at fair value in the financial statements with any gains or losses reflected in noninterest expense and included in other general and administrative.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The Company provides a valuation allowance against net deferred tax assets to the extent that realization of the assets is not considered more likely than not. The Company and UCB file a consolidated federal income tax return, a combined California state income tax return, a combined New York state and New York City income tax return and separate Massachusetts and Georgia state income tax returns for UCB only.

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)**

As part of the computation of the income tax provision, estimates and assumptions must be made regarding the deductibility of certain expenses and the treatment of tax contingencies. There is a possibility that these estimates and assumption may be disallowed as part of an audit by the various taxing authorities that the Company is subject to. Any differences between items taken as deductions in our tax provision computations and those allowed by the taxing authorities could result in additional income tax expense in future periods. Interest expense on unrecognized benefits is classified as interest expense, and the related penalties, if any, are classified as other expense.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*. Under SFAS No. 123(R), the total fair value of the stock options awards is expensed ratably over the service period of the employees receiving the awards. In adopting SFAS No. 123(R), the Company used the modified prospective method of adoption. Under this adoption method, compensation expense recognized subsequent to adoption will include: (a) compensation costs for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and (b) compensation costs for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Also, as part of the adoption of SFAS No. 123(R) the Company elected to compute its pool of excess tax benefits under the alternative approach as permitted by FASB Staff Position No. 123(R), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*.

Prior to January 1, 2006, the Company accounts for employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board (the “APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, as allowed by SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. Under the intrinsic value method, no stock-based employee compensation cost is recorded, provided the stock options are granted with an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. As of December 31, 2007, the Company had one stock-based employee compensation plan, which is described more fully in Note 19. No share-based employee compensation cost has been reflected in the Company’s net income prior to the adoption of SFAS No. 123(R). In addition, the adoption of SFAS No. 123(R) had no effect on the Company as substantially all of the Company’s options were fully vested as of the adoption date.

In estimating the fair value of each stock option award on their respective grant dates, we use the Black-Scholes pricing model. The Black-Scholes pricing model requires us to make assumptions with regard to the options granted during a reporting period namely, expected life, stock price volatility, expected dividend yield and risk-free interest rate.

The expected life of the options is based on historical data of UCBH’s actual experience with the options it has granted and represents the period of time that the options granted are expected to be outstanding. This data includes employees’ expected exercise and post-vesting employment termination behaviors. The expected stock price volatility is estimated using the historical volatility of UCBH’s common stock and other factors. The historical volatility covers a period that corresponds to the expected life of the options. The expected dividend yield is based on the estimated annual dividends that we expect UCBH to pay over the expected life of the options as a percentage of the market value of UCBH’s stock as of the grant date. The risk-free interest rate for the expected life of the options granted is based on the U.S. Treasury yield curve in effect as of the grant date. See Note 19 for further information on share-based compensation.

Earnings per Share

The Company computes basic earnings per share by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is computed based upon the weighted average number of common and common equivalent shares outstanding during the period, which is calculated using the

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Reporting Policies — (Continued)

treasury stock method for stock options. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect on earnings per share.

Translation of Foreign Currencies

UCB considers the functional currency of its foreign operations to be the United States dollar. Accordingly, UCB remeasures monetary assets and liabilities at year-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for depreciation, which is remeasured at historical rates. Foreign currency transaction gains and losses are recognized in income in the period of occurrence.

2. Recent Accounting Pronouncements

Accounting for Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP) and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The adoption of SFAS 157 is not expected to have a material impact on the Company’s financial position or results of operations.

In conjunction with the adoption of SFAS 157, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 provides an irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and financial liabilities, on a contract-by-contract basis, with changes in fair value reported in results of operations. The Company did not elect the fair value option for any of its financial assets or financial liabilities on the adoption date. As such, the adoption of SFAS 159 will not have a material impact on the Company’s financial position or results of operations.

Accounting for Business Combinations

Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, was issued in December 2007. SFAS No. 141R replaces SFAS No. 141, *Business Combinations*. SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141’s cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS No. 141R will have on its financial statements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Recent Accounting Pronouncements — (Continued)

Accounting for Noncontrolling Interests in Consolidated Financial Statements

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*, was issued in December 2007 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The Company is currently evaluating the impact that adopting SFAS 160 will have on its financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company has no defined benefit pension plan and the adoption of SFAS No. 158 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. The adoption of SAB No. 108 did not have a material effect on its consolidated financial position, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Recent Accounting Pronouncements — (Continued)

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. As a result of the implementation of Interpretation 48, the Company recorded approximately a \$2.6 million decrease in the liability for uncertain tax positions, which was accounted for as a reduction to the January 1, 2007 goodwill.

As of January 1, 2007, the Company had approximately \$3.0 million of total gross unrecognized tax benefits, including those benefits for which we established a reserve upon adoption of FIN 48. Of this total, \$1.2 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in any future periods.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense associated with unrecognized tax benefits is classified as other interest expense in the consolidated statement of income. Penalties associated with unrecognized tax benefits are classified as other expense in the consolidated statement of income.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*. SFAS No. 156 permits entities to choose either to measure servicing rights subsequent to initial valuation at fair value and report changes in fair value in earnings or to amortize the servicing rights in proportion to and over the estimated net servicing income or loss and assess the servicing rights for impairment or the need for an increased obligation. SFAS No. 156 also clarifies when a servicer should separately recognize servicing assets and liabilities, requires that all separately recognized assets and liabilities be initially measured at fair value, if practicable, permits a one-time reclassification of available for sales securities to trading securities by an entity with recognized servicing rights and requires additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective as of the beginning of an entity's fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 did not have a material impact on its consolidated financial position, results of operations or cash flows.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****2. Recent Accounting Pronouncements — (Continued)**

concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The new standard is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on its consolidated financial position, results of operations or cash flows.

3. Business Combinations***Business Development Bank Ltd.***

On March 26, 2007, UCB entered into two agreements to purchase the Business Development Bank Ltd. ("BDB"), a wholly foreign owned enterprise established and existing under the laws of the People's Republic of China. On December 11, 2007, UCBH completed its acquisition of Shanghai, China-based BDB for a total cash consideration of \$205.0 million. The BDB name has changed to United Commercial Bank (China) Limited, which now operates as a subsidiary of UCB. This acquisition will provide the Company with bank branches in Shanghai and Shantou, China and representative offices in Beijing and Guangzhou, China, which will in turn accelerate the implementation of the Company's Greater China expansion strategy.

The purchase price, including direct acquisition costs of \$5.5 million, has been allocated to the assets acquired and liabilities assumed based on fair values at the acquisition date. The allocation of purchase price at the date of acquisition was as follows (dollars in thousands):

Cash and due from banks	\$ 42,052
Loans held in portfolio, net	227,511
Goodwill	135,337
Other assets	4,804
Total assets acquired	<u>409,704</u>
Deposits	30,484
Borrowings	161,064
Other liabilities	7,685
Total liabilities assumed	<u>199,233</u>
Total allocation of purchase price	<u>\$ 210,471</u>

The resulting goodwill has been allocated to the "Other" segment.

The purchase price allocation reflected above is preliminary and subject to final determination of valuation of the fair value of assets acquired and liabilities assumed. The Company expects to finalize the valuation in the first quarter of 2008 and does not expect this to have a material impact on the Company's financial position or results of operations.

CAB Holding, LLC

UCBH and CAB, the holding company of The Chinese American Bank, a New York state-chartered bank, entered into an Agreement and Plan of Merger dated as of January 10, 2007. On May 23, 2007, UCBH completed its acquisition of CAB for a total consideration of approximately \$132.6 million consisting of 3,711,580 shares of UCBH's common stock valued at \$66.1 million and \$66.5 million in cash, which includes direct acquisition costs of \$1.5 million. The results of CAB's operations have been included in the consolidated financial statements since that date.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Business Combinations — (Continued)

The purchase price, including direct acquisition costs, has been allocated to the assets acquired and liabilities assumed based on fair values at the acquisition date. The allocation of purchase price at the date of acquisition was as follows (dollars in thousands):

Cash and due from banks	\$ 21,372
Federal funds sold	78,700
Investment and mortgage-backed securities available for sale	66,010
Loans held in portfolio, net	167,838
Premises and equipment	31,701
Goodwill	63,565
Core deposit intangibles	6,600
Other assets	<u>17,667</u>
Total assets acquired	453,453
Deposits	311,669
Other liabilities	<u>9,213</u>
Total liabilities assumed	320,882
Total allocation of purchase price	<u>\$ 132,571</u>

The resulting goodwill has been allocated to the “Domestic Banking” segment.

Summit Bank Corporation

UCBH and Summit Bank Corporation (“Summit”), a Georgia corporation registered under the Bank Holding Company Act of 1956, as amended, entered into an Agreement and Plan of Merger dated as of September 18, 2006. On December 29, 2006, UCBH completed its acquisition of Summit for a total consideration of approximately \$174.7 million consisting of 4,824,861 shares of UCBH’s common stock valued at \$85.8 million and \$88.9 million in cash, which includes costs related to the cash-out of the outstanding stock options of Summit and direct acquisition costs. The results of Summit’s operations have been included in the consolidated financial statements since that date.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Business Combinations — (Continued)

The purchase price, including direct acquisition costs, has been allocated to the assets acquired and liabilities assumed based on fair values at the acquisition date. The allocation of purchase price includes goodwill, which will be tested for impairment at least annually. Additionally, goodwill is not expected to be deductible for income tax purposes. The allocation of purchase price at the date of acquisition was as follows (dollars in thousands):

Cash and due from banks	\$ 18,595
Investment and mortgage-backed securities available for sale	258,264
Federal Home Loan Bank stock, Federal Reserve Bank stock and other equity investments	5,851
Loans held in portfolio, net	466,104
Accrued interest receivable	3,594
Premises and equipment	16,875
Goodwill	126,199
Core deposit intangibles	16,900
Other assets	<u>22,100</u>
Total assets acquired	<u>934,482</u>
Deposits	544,846
Securities sold under agreements to repurchase	101,600
Short-term borrowings	85,805
Subordinated debentures	12,708
Accrued interest payable	3,986
Other liabilities	<u>10,842</u>
Total liabilities assumed	<u>759,787</u>
Total allocation of purchase price	<u>\$ 174,695</u>

The resulting goodwill has been allocated to the “Domestic Banking” segment.

Great Eastern Bank

UCBH and Great Eastern Bank (“GEB”), a New York state-chartered banking corporation, entered into an Agreement and Plan of Merger dated as of October 13, 2005 (“GEB Agreement”). On February 17, 2006, GEB notified UCBH that it had decided to accept a superior third party proposal, as defined in the GEB Agreement. UCBH notified GEB on February 21, 2006, that it had elected not to exercise the right of further negotiation as permitted under the GEB Agreement. This resulted in the termination of the GEB Agreement and the payment of a breakup fee of \$5.0 million from GEB to UCBH, which was received on February 21, 2006.

4. Investment Agreement

On October 7, 2007, UCBH and China Minsheng Banking Corp., Ltd., a Chinese joint stock commercial bank (“Minsheng”), entered into an Investment Agreement (the “Investment Agreement”), pursuant to which Minsheng may acquire 9.9% (calculated on a post closing basis) of the outstanding shares of UCBH common stock in two phases, with a mutual option to increase Minsheng’s ownership to 20.0% (calculated on a post closing basis).

In the first phase, which is anticipated to close in the first quarter of 2008, UCBH may issue approximately 5.4 million shares of its common stock to Minsheng at a price per share of \$17.79, representing the 90-day average UCBH closing price as of the close on September 28, 2007. In the second phase, which is anticipated to close in 2008, Minsheng may increase its ownership to 9.9% through, at the discretion of UCBH, a combination of the

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Investment Agreement — (Continued)

purchase of secondary shares and/or the issuance of primary shares. By June 30, 2009, conditioned upon mutual agreement and regulatory approvals, Minsheng may increase its share ownership to 20.0% through, at the discretion of UCBH, a combination of the purchase of secondary shares and/or the issuance of primary shares.

5. Cash and Due from Banks

UCB is required to maintain cash reserves in a noninterest-bearing account at the FRB of San Francisco. Through the FRB, the cash in this account in excess of UCB's reserve requirement ("Federal Funds") is available for overnight and one day period sales to other institutions with accounts at the FRB. UCB received interest on these transactions at the prevailing federal funds rate. At December 31, 2007 and 2006, the reserve requirement was \$6.9 million and \$7.6 million, respectively.

6. Securities Purchased Under Agreements to Resell

Information regarding outstanding securities purchased under agreements to resell (the "Resell Agreements") as of and for the year ended December 31, 2007, was as follows (dollars in thousands):

Average balance outstanding	\$ 158,863
Maximum amount outstanding at any month end period	200,000
Balance outstanding at end of period	150,000
Weighted average interest rate during the period	6.70%
Weighted average interest rate at end of period	6.21%
Weighted average remaining term to maturity at end of period (in years)	9.17

UCB entered into four long-term transactions involving the purchases of Resell Agreements with Citigroup Global Markets Inc. Two of the Resell Agreements are recorded net of certain repurchase agreements. FIN 41, *offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements — an interpretation of APB Opinion No. 10 and a modification of FASB Interpretation No. 39*, allows for the netting of repurchase agreements and reverse repurchase agreements if certain conditions are met. These conditions are met for two reverse repurchase agreements totaling \$100.0 million as of December 31, 2007.

Two of the Resell Agreement not subject to offsetting totals \$150.0 million. The first Resell Agreement is for \$75.0 million and matures on March 14, 2017. Under the terms of the Resell Agreement, interest payments are due from the seller semi-annually. The interest rate for this Resell Agreement is based on the six month USD London Interbank Offered Rate ("LIBOR") plus a margin of 1.75% for the first and second year. For year three through year ten, the interest rate is based on a rate of 7.40% plus ten times the difference between 65% of the average one month USD LIBOR and the average USD SIFMA Swap index, subject to a minimum of 0.00% and a maximum of 10.09%. The second Resell Agreement is also for \$75.0 million and matures on March 30, 2017. Under the terms of the Resell Agreement, interest payments are due quarterly. The interest rate for this Resell Agreement is based on 7.72% plus ten times the difference between 65% of the average one month USD LIBOR and the average USD SIFMA Swap index, subject to a minimum of 0.00% and a maximum of 10.19%.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment and Mortgage-Backed Securities

The amortized cost and approximate market value of investment and mortgage-backed securities classified as available for sale and held to maturity, along with the portions of the portfolio with unrealized loss positions at December 31, 2007, were as follows (dollars in thousands):

Description	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Less Than 12 Months		12 Months or More		Total	
					Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale:										
Agency preferred stock	\$ 23,466	\$ —	\$ (3,317)	\$ 20,149	\$ 20,149	\$ (3,317)	\$ —	\$ —	\$ 20,149	\$ (3,317)
Collateralized debt obligations	31,433	—	(2,702)	28,731	12,364	(2,163)	7,960	(539)	20,324	(2,702)
U.S. Government sponsored enterprises notes	446,916	997	(686)	447,227	174,453	(498)	51,804	(188)	226,257	(686)
Municipals	246,632	741	(2,964)	244,409	160,048	(2,964)	—	—	160,048	(2,964)
Other	10,000	—	(1,050)	8,950	—	—	8,950	(1,050)	8,950	(1,050)
Total investment securities available for sale	758,447	1,738	(10,719)	749,466	367,014	(8,942)	68,714	(1,777)	435,728	(10,719)
Mortgage-backed securities available for sale:										
FNMA	559,979	1,409	(5,250)	556,138	13,288	(30)	291,258	(5,220)	304,546	(5,250)
GNMA	77,478	25	(1,770)	75,733	3,505	(84)	71,735	(1,686)	75,240	(1,770)
FHLMC	241,243	102	(5,471)	235,874	699	(2)	223,597	(5,469)	224,296	(5,471)
CMBS	390,112	835	(5,499)	385,448	20,753	(5,499)	—	—	20,753	(5,499)
Other	188,006	148	(2,458)	185,696	10,362	(379)	139,808	(2,079)	150,170	(2,458)
Total mortgage-backed securities available for sale	1,456,818	2,519	(20,448)	1,438,889	48,607	(5,994)	726,398	(14,454)	775,005	(20,448)
Total investment and mortgage-backed securities available for sale	2,215,265	4,257	(31,167)	2,188,355	415,621	(14,936)	795,112	(16,231)	1,210,733	(31,167)
Investment securities held to maturity:										
Municipal securities	212,647	6,016	(32)	218,631	3,789	(28)	417	(4)	4,206	(32)
Mortgage-backed securities held to maturity:										
FNMA	4,090	—	(101)	3,989	—	—	3,989	(101)	3,989	(101)
GNMA	54,326	—	(1,071)	53,255	16,156	(216)	37,098	(855)	53,254	(1,071)
FHLMC	422	—	(11)	411	—	—	411	(11)	411	(11)
Total mortgage-backed securities held to maturity	58,838	—	(1,183)	57,655	16,156	(216)	41,498	(967)	57,654	(1,183)
Total investment and mortgage-backed securities held to maturity	271,485	6,016	(1,215)	276,286	19,945	(244)	41,915	(971)	61,860	(1,215)
Total securities	\$ 2,486,750	\$ 10,273	\$ (32,382)	\$ 2,464,641	\$ 435,566	\$ (15,180)	\$ 837,027	\$ (17,202)	\$ 1,272,593	\$ (32,382)

As of December 31, 2007, the net unrealized loss on securities was \$22.1 million. The net unrealized loss on securities that are available for sale was \$26.9 million. Net of a tax benefit of \$11.3 million, the unrealized \$15.6 million loss is included in other comprehensive loss as a reduction to stockholders' equity. The \$4.8 million net gain between the carrying value and market value of securities that are held to maturity has not been recognized in the consolidated financial statements for the year ended December 31, 2007. As more fully described in Note 8, from time to time, to manage concentration risk and liquidity, the Company may securitize commercial real estate loans and retain such investments ("CMBS") as well as multifamily loans through FNMA.

Additionally, certain securities that UCB holds have unrealized losses that extend for periods in excess of twelve months. These securities are comprised primarily of U.S. Government sponsored enterprise notes, mortgage-backed securities and municipal securities. The U.S. Government sponsored enterprise notes are issued by one of the several government sponsored enterprises, such as FNMA, Government National Mortgage Association ("GNMA") or FHLB. The unrealized losses associated with these securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach maturity.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment and Mortgage-Backed Securities — (Continued)

Mortgage-backed securities consist primarily of securities guaranteed by FNMA, GNMA and FHLMC, as well as certain collateralized mortgage obligations. These securities are collateralized by residential mortgage loans and may be prepaid at par prior to maturity. The unrealized losses on our mortgage-backed securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach contractual or expected maturity.

The municipal securities are issued by states and their political subdivisions in the U.S. These securities either have bond insurance or guarantees that provide investment grade ratings of AAA, AA, or A. There have been no deteriorations of credit quality that would contribute to impairment. The unrealized losses on our municipal securities resulted from rising interest rates subsequent to purchase. The unrealized losses will decline as interest rates fall to the purchased yield and as the securities approach contractual or expected maturity.

Other investment securities available for sale is comprised of one collateralized loan obligation. Other mortgage-backed securities available for sale are comprised of private-label residential mortgage-backed securities, collateralized debt obligations backed by trust preferred securities, FNMA and FHLMC preferred stock, and interest-only strips from SBA loans.

Collateralized debt obligations (CDO”) with an amortized cost basis of \$31.4 million and carrying value of \$28.7 million at December 31, 2007, include securities backed by REIT TPS and bank TPS and which are included in our available-for-sale investment securities. The carrying value at December 31, 2007 reflects the \$11.6 million other than temporary impairment charge that we recognized on two CDO’s and which was reflected in our fourth quarter 2007 results of operations.

UCB has the intent and ability to hold its available-for-sale securities until recovery of the carrying value, which could be maturity. As such, with the exception of the two CDO’s mentioned in the previous paragraph, UCB has concluded that the decline in value on these available-for-sale securities is temporary, as the decline in value has been driven predominantly by current market and liquidity events.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment and Mortgage-Backed Securities — (Continued)

The amortized cost and approximate market value of investment and mortgage-backed securities classified as available for sale and held to maturity, along with the portions of the portfolio with unrealized loss positions at December 31, 2006, were as follows (dollars in thousands):

Description	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Less Than 12 Months		12 Months or More		Total	
					Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale:										
Collateralized debt obligations	\$ 38,445	\$ 5	\$ (316)	\$ 38,134	\$ 14,888	\$ (113)	\$ 8,296	\$ (203)	\$ 23,184	\$ (316)
U.S. Government sponsored enterprises notes	588,621	120	(5,701)	583,040	263,885	(1,566)	125,194	(4,135)	389,079	(5,701)
U.S. Government sponsored enterprises discount notes	249,024	61	—	249,085	—	—	—	—	—	—
U.S. Treasury Bills	73,183	17	—	73,200	—	—	—	—	—	—
Municipals	58,325	—	—	58,325	—	—	—	—	—	—
Commercial paper	49,952	—	—	49,952	—	—	—	—	—	—
Other	10,000	—	(125)	9,875	9,875	(125)	—	—	9,875	(125)
Total investment securities available for sale	1,067,550	203	(6,142)	1,061,611	288,648	(1,804)	133,490	(4,338)	422,138	(6,142)
Mortgage-backed securities available for sale:										
FNMA	515,711	391	(13,405)	502,697	148,236	(3,025)	284,506	(10,380)	432,742	(13,405)
GNMA	87,866	—	(3,261)	84,605	—	—	78,742	(3,261)	78,742	(3,261)
FHLMC	313,991	140	(9,847)	304,284	7,424	(32)	255,779	(9,815)	263,203	(9,847)
Other	200,832	16	(4,589)	196,259	—	—	171,423	(4,589)	171,423	(4,589)
Total mortgage-backed securities available for sale	1,118,400	547	(31,102)	1,087,845	155,660	(3,057)	790,450	(28,045)	946,110	(31,102)
Total investment and mortgage-backed securities available for sale	2,185,950	750	(37,244)	2,149,456	444,308	(4,861)	923,940	(32,383)	1,368,248	(37,244)
Investment securities held to maturity:										
Municipal securities	222,638	6,750	(30)	229,358	4,531	(24)	416	(6)	4,947	(30)
Mortgage-backed securities held to maturity:										
FNMA	4,372	—	(172)	4,200	—	—	4,200	(172)	4,200	(172)
GNMA	63,122	—	(1,755)	61,367	—	—	61,367	(1,755)	61,367	(1,755)
FHLMC	541	—	(20)	521	—	—	521	(20)	521	(20)
Total mortgage-backed securities held to maturity	68,035	—	(1,947)	66,088	—	—	66,088	(1,947)	66,088	(1,947)
Total investment and mortgage-backed securities held to maturity	290,673	6,750	(1,977)	295,446	4,531	(24)	66,504	(1,953)	71,035	(1,977)
Total securities	<u>\$ 2,476,623</u>	<u>\$ 7,500</u>	<u>\$ (39,221)</u>	<u>\$ 2,444,902</u>	<u>\$ 448,839</u>	<u>\$ (4,885)</u>	<u>\$ 990,444</u>	<u>\$ (34,336)</u>	<u>\$ 1,439,283</u>	<u>\$ (39,221)</u>

As of December 31, 2006, the net unrealized loss on securities was \$31.7 million. The net unrealized loss on securities that are available for sale was \$36.5 million. Net of a tax benefit of \$15.3 million, the unrealized \$21.2 million loss is included in other comprehensive income as a reduction to stockholders' equity. The \$4.8 million net gain between the carrying value and market value of securities that are held to maturity has not been recognized in the financial statements for the year ended December 31, 2006.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment and Mortgage-Backed Securities — (Continued)

The scheduled contractual maturities on investment and mortgage-backed securities classified as available for sale and held to maturity at December 31, 2007, were as follows (dollars in thousands):

Description	Amortized Cost					Market Value				
	Within 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total	Within 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
Investment securities available for sale:										
Agency preferred stock	\$ —	\$ —	\$ —	\$ 23,466	\$ 23,466	\$ —	\$ —	\$ —	\$ 20,149	\$ 20,149
Collateralized debt obligations	—	—	—	31,433	31,433	—	—	—	28,731	28,731
U.S. Government sponsored enterprises notes	3,999	47,980	344,986	49,951	446,916	3,972	47,839	345,562	49,854	447,227
Municipals	310	—	2,982	243,340	246,632	310	—	2,972	241,127	244,409
Other	—	—	—	10,000	10,000	—	—	—	8,950	8,950
Total investment securities available for sale	4,309	47,980	347,968	358,190	758,447	4,282	47,839	348,534	348,811	749,466
Mortgage-backed securities available for sale:										
FNMA	—	4,308	179,760	375,911	559,979	—	4,262	180,148	371,728	556,138
GNMA	—	—	—	77,478	77,478	—	—	—	75,733	75,733
FHLMC	—	4,692	29,518	207,033	241,243	—	4,572	29,177	202,125	235,874
CMBS	—	—	—	390,112	390,112	—	—	—	385,448	385,448
Other	—	—	—	188,006	188,006	—	—	—	185,696	185,696
Total mortgage-backed securities available for sale	—	9,000	209,278	1,238,540	1,456,818	—	8,834	209,325	1,220,730	1,438,889
Total investment and mortgage-backed securities available for sale	4,309	56,980	557,246	1,596,730	2,215,265	4,282	56,673	557,859	1,569,541	2,188,355
Investment securities held to maturity:										
Municipal securities	—	—	6,783	205,864	212,647	—	—	6,978	211,653	218,631
Mortgage-backed securities held to maturity:										
FNMA	—	—	—	4,090	4,090	—	—	—	3,989	3,989
GNMA	—	—	—	54,326	54,326	—	—	—	53,255	53,255
FHLMC	—	—	—	422	422	—	—	—	411	411
Total mortgage-backed securities held to maturity	—	—	—	58,838	58,838	—	—	—	57,655	57,655
Total investment and mortgage-backed securities held to maturity	—	—	6,783	264,702	271,485	—	—	6,978	269,308	276,286
Total securities	\$ 4,309	\$ 56,980	\$ 564,029	\$ 1,861,432	\$ 2,486,750	\$ 4,282	\$ 56,673	\$ 564,837	\$ 1,838,849	\$ 2,464,641

The remaining contractual maturities for mortgage-backed securities were allocated assuming no prepayments. Remaining maturities will differ from contractual maturities since borrowers may have the right to prepay obligations before underlying mortgages mature.

Approximately \$149.5 million and \$66.3 million of investment and mortgage-backed securities have been pledged to secure borrowings entered into by UCB at December 31, 2007 and 2006, respectively, as more fully described in Note 17. UCB has also pledged \$580.4 million and \$479.6 million of its investment securities as collateral for public deposits as of December 31, 2007 and 2006, respectively.

For the year ended December 31, 2007, proceeds from the sale of available for sale securities totaled \$1.23 billion, with gross realized gains of \$5.5 million and gross realized losses of \$175,000. For the year ended December 31, 2006, proceeds from the sale of available for sale securities totaled \$96.8 million, with gross realized gains of \$276,000 and gross realized losses of \$70,000. Proceeds from the sale of available for sale securities for the year ended December 31, 2005, totaled \$115.0 million, with gross realized gains of \$1.8 million and gross realized losses of \$1.8 million.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment and Mortgage-Backed Securities — (Continued)

There were no mortgage-backed securities sold under agreements to repurchase for the year ended December 31, 2005. When UCB enters into these transactions, the obligations generally mature within one year and generally represent agreements to repurchase the same securities.

8. Securitization Activities

The Company engages in securitization activities related to commercial real estate and multi-family mortgage loans to manage concentration risk and liquidity. Special purpose entities (“SPE”) are typically used to facilitate the commercial real estate securitization transactions. The Company typically retains interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the Company’s consolidated balance sheets in available-for-sale investment securities and are reflected at fair value. Any resulting changes in fair value are reflected in other comprehensive income, unless the change in fair value is considered other than temporary.

For the years ended December 31, we securitized the following financial assets:

	<u>2007</u>	<u>2006</u>
Secured by real estate — nonresidential	\$ 402,441	\$ —
Secured by real estate — multifamily	176,890	176,143
Total	<u>\$ 579,331</u>	<u>\$ 176,143</u>

During the fourth quarter of 2007 and 2006, UCB securitized multifamily loans with servicing rights retained through FNMA. In addition, during the fourth quarter of 2007, UCB securitized \$402.4 million of commercial real estate loans. The loans were exchanged for collateralized mortgage backed securities, issued through a newly established trust, United Commercial Mortgage Securities, LLC. As UCB retains the entire interest in the securitized assets, no gain or loss is recognized on the transaction. However, with respect to the commercial real estate loan securitization, UCB charged off \$1.6 million against the allowance for loan losses as the carrying value of the loans exceeded the fair value of the securities. Retained interests in securitized financial assets at the time of securitization were approximately \$579.1 million and \$174.7 million at December 31, 2007 and 2006, respectively. There were no net gains or losses from securitization transactions during the years ended December 31, 2007 and 2006. There were no securitizations for the year ended December 31, 2005.

The following table presents information on the Company’s residual from the commercial real estate loan securitization transaction. Key economic assumptions and the sensitivity of the current fair value of the residual to immediate 10% and 20% adverse changes in such assumptions at December 31, 2007 were as follows (dollars in thousands):

	<u>Commercial Real Estate Loans</u>
Residual	9,547
Weighted average life (in years)	3.91
Weighted average discount rate (bond equivalent yield)	30.00%
Impact on fair value of 10% adverse change	(564)
Impact on fair value of 20% adverse change	(1,085)
Weighted average credit losses (rate per annum)	1.00%
Impact on fair value of 10% adverse change	(56)
Impact on fair value of 20% adverse change	(153)
Prepayment speed assumptions	
Impact on fair value of 10% adverse change	(60)
Impact on fair value of 20% adverse change	(102)

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****8. Securitization Activities — (Continued)**

The results of the sensitivity analyses in the above table are determined by stressing a particular economic assumption independent of changes in other assumptions. In reality, changes in one factor may often result in changes in other factors, which may counteract or magnify the impact of the changes reflected in the table above. In addition, changes in the fair value based on a 10% or 20% variation in an assumption should not be extrapolated, because the relationship of the change in the assumption to the change in fair value may not be linear.

9. Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Other Equity Investments

The components of FHLB stock, FRB stock and other equity investments as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Federal Home Loan Bank stock	\$ 85,725	\$ 68,834
Federal Reserve Bank stock	—	1,267
Other equity investments	53,152	40,674
FHLB stock, Federal Reserve Bank stock and other equity investments	<u>\$ 138,877</u>	<u>\$ 110,775</u>

The investments in the above table above are reflected at cost. Such investments' fair value is estimated quarterly based on the underlying organization's business model, current and projected financial performance and overall economic and market conditions. If fair value is estimated to be below cost, an evaluation for other-than-temporary impairment is performed. At December 31, 2007, there were no investments where the estimated fair value was below the respective cost.

UCB, along with all other financial institutions, must own stock in the FHLB to have access to FHLB's products and services. The stock does not trade on a stock market, but may be issued, exchanged, redeemed and repurchased by the FHLB at its stated par value. The stock is redeemable by a shareholder on five years' written notice, subject to certain conditions. The FHLB can redeem its stock with 15 days written notice and at quarterly intervals if the member has stock in excess of 115% of its calculated requirement.

Summit, as a member of the FRB of Atlanta, was required to maintain stock in the FRB of Atlanta based on a specified ratio relative to Summit's capital. The stock does not trade on a stock market, but may be issued, exchanged, redeemed and repurchased by the FHLB at its stated par value.

UCB is subject to certain requirements of the Community Reinvestment Act (the "CRA"). The CRA generally requires the federal banking agencies to evaluate a financial institution in meeting the credit needs of its local communities, including low-income and moderate-income neighborhoods. UCB invests in CRA-qualified investments, such as affordable housing partnerships and small business investment companies. Additional funding commitments related to these CRA investments at December 31, 2007, were \$11.0 million.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Loans Held for Sale

The components of loans held for sale as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commercial:		
Secured by real estate — nonresidential	\$ 175,101	\$ 141,348
Business	<u>1,109</u>	<u>1,203</u>
Total commercial loans	<u>176,210</u>	<u>142,551</u>
Consumer:		
Residential mortgage (one to four family)	<u>927</u>	<u>310</u>
Loans held for sale ⁽¹⁾	<u><u>\$ 177,137</u></u>	<u><u>\$ 142,861</u></u>

(1) Amounts reflect net unamortized deferred loan fees, purchase premiums and discounts of \$322,000 and \$213,000 at December 31, 2007 and 2006, respectively.

During the years ended December 31, 2007 and 2006, UCB transferred \$207.0 million and \$434.3 million, respectively, of loans from held in portfolio to held for sale and \$79.1 million and \$87.5 million, respectively, of loans from held for sale to held in portfolio.

11. Loans Held in Portfolio and Allowance for Loan Losses

The components of loans held in portfolio as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commercial:		
Secured by real estate — nonresidential	\$ 2,317,501	\$ 2,341,572
Secured by real estate — multifamily	1,186,177	1,275,594
Construction	1,666,550	1,054,302
Business	<u>2,076,597</u>	<u>1,461,322</u>
Total commercial loans	<u>7,246,825</u>	<u>6,132,790</u>
Consumer:		
Residential mortgage (one-to-four family)	518,674	448,895
Other ⁽¹⁾	<u>66,651</u>	<u>53,975</u>
Total consumer loans	<u>585,325</u>	<u>502,870</u>
Loans held in portfolio ⁽²⁾	7,832,150	6,635,660
Allowance for loan losses	<u>(80,584)</u>	<u>(62,015)</u>
Net loans held in portfolio	<u><u>\$ 7,751,566</u></u>	<u><u>\$ 6,573,645</u></u>

(1) Amount includes deposit overdrafts of \$6.7 million and \$999,000 at December 31, 2007 and 2006, respectively.

(2) Amounts reflect net unamortized deferred loan fees, purchase premiums and discounts of \$17.9 million and \$25.8 million at December 31, 2007 and 2006, respectively.

During the fourth quarter of 2007, UCB securitized \$176.9 million of multifamily loans with servicing rights retained through FNMA. The mortgage-backed securities created from this guaranteed mortgage securitization are

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****11. Loans Held in Portfolio and Allowance for Loan Losses — (Continued)**

classified as available for sale investments. As part of this transaction, UCB recognized mortgage servicing rights of \$1.2 million.

During the fourth quarter of 2007, UCB securitized \$402.4 million of commercial real estate loans. The loans were exchanged for collateralized mortgage backed securities, issued through a newly established trust, United Commercial Mortgage Securities, LLC.

The components of loans held in portfolio by interest rate type as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Adjustable-rate loans	\$ 5,000,318	\$ 3,749,132
Hybrid loans	1,280,340	1,444,072
Fixed-rate loans	<u>1,569,427</u>	<u>1,468,275</u>
Loans held in portfolio ⁽¹⁾	<u>\$ 7,850,085</u>	<u>\$ 6,661,479</u>

(1) Amounts do not reflect net unamortized deferred loan fees, purchase premiums and discounts of \$17.9 million and \$25.8 million at December 31, 2007 and 2006, respectively.

As of December 31, 2007 and 2006, residential mortgage (one-to-four family), multifamily and commercial loans with a book value and market value of \$4.15 billion and \$3.34 billion were pledged to secure FHLB advances, respectively (see Note 17).

Nonaccrual, past due and restructured loans from loans held in portfolio and OREO as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Total nonaccrual loans from loans held in portfolio	\$ 53,185	\$ 12,311
Accruing loans contractually past due 90 days or more	33,381	4,339
Restructured loans	10,712	15,785
Other real estate owned	3,844	2,887

Additionally, UCB had no commitments to lend additional funds to debtors whose loans are nonperforming at December 31, 2007.

Impaired loans as of December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Impaired loans with a valuation allowance	\$ 32,355	\$ 6,897	\$ 16,267
Impaired loans without a valuation allowance	<u>50,803</u>	<u>5,094</u>	<u>8,273</u>
Total impaired loans	<u>\$ 83,158</u>	<u>\$ 11,991</u>	<u>\$ 24,540</u>
Allowance for impaired loans under SFAS No. 114	<u>\$ 7,851</u>	<u>\$ 1,383</u>	<u>\$ 3,221</u>
Gross interest income recognized on impaired loans during the year	<u>\$ 139</u>	<u>\$ 80</u>	<u>\$ 183</u>

Our average recorded investment in impaired loans for the years ended December 31, 2007 and 2006, was \$42.0 million and \$29.9 million, respectively.

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****11. Loans Held in Portfolio and Allowance for Loan Losses — (Continued)**

The activity in the allowance for loan losses and allowance for losses related to unfunded commitments for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year:			
Allowance for loan losses	\$ 62,015	\$ 64,542	\$ 56,472
Allowance for losses — unfunded commitments	<u>6,833</u>	<u>3,402</u>	<u>3,940</u>
Total allowance for losses at beginning of the year	68,848	67,944	60,412
Provision for losses	20,181	3,842	6,091
Loans charged off	(10,677)	(10,694)	(1,614)
Recoveries of loans previously charged off	1,418	477	123
Adjustment — acquired through business combinations	<u>5,784</u>	<u>7,279</u>	<u>2,932</u>
Total allowance for losses at end of year	<u>\$ 85,554</u>	<u>\$ 68,848</u>	<u>\$ 67,944</u>
Allowance for loan losses	\$ 80,584	\$ 62,015	\$ 64,542
Reserve for unfunded commitments	<u>4,970</u>	<u>6,833</u>	<u>3,402</u>
Total allowance for losses and reserve for unfunded commitments at end of year	<u>\$ 85,554</u>	<u>\$ 68,848</u>	<u>\$ 67,944</u>

The provision for loan losses was \$20.2 million for 2007, as compared to \$3.8 million for 2006. Of the total 2007 provision, \$14.0 million was recorded in the fourth quarter of 2007. While the Company is not directly involved in sub-prime lending activities, current economic pressures on housing and land values in certain California markets such as the Inland Empire, Central Valley and Sacramento areas have impacted a certain segment of the overall loan portfolio. Approximately 10% of the loan portfolio is concentrated in these stressed California markets, and the Company has noted an increase in loan delinquencies and some migration to criticized credit categories that are predominately related to construction lending. Therefore, in the fourth quarter of 2007, the Company increased its specific valuation allowances by \$4.4 million, and increased its economic surcharge factors by \$4.3 million, which included \$3.3 million specifically related to the construction portfolio. However, year over year changes in loss factors did not materially impact the provision for loan losses. The increase was the result of an increase in classified loans and specific reserves on impaired loans.

The reserve for unfunded commitments, which is included in other liabilities on the balance sheet, decreased \$1.9 million from December 31, 2006. The decrease was primarily a result of our methodology review conducted in the second quarter of 2007.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Premises and Equipment

The components of premises and equipment as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Land	\$ 39,777	\$ 19,469
Buildings	121,799	112,791
Leasehold improvements	25,959	22,487
Computer software	12,502	8,563
Equipment, furniture and fixtures	<u>37,582</u>	<u>34,657</u>
Gross premises and equipment	237,619	197,967
Accumulated depreciation and amortization	<u>(92,989)</u>	<u>(82,357)</u>
Premises and equipment, net	<u>\$ 144,630</u>	<u>\$ 115,610</u>

Total depreciation and amortization expense was \$10.7 million, \$9.0 million, and \$8.5 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Rental income is included in occupancy expense in the consolidated statements of operations and totaled \$7.1 million, \$6.3 million and \$7.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. The future noncancelable minimum lease payment receivables as of December 31, 2007, are as follows (dollars in thousands):

2008	\$ 4,326
2009	3,535
2010	2,213
2011	2,002
2012	1,036
2013 and thereafter	<u>650</u>
Total	<u>\$ 13,762</u>

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****13. Goodwill**

The activity in goodwill for years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 226,780	\$ 106,648	\$ 68,301
Business Development Bank Ltd. acquisition	135,337	—	—
CAB Holding, LLC acquisition	74,595	—	—
Summit Bank Corporation acquisition	—	126,199	—
Summit Bank Corporation acquisition purchase price adjustment	4,261	—	—
Pacifica Bancorp, Inc. acquisition	—	—	23,277
Pacifica Bancorp, Inc. acquisition purchase price adjustment	1,211	(1,913)	—
Asian American Bank & Trust Company acquisition	—	—	15,070
Asian American Bank & Trust Company acquisition purchase price adjustment	1,555	(2,098)	—
First Continental Bank acquisition purchase price adjustment	(40)	—	—
Bank of Canton of California acquisition purchase price adjustment	(7,093)	(2,056)	—
Balance at end of year	<u>\$ 436,606</u>	<u>\$ 226,780</u>	<u>\$ 106,648</u>

The Company did not recognize any impairment losses as a result of its annual goodwill impairment reviews as of September 30, 2007 and 2006. During the year ended December 31, 2007, goodwill was adjusted to reflect the final valuations of the net assets acquired from Summit. Additionally, goodwill was adjusted during 2007 for the income tax benefit related to the buyout of Pacifica stock options at the time of acquisition, the newly identified income tax deduction related to Pacifica and AABT acquisition costs, and the resolution of pre acquisition contingencies associated with the income tax deduction of investment banking fees related to the Bank of Canton of California acquisition. During the year ended December 31, 2006, goodwill was adjusted to reflect the final valuations of the net assets acquired from Pacifica and AABT.

14. Core Deposit Intangibles

The gross carrying amount and the associated accumulated amortization for core deposit intangibles as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Core deposit intangibles, gross	\$ 34,050	\$ 35,283
Accumulated amortization	(11,524)	(6,958)
Core deposit intangibles, net	<u>\$ 22,526</u>	<u>\$ 28,325</u>

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****14. Core Deposit Intangibles — (Continued)**

The activity in net core deposit intangibles for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of period	\$ 28,325	\$ 14,981	\$ 9,829
Business Development Bank Ltd. acquisition	330	—	—
CAB Holding, LLC acquisition	6,600	—	—
Summit Bank Corporation acquisition	—	16,900	—
Summit Bank Corporation acquisition adjustment	(7,800)	—	—
Pacifica Bancorp, Inc. acquisition	—	—	3,800
Pacifica Bancorp, Inc. acquisition adjustment	—	(740)	—
Asian American Bank & Trust Company acquisition	—	—	2,900
Asian American Bank & Trust Company acquisition adjustment	—	(150)	—
Amortization	(4,566)	(2,342)	(1,345)
Impairment write-downs	(363)	(324)	(203)
Balance at end of period	<u>\$ 22,526</u>	<u>\$ 28,325</u>	<u>\$ 14,981</u>

The estimated future amortization expense related to core deposit intangibles as of December 31, 2007, is as follows (dollars in thousands):

2008	\$ 4,960
2009	4,194
2010	3,923
2011	3,758
2012	3,021
2013 and thereafter	<u>2,670</u>
Total	<u>\$ 22,526</u>

15. Mortgage Servicing Rights

The gross carrying amount and the associated accumulated amortization for mortgage servicing rights as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Mortgage servicing rights, gross	\$ 23,061	\$ 19,971
Accumulated amortization	<u>(10,278)</u>	<u>(6,698)</u>
Mortgage servicing rights, net	<u>\$ 12,783</u>	<u>\$ 13,273</u>

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****15. Mortgage Servicing Rights — (Continued)**

The activity in net mortgage servicing rights for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of period	\$ 13,273	\$ 10,642	\$ 7,747
Addition/Capitalization	3,249	6,812	5,192
Amortization	(3,581)	(2,999)	(2,297)
Impairment	(158)	(1,182)	—
Balance at end of period	<u>\$ 12,783</u>	<u>\$ 13,273</u>	<u>\$ 10,642</u>

Amortization expense related to mortgage servicing rights is recorded as a reduction to other fees on the consolidated statements of operations. UCB recognized impairment losses of \$158,000 and \$1.2 million as a result of the mortgage servicing rights impairment review during the years ended December 31, 2007 and 2006, respectively. UCB did not identify any impairment loss as a result of its mortgage serving rights impairment reviews during the year ended December 31, 2005.

Real estate loans being serviced for others totaled \$2.44 billion and \$2.15 billion at December 31, 2007 and 2006, respectively. These loans are not included in the consolidated balance sheets. In connection with these loans, UCB held trust funds of approximately \$10.0 million and \$20.6 million at December 31, 2007 and 2006, respectively, all of which were segregated in separate accounts and not included in the accompanying consolidated balance sheets. Some agreements with investors to whom UCB has sold loans have representation and warranty provisions that could require the repurchase of loans under certain circumstances. Management does not believe that any exposure from such repurchases currently exists, and therefore, no provision for any repurchase has been recorded.

The fair value of capitalized mortgage servicing rights along with the sensitivity analysis related to two key factors, prepayment speed and discount rate, as of December 31, 2007 and 2006, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Fair value of mortgage servicing rights	\$ 17,070	\$ 18,010
Expected weighted-average life (in years)	4.14	4.45
Range of prepayment speed assumptions (annual CPR)	12%-27%	13%-29%
Discount rate assumption	13.11%	12.94%
Decrease in fair value from 10% adverse CPR change	\$ (722)	\$ (770)
Decrease in fair value from 20% adverse CPR change	\$ (1,343)	\$ (1,454)
Decrease in fair value from 100 basis point adverse discount rate change	\$ (402)	\$ (442)
Decrease in fair value from 200 basis point adverse discount rate change	\$ (786)	\$ (864)

These sensitivity analyses should be used with caution as the calculations were prepared by varying only one factor at a time and holding all others constant for purposes of the analyses. Changes in one factor may result in changes in other factors and such changes might magnify or counteract the sensitivities as presented. Additionally, changes in fair value based on changes in an assumption generally cannot be extrapolated because the relationship of the change in the factor to the change in fair value may not be linear.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. Deposits

The components of deposits as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
NOW, checking and money market accounts	\$ 2,417,630	\$ 2,194,176
Savings accounts	986,664	942,672
Time deposits:		
Less than \$100,000	1,423,935	1,410,162
\$100,000 or greater	<u>2,953,011</u>	<u>2,655,835</u>
Total time deposits	4,376,946	4,065,997
Total deposits	<u>\$ 7,781,240</u>	<u>\$ 7,202,845</u>

The components of deposits in foreign banking offices as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Noninterest bearing deposits	\$ 20,902	\$ 19,744
Interest bearing deposits	<u>1,128,685</u>	<u>898,480</u>
Total deposits	<u>\$ 1,149,587</u>	<u>\$ 918,224</u>

The remaining maturities on time deposits as of December 31, 2007, are as follows (dollars in thousands):

2008	\$ 4,270,935
2009	65,603
2010	22,827
2011	15,814
2012	1,735
2013 and thereafter	<u>32</u>
Total	<u>\$ 4,376,946</u>

Interest expense on deposits for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
NOW, checking and money market accounts	\$ 51,535	\$ 41,282	\$ 20,572
Savings accounts	7,117	9,527	9,336
Time deposits	218,207	159,844	93,983
Less penalties for early withdrawal	<u>(528)</u>	<u>(594)</u>	<u>(574)</u>
Total	<u>\$ 276,331</u>	<u>\$ 210,059</u>	<u>\$ 123,317</u>

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. Borrowings***Securities Sold Under Agreements to Repurchase***

Information regarding outstanding securities sold under agreements to repurchase (the “Repurchase Agreements”) as of and for the year ended December 31, 2007, was as follows (dollars in thousands):

Average balance outstanding	\$ 400,615
Maximum amount outstanding at any month end period	650,000
Balance outstanding at end of period	650,000
Weighted average interest rate during the period	4.21%
Weighted average interest rate at end of period	4.04%
Weighted average remaining term to maturity at end of period (in years)	8.63

UCB has entered into eight Repurchase Agreements aggregating \$650.0 million, which matures between May 11, 2011 and November 7, 2017. Under the terms of the Repurchase Agreements, payments are due quarterly. As of December 31, 2007 interest accrued and payable on the Repurchase Agreements total \$3.1 million. The underlying collateral pledged for the Repurchase Agreements consists of FNMA, FHLMC and GNMA mortgage-backed securities, AAA rated and better private label collateralized mortgage obligations, collateralized mortgage backed securities and FHLB and FNMA investment securities with an aggregate fair value of \$726.4 million as of December 31, 2007. The collateral is held by a custodian and maintained under the control of UCB. At December 31, 2007, the underlying collateral pledged for the Repurchase Agreements mature between 2011 and 2037.

Long-Term and Short-Term Borrowings

Short-term and long-term borrowings outstanding information for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Short-term borrowings:			
Federal Home Loan Bank advances and other short-term borrowings:			
Average balance outstanding	\$ 299,713	\$ 224,234	\$ 301,400
Maximum amount outstanding at any month end period	637,787	654,636	566,169
Balance outstanding at end of period	414,532	654,636	279,425
Weighted average interest rate during the period	5.15%	4.52%	3.51%
Weighted average interest rate at end of period	4.05%	5.21%	4.09%
Weighted average remaining term to maturity at end of period (in years)	0.1	—	—
Long-term borrowings:			
Federal Home Loan Bank advances:			
Average balance outstanding	\$ 1,113,881	\$ 683,978	\$ 361,677
Maximum amount outstanding at any month end period	1,372,190	906,651	562,033
Balance outstanding at end of period	1,372,190	906,651	562,033
Weighted average interest rate during the period	4.69%	4.89%	5.15%
Weighted average interest rate at end of period	4.57%	4.72%	4.76%
Weighted average remaining term to maturity at end of period (in years)	5.2	5.4	5.0

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****17. Borrowings — (Continued)**

UCB maintains a secured credit facility with the FHLB against which UCB may take advances. The terms of this credit facility requires UCB to maintain in safekeeping with the FHLB eligible collateral of at least 100% of outstanding advances. Short-term borrowings with the FHLB totaled \$236.0 million at December 31, 2007. At December 31, 2007, the advances were secured with \$18.0 million of mortgage-backed securities and \$4.15 billion of loans, and at December 31, 2006, \$41.6 million of mortgage-backed securities and \$3.34 billion of loans secured the advances. At December 31, 2007, credit availability under this facility was approximately \$1.02 billion.

Included in long-term borrowings are advances with provisions that allow the FHLB, at their option, to terminate the advances at quarterly intervals for specified periods ranging from three to five years beyond the advance dates. Advances that may be terminated by the FHLB with corresponding early termination date, are as follows (dollars in thousands):

2008	\$ 466,000
2009	250,000
2010	250,000
2011	50,000
2012	—
Total	<u>\$ 1,016,000</u>

UCB also has recorded secured borrowings as of December 31, 2007 and 2006, related to loan transactions that did not qualify for sales treatment under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The short-term secured borrowings amounted to \$2.9 million and \$6.1 million at December 31, 2007 and 2006, respectively.

The future payments due on borrowings as of December 31, 2007, are as follows (dollars in thousands):

2008	\$ 662,415
2009	234,412
2010	49,302
2011	33,371
2012	119
2013 and thereafter	807,103
Total	<u>\$ 1,786,722</u>

On December 28, 2007, UCBH entered its fifth amendment to the unsecured revolving line of credit agreement with Wells Fargo Bank, N.A. for \$35.0 million. Borrowings under the agreement bear interest at prime rate less 2.10% with outstanding borrowings and interest due on November 30, 2008. The Company has taken a \$35.0 million advance under the agreement. UCBH maintains the unsecured line of credit for contingency liquidity.

18. Subordinated Debentures

UCBH formed or acquired special purpose trusts in 1997, 2001, 2002, 2005, 2006, and 2007 for the sole purpose of issuing guaranteed preferred beneficial interests in its junior subordinated debentures ("Capital Securities") and investing the proceeds thereof in junior subordinated debentures issued by UCBH. Payment of distributions out of the monies held by the trusts and payments on liquidation of the trusts or the redemption of the Capital Securities are guaranteed by UCBH to the extent the trusts have funds available. The obligations of UCBH under the guarantees and the junior subordinated debentures are subordinate and junior in right of payment to all indebtedness of UCBH and will be structurally subordinated to all liabilities and obligations of UCBH's subsidiaries.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. Subordinated Debentures — (Continued)

Pursuant to an Indenture dated as of April 17, 1998, (the “Indenture”), between UCBH and Wilmington Trust Company (“Wilmington”), as Trustee, UCBH on June 27, 2005, redeemed the entire \$30,928,000 aggregate principal amount of the 9.375% junior subordinated debentures due May 1, 2028 (the “Debentures”), issued by UCBH under the Indenture. The redemption price consisted of the \$30,928,000 aggregate principal amount plus aggregate unpaid interest of \$451,000. The redemption of the Debentures resulted in a loss of \$1.2 million in 2005 from the write-off of the unamortized Debenture issuance costs and other legal costs.

On September 22, 2005, UCBH issued \$41.2 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust V. The junior subordinated debentures bear interest at a fixed rate of 5.82% until November 23, 2010, after which date the rate will automatically convert to a floating rate equal to the three month London Interbank Offered Rate (“LIBOR”) plus 1.38% and will adjust quarterly until maturity. The junior subordinated debentures will mature on November 23, 2035, but may be redeemed by UCBH at its option in whole or in part at anytime on or after November 23, 2010. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events.

On December 15, 2006, UCBH issued \$51.5 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VII. The junior subordinated debentures bear interest at a fixed rate of 6.51% until December 15, 2011, after which date the rate will automatically convert to a floating rate equal to the three month LIBOR plus 1.67% and will adjust quarterly until maturity. The junior subordinated debentures will mature on December 15, 2036, but may be redeemed by UCBH at its option in whole or in part at anytime on or after December 15, 2011. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events.

On December 28, 2006, UCBH issued \$25.8 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VI. The junior subordinated debentures bear interest at a fixed rate of 6.73% until January 30, 2012, after which date the rate will automatically convert to a floating rate equal to the three month LIBOR plus 1.65% and will adjust quarterly until maturity. The junior subordinated debentures will mature on January 30, 2037, but may be redeemed by UCBH at its option in whole or in part at anytime on or after January 30, 2012. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events.

With the acquisition of Summit, UCBH assumed \$12.7 million in junior subordinated debentures of Summit Bank Corporation Capital Trust I. The junior subordinated debentures bear interest of three-month LIBOR plus 3.10% and will adjust quarterly until maturity. The junior subordinated debentures will mature on September 30, 2033, but may be redeemed by UCBH at its option in whole or in part at anytime on or after September 30, 2008. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole at anytime upon certain events. UCBH has the ability to defer interest and redemption date.

On April 30, 2007, UCBH issued \$41.2 million in junior subordinated debentures to a newly formed Delaware trust subsidiary, UCBH Capital Trust VIII. The junior subordinated debentures bear interest at a fixed rate of 6.59% until July 1, 2007, after which date the rate will automatically convert to a floating rate equal to the three month London Interbank offered Rate (“LIBOR”) plus 1.52% and will adjust quarterly until maturity. The junior subordinated debentures will mature on July 1, 2037, but may be redeemed by UCBH at its option in whole or in part at anytime on or after July 1, 2012. Additionally, UCBH may redeem the junior subordinated debentures at its option in whole or part at anytime upon certain events.

On June 21, 2007, UCB issued \$50.0 million aggregate principal amount of junior subordinated debentures due September 15, 2022. The debentures were issued pursuant to Floating Rate Junior Subordinated Debentures (the Debentures), dated June 21, 2007 between UCB, as issuer, and Wilmington Trust Company, as Trustee. The Debentures bear interest at a variable rate per annum equal to the 3-month LIBOR plus 1.34%.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. Subordinated Debentures — (Continued)

Under applicable regulatory guidelines, the Debentures qualify as Tier 2 capital. The Debentures have not been registered under the Securities Act of 1933, as amended (the “Securities Act”). The Debentures are subordinated to claims of depositors and all other creditors of UCB, are unsecured and are ineligible as collateral for a loan by UCB.

On September 28, 2007, UCB issued \$75.0 million aggregate principal amount of subordinated debentures due September 30, 2017. The purchase agreement is dated as of September 28, 2007 and is made between United Commercial Bank, as borrower, and USB Capital Funding Corp., as lender. The subordinated debentures bear interest at a variable rate per annum equal to the 3-month LIBOR plus 1.50%. The Subordinated Debt is intended to qualify as Tier 2 capital under applicable rules and regulations promulgated by the State of California and the FDIC.

Interest expense related to the Capital Securities was \$19.6 million, \$11.7 million and \$9.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. Subordinated Debentures — (Continued)

The outstanding Capital Securities issued by each special purpose trust and the junior subordinated debentures issued by UCBH to each trust as of December 31, 2007 and 2006, were as follows (dollars in thousands):

Trust Name	Issuance Date	2007		2006		Earliest Redemption Date	Stated Maturity Date	Annualized Coupon Rate	Current Interest Rate	Rate Change Date	Payable Distribution Dates
		Capital Securities Amount	Debenture Principal Balance	Capital Securities Amount	Debenture Principal Balance						
UCBH Capital Trust I	11/28/01	6,000	6,186	6,000	6,186	12/8/06	12/8/31	6-month LIBOR + 3.80%	8.42%	12/8/06	6/8, 12/8
UCBH Holdings Statutory Trust I	3/26/02	10,000	10,310	10,000	10,310	3/26/07	3/26/32	3-month LIBOR + 3.60%	8.12%	12/26/06	3/26, 6/26, 9/26, 12/26
UCBH Holdings Statutory Trust II	9/26/02	25,000	25,774	25,000	25,774	9/26/07	9/26/32	3-month LIBOR + 3.40%	7.92%	12/26/06	3/26, 6/26, 9/26, 12/26
UCBH Capital Trust II	10/15/02	20,000	20,619	20,000	20,619	11/7/07	11/7/32	3-month LIBOR + 3.45%	7.74%	11/7/06	2/7, 5/7, 8/7, 11/7
UCBH Capital Trust III	10/15/02	18,000	18,557	18,000	18,557	11/7/07	11/7/32	3-month LIBOR + 3.66%	7.95%	11/7/06	2/7, 5/7, 8/7, 11/7
UCBH Capital Trust IV	10/29/02	27,000	27,836	27,000	27,836	11/7/07	11/7/32	3-month LIBOR + 3.45%	7.74%	11/7/06	2/7, 5/7, 8/7, 11/7
UCBH Capital Trust V	9/22/05	40,000	41,238	40,000	41,238	11/23/10	11/23/35	5.82% until 11/23/10, 3-month LIBOR + 1.38% thereafter	5.82%	N/A	2/23, 5/23, 8/23, 11/23
UCBH Capital Trust VI	12/28/06	25,000	25,774	25,000	25,774	1/30/12	1/30/37	6.73% until 1/28/12, 3-month LIBOR + 1.65% thereafter	6.73%	N/A	1/30, 4/30, 7/30, 10/30
UCBH Capital Trust VII	12/15/06	50,000	51,547	50,000	51,547	12/15/11	12/15/36	6.51% until 12/15/11, 3-month LIBOR + 1.67% thereafter	6.51%	N/A	3/15, 6/15, 9/15, 12/15
Summit Bank Corporation Capital Trust I	9/30/03	12,318	12,708	12,318	12,708	9/30/08	9/30/33	8.46% until 9/30/08, 3-month LIBOR + 3.10% thereafter	8.46%	N/A	3/30, 6/30, 9/30, 12/30
UCBH Capital Trust VIII	4/30/07	40,000	41,238	—	—	7/1/12	7/1/37	6.59% until 7/1/12, 3-month LIBOR + 1.52% thereafter	6.59%	N/A	1/1, 4/1, 7/1, 10/1
Total Balance		<u>\$ 273,318</u>	<u>\$ 281,787</u>	<u>\$ 233,318</u>	<u>\$ 240,549</u>						

Each of the eleven special purpose trusts represents a variable interest entity (“VIE”). FIN 46R requires an entity to consolidate a VIE if such entity has a variable interest that will absorb a majority of the VIE’s expected losses, receive a majority of the variability of the VIE’s expected residual interests, or both. The entity required to consolidate a VIE is designated as the primary beneficiary. The special purpose trusts are excluded from the consolidated results of operations and financial condition of the Company, as the Company is not considered to be the primary beneficiary of these trusts.

The Company’s total assets and maximum exposure to loss associated with non-consolidated VIE’s in which the Company had variable interests at December 31, 2007 amounted to approximately \$281.5 million and \$8.5 million, respectively.

19. Minimum Regulatory Capital Requirements

The Company and UCB (on a consolidated basis) are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory- and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Company’s and UCB’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and UCB must meet specific capital guidelines

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. Minimum Regulatory Capital Requirements — (Continued)

that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and UCB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and UCB to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Company and UCB meet all capital adequacy requirements to which they are subject.

As of December 31, 2007 and 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized UCB as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", UCB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed UCB's category. The Company's and UCB's actual capital amounts and ratios as of December 31, 2007 and 2006, are also presented in the following table (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2007(1)						
Total capital to risk-weighted assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 1,007,579	10.76%	\$ 749,233	8.00%	N/A	N/A
United Commercial Bank	1,009,671	10.80	748,026	8.00	\$ 935,032	10.00%
Tier 1 capital to risk-weighted assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 797,111	8.51%	\$ 374,617	4.00%	N/A	N/A
United Commercial Bank	799,203	8.55	374,013	4.00	\$ 561,019	6.00%
Tier 1 capital to average assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 797,111	7.39%	\$ 431,179	4.00%	N/A	N/A
United Commercial Bank	799,203	7.42	430,792	4.00	\$ 538,490	5.00%
As of December 31, 2006(1)						
Total capital to risk-weighted assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 854,287	10.72%	\$ 637,338	8.00%	N/A	N/A
United Commercial Bank	837,698	10.53	636,184	8.00	\$ 795,229	10.00%
Tier 1 capital to risk-weighted assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 785,439	9.86%	\$ 318,669	4.00%	N/A	N/A
United Commercial Bank	768,850	9.67	318,092	4.00	\$ 477,138	6.00%
Tier 1 capital to average assets:						
UCBH Holdings, Inc. and subsidiaries	\$ 785,439	9.50%	\$ 330,771	4.00%	N/A	N/A
United Commercial Bank	768,850	9.30	330,717	4.00	\$ 413,396	5.00%

- (1) Amounts reflect the effects of the acquisitions of CAB Holding, LLC at May 23, 2007, Business Development Bank Ltd. at December 11, 2007 and Summit Bank Corporation at December 29, 2006.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. Minimum Regulatory Capital Requirements — (Continued)

The reconciliation of capital under GAAP with regulatory capital at December 31, 2007 and 2006, was as follows (dollars in thousands):

	Tier 1 Capital		Risk-Based Capital	
	UCBH Holdings, Inc. and Subsidiaries	United Commercial Bank	UCBH Holdings, Inc. and Subsidiaries	United Commercial Bank
As of December 31, 2007:				
GAAP capital	\$ 967,103	\$ 1,242,351	\$ 967,103	\$ 1,242,351
Nonallowable components:				
Unrealized losses on securities available for sale	15,983	15,983	15,983	15,983
Goodwill and other disallowed intangibles	(459,131)	(459,131)	(459,131)	(459,131)
Mortgage servicing rights — excess	—	—	—	—
Additional capital components:				
Qualifying trust preferred securities	273,156	—	273,156	—
Qualifying subordinated debt	—	—	125,000	125,000
Allowance for loan losses — limited to 1.25% of risk-based assets	—	—	85,468	85,468
Regulatory capital	<u>\$ 797,111</u>	<u>\$ 799,203</u>	<u>\$ 1,007,579</u>	<u>\$ 1,009,671</u>
As of December 31, 2006:				
GAAP capital	\$ 786,071	\$ 1,002,800	\$ 786,071	\$ 1,002,800
Nonallowable components:				
Unrealized losses on securities available for sale	21,155	21,155	21,155	21,155
Goodwill and other disallowed intangibles	(255,105)	(255,105)	(255,105)	(255,105)
Mortgage servicing rights — excess	—	—	—	—
Additional capital components:				
Qualifying trust preferred securities	233,318	—	233,318	—
Allowance for loan losses — limited to 1.25% of risk-based assets	—	—	68,848	68,848
Regulatory capital	<u>\$ 785,439</u>	<u>\$ 768,850</u>	<u>\$ 854,287</u>	<u>\$ 837,698</u>

Dividends declared by UCB in any calendar year may not, without the approval of the appropriate regulator, exceed its net earnings for that year combined with its net earnings less dividends paid for the preceding two years. At December 31, 2007, UCB had approximately \$277.1 million available for the payment of dividends under the foregoing restrictions. Following its initial public offering in 1998, UCBH commenced paying dividends in 2000. For each of the years ended December 31, 2007 and 2006, UCBH declared cash dividends totaling \$0.12 per share. For the year ended December 31, 2005, UCBH declared cash dividends totaling \$0.10 per share.

UCB's wholly owned subsidiaries, UCB China Ltd and UCB Investment Services, are both subject to regulatory capital requirements. As of December 31, 2007, both subsidiaries met or exceeded such requirements.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20. Earnings Per Share

On January 27, 2005, UCBH declared a two-for-one stock split in the form of a stock dividend to the stockholders of record as of March 31, 2005, and distributed the stock dividend on April 12, 2005. Accordingly, the number of issued and outstanding shares of UCBH's common stock on the consolidated statement of changes in stockholders' equity and comprehensive income at December 31, 2004, was adjusted to take into account the stock split.

The reconciliation of the numerators and denominators of basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands, except shares and per share amounts):

	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Year ended December 31, 2007:			
Net income — basic	\$ 102,308	102,372,008	\$ 1.00
Effect of stock options	—	2,978,694	
Net income — diluted	<u>\$ 102,308</u>	<u>105,350,702</u>	\$ 0.97
Year ended December 31, 2006:			
Net income — basic	\$ 100,877	94,457,063	\$ 1.07
Effect of stock options	—	3,571,914	
Net income — diluted	<u>\$ 100,877</u>	<u>98,028,977</u>	\$ 1.03
Year ended December 31, 2005:			
Net income — basic	\$ 97,826	91,934,570	\$ 1.06
Effect of stock options	—	3,765,241	
Net income — diluted	<u>\$ 97,826</u>	<u>95,699,811</u>	\$ 1.02

The antidilutive outstanding stock options of 7,579,231, 6,679,700, and 2,729,467 shares of UCBH common stock for the years ended December 31, 2007, 2006 and 2005, respectively, were excluded from the computation of diluted earnings per share as a result of the stock options' exercise price being greater than the average market price of UCBH common stock for the period. The stock options of UCBH common stock are considered antidilutive if assumed proceeds per share exceed the average market price of UCBH's common stock during the relevant periods. Assumed proceeds include proceeds from the exercise of stock options of UCBH common stock, as well as unrecognized compensation and certain deferred tax benefits related to stock options.

On October 7, 2007, UCBH and China Minsheng Banking Corp., Ltd., a Chinese joint stock commercial bank ("Minsheng"), entered into an Investment Agreement (the "Investment Agreement"), pursuant to which Minsheng has the right to acquire 9.9% (calculated on a post closing basis) of the outstanding shares of UCBH common stock in two phases, with a mutual option to increase Minsheng's ownership to 20.0% (calculated on a post closing basis).

In the first phase, which is anticipated to close in the first quarter of 2008, UCBH may issue approximately 5.4 million shares of its common stock to Minsheng at a price per share of \$17.79, representing the 90-day average UCBH closing price as of the close on September 28, 2007. Our ability to issue the shares is conditional upon certain regulatory approvals occurring.

The issuance of these shares could potentially dilute our basic earnings per share in the future, when the condition of regulatory approvals is met. As of December 31, 2007, these UCBH common stock shares were excluded from the computation of primary and diluted earnings per share as the result of the price of the share being greater than the average market price of UCBH common stock for the period.

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. Employee Benefit Plans

Stock Option Plan

On May 18, 2006, UCBH adopted the UCBH Holdings, Inc. 2006 Equity Incentive Plan (the “Plan”), which was formerly known as the UCBH Holdings, Inc. 1998 Stock Option Plan, as amended. The Plan was approved by its stockholders and provides for the granting of stock-based compensation awards, including options, to eligible officers, employees and directors of the Company. Stock option awards are approved by UCBH’s Board of Directors and are granted at the fair market value of UCBH’s common stock on the date of the grant. The options vest over a period determined at the time the options are granted, generally three years of continuous service, and have a maximum term of ten years. Certain options awards provide for accelerated vesting if there is a change in control, as defined in the Plan. As of December 31, 2007, the Company had 3,569,649 shares of common stock reserved for the issuance of options under the Plan.

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, as allowed by SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. Under the intrinsic value method, no stock-based employee compensation cost is recorded, provided the stock options are granted with an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) eliminates the ability for companies to account for share-based compensation transactions using the intrinsic value method and requires that companies measure and recognize compensation expense for all share-based payments at fair value. Under SFAS No. 123(R), the total fair value of the stock options awards is expensed ratably over the service period of the employees receiving the awards. In adopting SFAS No. 123(R), the Company used the modified prospective method of adoption. Under this adoption method, compensation expense recognized subsequent to adoption will include: (a) compensation costs for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation costs for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). No share-based employee compensation cost has been reflected in the Company’s net income prior to the adoption of SFAS No. 123(R) and results for prior periods have not been restated.

The adoption of SFAS No. 123(R) reduced income before income tax expense for the year ended December 31, 2007, by approximately \$4.1 million, and reduced net income for the same period by approximately \$3.4 million. Basic and diluted earnings per share were reduced by \$0.03 for the year ended December 31, 2007, as a result of the amounts expensed. In addition, as of December 31, 2007, total unrecognized compensation cost related to nonvested stock option awards was approximately \$7.2 million and the related weighted-average period over which it is expected to be recognized was approximately 1.63 years. Further, for the year ended December 31, 2007, the total income tax benefit related to nonqualified stock option grants recognized in the statement of operations was \$622,000.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows in the consolidated statements of cash flows. SFAS No. 123(R) requires that the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows. However, for the year ended December 31, 2007, there were no such excess tax benefits.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. Employee Benefit Plans — (Continued)

In estimating the fair value of each stock option award on their respective grant dates, we use the Black-Scholes pricing model. The following are the average assumptions that were incorporated in the model for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Dividend yield	0.58%	0.61%	0.60%
Volatility	29.21%	29.88%	29.03%
Risk-free interest rate	4.76%	4.72%	4.22%
Expected lives (years)	7.87	7.47	7.50

The expected life of the options is based on historical data of UCBH's actual experience with the options it has granted and represents the period of time that the options granted are expected to be outstanding. This data includes employees' expected exercise and post-vesting employment termination behaviors. The expected stock price volatility is estimated using the historical volatility of UCBH's common stock and other factors. The historical volatility covers a period that corresponds to the expected life of the options. The expected dividend yield is based on the estimated annual dividends that UCBH expects to pay over the expected life of the options as a percentage of the market value of UCBH's stock as of the grant date. The risk-free interest rate for the expected life of the options granted is based on the U.S. Treasury yield curve in effect as of the grant date.

The stock option activity for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands, except weighted average exercise price):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2004	14,042,318	\$ 11.23	6.84	\$ 164,081
Granted	1,552,300	19.09		
Exercised	(786,614)	4.91		
Forfeited	(347,878)	18.31		
Canceled	(24,106)	17.94		
Options outstanding at December 31, 2005	14,436,020	\$ 12.23	6.67	\$ 81,522
Granted	1,153,000	17.77		
Exercised	(585,442)	7.48		
Forfeited	(121,500)	18.16		
Canceled	(47,683)	18.66		
Options outstanding at December 31, 2006	14,834,395	\$ 12.78	5.82	\$ 70,878
Granted	754,400	17.49		
Exercised	(1,238,227)	8.63		
Forfeited	(212,930)	18.18		
Canceled	(241,700)	20.95		
Options outstanding at December 31, 2007	<u>13,895,938</u>	\$ 13.18	5.38	\$ 47,713
Shares exercisable:				
December 31, 2007	12,588,178	\$ 12.73	5.02	\$ 47,713
December 31, 2006	13,691,898	12.37	5.53	71,049
December 31, 2005	14,284,020	12.18	6.64	81,476

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****21. Employee Benefit Plans — (Continued)**

Cash received from option exercises for the years ended December 31, 2007, 2006 and 2005, was \$10.6 million, \$4.4 million and \$3.9 million, respectively. The annual tax benefit realized for the tax deductions from option exercises totaled \$5.1 million, \$2.0 million and \$3.8 million, respectively for the years ended December 31, 2007, 2006 and 2005.

The Company has a policy of issuing new shares from the pool of unissued shares allocated to the Plan to satisfy share option exercises. As of December 31, 2007, there were 3,569,649 unissued shares allocated to the Plan.

The weighted-average grant date fair value of options granted, total intrinsic value of options exercised and total fair value of vested options, were as follows (dollars in thousands, except weighted average exercise price):

	Weighted Average Fair Value of Options Granted	Total Intrinsic Value of Options Exercised	Total Fair Value of Vested Options
Year Ended December 31, 2007	\$ 7.23	\$ 12,591	\$ 2,710
Year Ended December 31, 2006	7.21	6,204	290
Year Ended December 31, 2005	7.59	10,774	49,457

The range of exercise prices for options outstanding at December 31, 2007, is as follows:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Options Exercisable	Weighted Average Exercise Price
\$1.88-\$1.99	1,164,468	\$ 1.88	1.15	1,164,468	\$ 1.88
\$2.00-\$5.99	121,824	2.91	2.25	121,824	2.91
\$6.00-\$6.99	3,444,774	6.15	3.32	3,444,774	6.15
\$7.00-\$8.99	261,808	7.21	4.02	261,808	7.21
\$9.00-\$10.99	518,334	10.11	4.86	518,334	10.11
\$11.00-\$12.99	297,663	12.38	5.32	297,663	12.38
\$13.00-\$15.99	473,164	15.00	6.17	414,166	14.89
\$16.00-\$18.09	2,027,769	17.31	8.09	906,704	17.15
\$18.10-\$19.99	5,030,334	18.83	6.61	4,902,637	18.84
\$20.00-\$21.99	555,800	21.04	7.07	555,800	21.04
Total/Average	<u>13,895,938</u>	\$ 12.73	5.38	<u>12,588,178</u>	\$ 12.73

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. Employee Benefit Plans — (Continued)

The effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to all outstanding stock option awards for the year ended December 31, 2005, prior to the adoption of SFAS No. 123(R), was as follows (dollars in thousands, except per share amounts):

	<u>2005</u>
Net income:	
As reported	\$ 97,826
Deduct: Total stock-based employee compensation expense determined under fair value based method of all awards, net of related tax effects	<u>(25,917)</u>
Pro forma net income	<u>\$ 71,909</u>
Basic earnings per share:	
As reported	\$ 1.06
Pro forma	\$ 0.78
Diluted earnings per share:	
As reported	\$ 1.02
Pro forma	\$ 0.75

On December 27, 2005, UCBH's Board of Directors approved the accelerated vesting of all outstanding unvested stock options awarded to employees, officers and directors on or before October 26, 2005, under its stock option plan. The decision to accelerate the vesting was made primarily to reduce the impact of recording noncash compensation expense upon the implementation of SFAS No. 123(R). Stock options covering approximately 5.1 million shares of UCBH's common stock were affected by this action, including approximately 1.9 million shares that are held by the Company's executive officers and directors. The number of shares, exercise prices and all of the other relevant terms and conditions applicable to the accelerated options remained unchanged. By accelerating the vesting of the options, the Company estimated that approximately \$16.4 million of future compensation expense, net of taxes, has been eliminated.

United Commercial Bank Savings Plus Plan

UCB has a 401(k) tax deferred savings plus plan (the "401(k) Plan") under which eligible employees may elect to defer a portion of their salary (up to 15%) as a contribution to the 401(k) Plan. UCB matches the employees' contributions at a rate set by UCB's Board of Directors. The 401(k) Plan provides for employer contributions of 50% of employee contributions for all employees for the years ended December 31, 2007, 2006 and 2005, with a maximum contribution limit of \$2,000 per participant. The matching contribution vests ratably over the first five years of service. For the years ended December 31, 2007, 2006 and 2005, UCB contributed \$2.1 million, \$1.6 million and \$1.3 million, respectively, to the 401(k) Plan.

In connection with the Pacifica and AABT acquisitions, former Pacifica and AABT employees, who were eligible to participate, were able to enroll in the 401(k) Plan on July 1, 2006.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. Federal and State Taxes on Income

The components of income tax expense by jurisdiction for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current tax expense:			
Federal	\$ 41,042	\$ 47,264	\$ 40,227
State	9,101	4,188	10,817
Foreign	<u>1,148</u>	<u>550</u>	<u>—</u>
Total current tax expense	<u>51,291</u>	<u>52,002</u>	<u>51,044</u>
Deferred tax expense (benefit):			
Federal	2,086	(981)	(4,374)
State	(383)	(84)	(326)
Foreign	<u>(46)</u>	<u>—</u>	<u>—</u>
Total deferred tax expense (benefit)	<u>1,657</u>	<u>(1,065)</u>	<u>(4,700)</u>
Income tax expense	<u>\$ 52,948</u>	<u>\$ 50,937</u>	<u>\$ 46,344</u>

The components of deferred tax assets (liabilities) at December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Loan and OREO loss allowances	\$ 25,293	\$ 21,111
Market value adjustments on certain securities	4,892	907
Unrealized losses on available for sale securities	9,825	12,034
State taxes	2,052	7,319
Compensation and benefits	4,021	4,000
Fixed asset basis differences	967	1,509
Net operating loss carryforward	2,252	2,435
Other	2,262	2,017
Valuation allowance	<u>(1,059)</u>	<u>(1,694)</u>
Total deferred tax assets	<u>50,505</u>	<u>49,638</u>
Deferred tax liabilities:		
Deferred loan fees	(8,564)	(8,157)
FHLB dividends	(5,685)	(4,362)
Purchase accounting adjustments	(28,134)	(24,532)
Other	<u>(5,298)</u>	<u>(5,067)</u>
Total deferred tax liabilities	<u>(47,681)</u>	<u>(42,118)</u>
Net deferred tax assets	<u>\$ 2,824</u>	<u>\$ 7,520</u>

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. Federal and State Taxes on Income — (Continued)

The components for deferred tax assets (liabilities) by jurisdiction at December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Net deferred assets (liabilities):		
Federal income tax	\$ 3,969	\$ 3,118
State franchise tax	(1,145)	4,402
Net deferred tax assets	<u>\$ 2,824</u>	<u>\$ 7,520</u>

The income tax benefit related to federal and state net operating loss carryforwards by year of expiration as of December 31, 2007, are as follows (dollars in thousands):

2008	\$ 790
2009	53
2010	645
2011	94
2012	—
2013	118
2014	551
Total	<u>\$ 2,251</u>

Internal Revenue Code Section 382 places a limitation (the “Section 382 Limitation”) on the amount of taxable income that can be offset by net operating loss carryforwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. Generally, after a control change, a loss corporation cannot deduct net operating loss carryforwards in excess of the Section 382 Limitation. Due to these “change in ownership” provisions, utilization of the net operating loss and tax credit carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods. The valuation allowance, included in the deferred tax asset, was established based upon the application of the Section 382 Limitation to the net operating loss carryforwards acquired in the Summit acquisition.

The reconciliation of the statutory income tax rate to the consolidated effective income tax rate for the years ended December 31, 2007, 2006 and 2005, was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal income tax rate	35.0%	35.0%	35.0%
State franchise tax rate, net of federal income tax effects	7.0	7.0	7.0
Statutory income tax rate	<u>42.0</u>	<u>42.0</u>	<u>42.0</u>
Increase (reduction) in tax rate resulting from:			
California and federal tax credits and incentives	(4.3)	(5.9)	(3.2)
Tax-exempt income	(2.6)	(2.2)	(2.3)
Section 965 repatriation	—	—	(2.7)
Other, net	<u>(1.0)</u>	<u>(0.3)</u>	<u>(1.7)</u>
Effective income tax rate	<u>34.1%</u>	<u>33.6%</u>	<u>32.1%</u>

The Company and its subsidiaries file a federal consolidated return for the U.S. federal tax jurisdiction and a combined report in the State of California jurisdiction as well as various other states and foreign jurisdictions. The

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****22. Federal and State Taxes on Income — (Continued)**

Company is no longer subject to U.S. federal, Georgia or New York income tax examinations by tax authorities for years before 2004 and for California for years before 2001.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (dollars in thousands):

Balance at January 1, 2007	\$ 2,977
Additions based on tax positions related to the current year	1,803
Reductions for tax positions of prior years:	
Lapse of applicable statute of limitations	(40)
Balance at December 31, 2007	<u>\$ 4,740</u>

The Company expects a decrease of approximately \$860,000 to \$980,000 in unrecognized tax benefits for tax positions during the 12 months following December 31, 2007. This expected reduction regards the Company's claims for income tax refund from California. These claims for refund primarily relate to the California bad debt deduction under the reserve method in the Company's 2001 tax year. The bad debt deduction claim is now in front of the California Franchise Tax Board's ("FTB") Settlement Bureau and should be settled before December 31, 2008. The remaining claim is for additional net interest deduction ("NID") for lenders for the Company's 2001 tax year. The FTB has requested information from the Company to support the NID claim and the Company expects settlement of this claim before December 31, 2008.

The Company recognized approximately \$134,000, \$77,000 and \$99,000 of interest expense and none for penalties related to uncertain tax positions during the years ended December 31, 2007, 2006, and 2005, respectively. The Company had approximately \$484,000 and \$350,000 for the payment of interest related to uncertain tax positions accrued as of December 31, 2007, and 2006, respectively.

On October 22, 2004, the President of the United States of America signed into law AJCA. The AJCA allows companies to repatriate foreign earnings at an effective tax rate of 5.25% upon satisfaction of certain conditions. Such repatriations needed to occur in either an enterprise's last year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment.

In the fourth quarter of 2005, the Company repatriated \$26.7 million in previously unremitted foreign earnings. As a result, the Company recorded a current taxes payable on such previously unremitted foreign earnings of approximately \$703,000. In addition, the Company has recorded a net tax benefit of approximately \$3.9 million as a result of the reversal of the deferred tax liability related to unremitted earnings of its foreign subsidiary.

The Company believes it has adequately provided for income tax issues not yet resolved with federal, foreign, state and local tax authorities. Although not probable, the most adverse resolution of these federal, foreign, state and local issues could result in additional charges to earnings in future periods in addition to the amount currently provided. Based upon a consideration of all relevant facts and circumstances, the Company does not believe the ultimate resolution of tax issues for all open periods will have a material effect upon results of operations or financial condition.

23. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of loans, investments and certain other derivative and off balance sheet contracts. These concentrations may be impacted by changes in economic, industry or political factors. UCB monitors its exposure to these financial instruments and obtains collateral as appropriate to mitigate such risk.

At December 31, 2007, UCB had 74.7% of its loans held in portfolio collateralized by properties located in California. Additionally, UCB had 44.7% of its loans held in portfolio in commercial nonresidential and

UCBH HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****23. Concentration of Credit Risk — (Continued)**

multifamily real estate loans. No borrower, obligor, or industry accounted for more than 2.0% of loans held in portfolio. At December 31, 2007, mortgage-backed securities were 60.9% of UCB's investment portfolio. At December 31, 2007, UCB had 43.7% and 27.9% of its customer deposits located in Northern and Southern California, respectively. One state government entity contributed 5.1% and two other customers contributed 5.3% of total deposits at December 31, 2007. No other customer accounted for more than 2.0% of deposits.

24. Related Party Transactions

Several members of the Board of Directors and executive officers of the Company have deposits with UCB that are made in the ordinary course of business with the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers. The total deposits for these related parties were \$1.1 million and \$6.7 million at December 31, 2007 and 2006, respectively. Additionally, UCB has adopted a policy that prohibits loans or extensions of credit to members of the Board of Directors and affiliated persons of the Company, and their related interests.

25. Derivative Financial Instruments and Financial Instruments with Off-Balance-Sheet Risk

UCB is a party to derivative financial instruments and financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. UCB does not hold or issue financial instruments for trading purposes. Financial instruments in the normal course of business include commitments to extend and purchase credit, forward commitments to sell loans, letters of credit, foreign exchange contracts and interest-rate caps. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract or notional amounts of those instruments reflect the extent of involvement UCB has in particular classes of financial instruments.

UCB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of those instruments. UCB uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest-rate swap and cap transactions and forward commitments to sell loans, the contract or notional amounts do not represent exposure to credit loss. UCB manages the credit risk of its interest-rate swap and cap agreements, foreign exchange contracts, and forward commitments to sell loans through credit approvals, limits and monitoring procedures. UCB does not require collateral or other security to support interest-rate swap transactions with credit risk.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

25. Derivative Financial Instruments and Financial Instruments with Off-Balance-Sheet Risk — (Continued)

The contractual or notional amounts of derivative financial instruments and financial instruments with off-balance-sheet credit risk as of December 31, 2007 and 2006, were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commitments to extend credit:		
Consumer (including residential mortgage)	\$ 101,978	\$ 88,648
Commercial (excluding construction)	1,488,733	1,150,599
Construction	1,101,515	889,294
Letters of credit	183,792	140,684
Foreign exchange contracts receivable	(806,310)	(385,301)
Foreign exchange contracts payable	806,380	220,515
Put options to buy	7,600	5,329
Put options to sell	(7,600)	(5,329)
Interest rate swap contract	—	25,000
Interest rate floor contract	25,000	25,000
Unfunded CRA investment commitments	6,996	3,623
Other	1,928	—
Total	<u>\$ 2,910,012</u>	<u>\$ 2,158,062</u>

Commitments

Commitments to extend credit are agreements to lend to a customer provided there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. UCB evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by UCB upon extension of credit, is based on management's credit evaluation of the customer. Collateral held generally includes residential or commercial real estate, accounts receivable, or other assets.

Letters of credit are conditional commitments issued by UCB 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 extending loan facilities to customers. These letters of credit are usually secured by the customer's inventories or by deposits held at UCB.

Foreign exchange contracts are contracts to purchase or sell currencies in the over-the-counter market. Such contracts can be either for immediate or forward delivery. Entering into foreign exchange contract agreements involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. UCB purchases or sells foreign exchange contracts in order to hedge a balance sheet or off-balance-sheet foreign exchange position. Additionally, UCB purchases and sells foreign exchange contracts for customers, as long as the foreign exchange risk is fully hedged with an offsetting position.

Interest-rate caps are interest rate protection instruments that involve the payment from the seller to the buyer of an interest differential. This differential represents the difference between current interest rates and an agreed upon rate applied to a notional principal amount. Entering into interest-rate cap agreements involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. Notional principal amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller. UCB may be a purchaser of interest-rate caps and swaps. With the acquisition of Summit, UCB acquired a five-year interest rate swap with a fair value of \$802,000 and a five-year interest rate floor contract with a fair value of

[Table of Contents](#)**UCBH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****25. Derivative Financial Instruments and Financial Instruments with Off-Balance-Sheet Risk — (Continued)**

\$93,000. The notional value of both the interest rate swap and floor were \$25.0 million. UCB had no other derivative transactions designated as a hedge according to the relevant accounting criteria as of December 31, 2007 and 2006. Both the interest rate swap and the interest rate floor were not designated as hedges.

Put options to buy are part of currency-linked deposits with other financial institutions. At the option of these third parties, UCB is required to buy a currency at a predefined exchange rate with another currency. Put options to sell are part of currency-linked deposits that customers have placed with UCB. At the option of UCB, the customer is obligated to buy a currency at a predefined exchange rate with another currency. The put options to buy and put options to sell, along with the related currency-linked deposits, offset each other.

UCB has CRA investments that may have unfunded commitments that UCB is obligated to make. Fundings are made upon request by the underlying investee companies based on original contractual commitment amounts.

26. Commitments and Contingent Liabilities***Lease Commitments***

The Company leases various premises and equipment under noncancelable operating leases, many of which contain renewal options and some of which contain escalation clauses. Future minimum rental payments due each year under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2007, are as follows (dollars in thousands):

2008	\$ 11,212
2009	9,641
2010	8,919
2011	7,237
2012	5,701
2013 and thereafter	20,044
Total	<u>\$ 62,754</u>

Rent expense was approximately \$14.6 million, \$11.9 million and \$10.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Contingent Liabilities

The Company is subject to pending or threatened actions and proceedings arising in the normal course of business. In the opinion of management, the ultimate disposition of all pending or threatened actions and proceedings will not have a material adverse effect on the Company's results of operations or financial condition.

27. Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instrument*, requires all entities to estimate the fair value of all financial instrument assets, liabilities and off-balance-sheet transactions. Fair values are point-in-time estimates that can change significantly based on numerous factors. Accordingly, management cannot provide any assurance that the estimated fair values presented below could actually be realized. The fair value estimates for financial instruments were determined as of December 31, 2007 and 2006, by application of the described methods and significant assumptions.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

27. Fair Value of Financial Instruments — (Continued)

The carrying value and estimated fair value of principal financial instruments at December 31, 2007 and 2006, were as follows (dollars in thousands):

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 319,399	\$ 319,399	\$ 204,392	\$ 204,392
Federal funds sold	26,028	26,028	150,027	150,027
Securities purchased under agreements to resell	150,000	164,884	175,000	194,304
Investments and mortgage-backed securities available for sale	2,188,355	2,188,355	2,149,456	2,149,456
Investments and mortgage-backed securities held to maturity	271,485	276,286	290,673	295,446
Federal Home Loan Bank stock, Federal Reserve Board stock and other equity investments	138,877	139,566	110,775	110,775
Loans held for sale, net	177,137	179,236	142,861	152,094
Loans held in portfolio, net	7,832,150	7,838,420	6,635,660	6,679,375
Accrued interest receivable	61,111	61,111	50,803	50,803
Mortgage servicing rights, net	12,783	17,124	13,273	18,010
Customers' liability on acceptances	35,368	35,368	61,013	61,013
Financial liabilities:				
Noninterest bearing deposits	860,338	860,338	767,714	767,714
Interest bearing deposits	6,920,902	6,930,105	6,435,131	6,466,690
Securities sold under agreements to repurchase	650,000	661,411	401,600	407,134
Short-term borrowings and federal funds purchased	492,532	492,532	654,636	657,774
Subordinated debentures	406,615	397,715	240,549	242,967
Long-term borrowings	1,372,190	1,400,507	906,651	907,981
Accrued interest payable	28,169	28,169	21,018	21,018
Acceptances outstanding	35,368	35,368	61,013	61,013
Derivatives:				
Foreign exchange contracts receivable	3,044	3,044	1,263	1,263
Foreign exchange contracts payable	(2,523)	(2,523)	(803)	(803)
Put option to buy	332	332	8	8
Put option to sell	(332)	(332)	(8)	(8)
Interest rate swap contract	—	—	(802)	(802)
Interest rate floor contract	382	382	93	93

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

27. Fair Value of Financial Instruments — (Continued)***Cash and Due from Banks and Federal Funds Sold***

The fair value of cash and due from banks and federal funds sold approximates the carrying value.

Securities Purchased Under Agreements to Resell

The fair value of securities purchased under agreements to resell with original maturities of 90 days or less approximates the carrying value due to the short-term nature of these instruments. The fair value of securities purchased under agreements to resell with original maturities of greater than 90 days is estimated by discounting future cash flows using current market rates and takes into consideration the expected maturity or repricing dates and any call features.

Investment and Mortgage-Backed Securities

The fair value of investments and mortgage-backed securities equals quoted market price, if available. If a quoted market price is not available, the fair value is estimated using either quoted market prices for similar securities or based on valuations obtained from outside service providers, which generally have as inputs (as applicable) interest rate yield curves, forecasted credit default rates, prepayment rates and discount rates commensurate with the rates used by unrelated third parties.

Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Other Equity Investments

The fair value of Federal Home Loan Bank stock approximates the carrying value, which is based on the redemption provisions of the Federal Home Loan Bank. The fair value of Federal Reserve Bank stock approximates the carrying value, which is based on the redemption provisions of the Federal Reserve Bank. The fair value of other equity investments is carrying value or reported value.

Loans Held for Sale

The fair value of commercial real estate loans and multifamily loans held for sale is estimated based on recent market loan sale pricing of like sales, prevailing market interest rates, as well as weighted average maturity, weighted average life, and conditional prepayment rates. SBA loans held for sale fair value is estimated based on recent historical loan sales.

Loans Held in Portfolio

The fair value of loans held in portfolio is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings at the same remaining maturities. In addition, the allowance for loan losses was considered a reasonable adjustment for credit risk for the entire portfolio.

Accrued Interest Receivable

The fair value of accrued interest receivable approximates the carrying value.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, ancillary income, servicing costs and discount rates that UCB believes market participants would use for similar assets.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

27. Fair Value of Financial Instruments — (Continued)

Deposits

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting forecasted future cash flows using the rates currently offered for deposits of similar remaining maturities.

Securities Sold Under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase with original maturities of 90 days or less approximates the carrying value due to the short-term nature of these instruments. The fair value of securities sold under agreements to repurchase with original maturities greater than 90 days is estimated by discounting future cash flows using estimated market discount rates and takes into consideration the expected maturity or repricing dates and any call features.

Federal Home Loan Bank Advances and Other Borrowings

The fair value of Federal Home Loan Bank advances and other borrowings is estimated by discounting future cash flows at the rates currently being offered for advances with similar remaining maturities.

Subordinated Debentures

The fair value of UCBH's junior subordinated debentures is calculated by discounting future cash flows at rates estimated for recently issued similar debt instruments.

Accrued Interest Payable

The fair value of accrued interest payable approximates the carrying value.

Other Assets and Liabilities

The fair value of customer liabilities on acceptances and acceptances outstanding approximates the carrying value.

Derivative Instruments

The fair value of derivative instruments are based on quoted market prices of similar instruments.

Commitments to Extend Credit, Letters of Credit, Commitments to Purchase Loans, Securities Sold but not Owned, and Options on Interest Rate Futures

The fair value of commitments to extend credit and letters of credit are deemed to be at or near zero due to contractual terms being equated to market terms. The fair values for securities sold but not owned and options on interest rate futures are based on quoted market prices or dealer quotes. The carrying amounts of such investments are considered to be substantially equivalent to fair value.

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

28. Supplemental Cash Flow Information

The supplemental cash flow information for the years ended December 31, 2007, 2006 and 2005, was as follows (dollars in thousands):

	2007	2006	2005
Cash paid during the period for:			
Interest	\$ 376,610	\$ 262,645	\$ 155,439
Income taxes	59,096	56,618	35,234
Noncash investing and financing activities:			
Stock warrants acquired with issuance of commercial loans	\$ —	\$ (129)	\$ (129)
Income tax benefit from stock options exercised	—	—	3,813
Common stock issued for:			
Acquisition of CAB Holding, LLC	66,146	—	—
Acquisition of Summit Bank Corporation	—	85,786	—
Acquisition of Pacifica Bancorp, Inc.	—	—	21,092
Acquisition of Asian American Bank & Trust Company	—	—	15,624
Acquisition of Business Development Bank Ltd.:			
Fair value of assets acquired	274,031	—	—
Fair value of liabilities assumed	196,426	—	—
Acquisition of CAB Holding, LLC:			
Fair value of assets acquired	453,453	—	—
Fair value of liabilities assumed	320,882	—	—
Acquisition of Summit Bank Corporation:			
Fair value of assets acquired	—	934,482	—
Fair value of liabilities assumed	—	759,787	—
Acquisition of Pacifica Bancorp, Inc.			
Fair value of assets acquired	—	—	202,045
Fair value of liabilities assumed	—	—	160,436
Acquisition of Asian American Bank & Trust Company Fair			
value of assets acquired	—	—	153,552
Fair value of liabilities assumed	—	—	118,953
Transfer of loans from held for sale to held in portfolio	(79,100)	(87,479)	(252,569)
Transfer of loans to held for sale from held in portfolio	207,015	434,285	264,819
Transfer of other real estate owned to other assets from loans			
held in portfolio	1,585	244	—
Loan securitizations:			
Loans originated in held in portfolio sold	579,331	176,143	—
Mortgage-backed securities acquired	(578,129)	(174,721)	—
Mortgage servicing rights acquired	(1,202)	(1,422)	—

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

29. Segment Information

The Company designates the internal organization that is used by management for making operating decisions and assessing performance as the source of its reportable segments. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. The Company has determined that it has two reportable segments, "Domestic Banking" and "Other". "Other" segment consists of the Company's Hong Kong operations, UCBIS, UCB Securities Corporation, UCB China Ltd and UCB Asset Management, Inc. The "UCBH Holdings, Inc." column consists of UCBH, which reflects the holding company activities. The intersegment column consists of the UCBH and UCB elimination units, which reflects the elimination of intersegment transactions. Substantially all interest income was earned in the United States and in Hong Kong, China. The determination of interest income earned by country is impracticable and is not disclosed.

The segment information as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

	<u>Domestic Banking</u>	<u>Other</u>	<u>Total Segments</u>	<u>UCBH Holdings, Inc.</u>	<u>Intersegment</u>	<u>Consolidated</u>
Year ended December 31,						
2007:						
Total interest and dividend income	\$ 664,161	\$ 99,985	\$ 764,146	\$ 3	\$ (57,801)	\$ 706,348
Total interest expense	(336,566)	(84,678)	(421,244)	(20,317)	57,801	(383,760)
Net interest income (expense)	327,595	15,307	342,902	(20,314)	—	322,588
Core deposit intangible impairment loss	(363)	—	(363)	—	—	(363)
Income tax benefit (expense)	(60,823)	(1,829)	(62,652)	9,705	(1)	(52,948)
Net income (loss)	113,411	5,852	119,263	102,308	(119,263)	102,308
As of December 31, 2007:						
Loans held in portfolio	7,044,595	787,555	7,832,150	—	—	7,832,150
Goodwill	301,269	135,337	436,606	—	—	436,606
Core deposit intangible, net	22,196	330	22,526	—	—	22,526
Total assets	10,473,022	2,437,088	12,910,110	1,291,739	(2,398,283)	11,803,566
Total deposits	6,664,762	1,149,757	7,814,519	—	(33,279)	7,781,240
Year ended December 31,						
2006:						
Total interest and dividend income	519,171	25,456	544,627	—	(9,614)	535,013
Total interest expense	(250,756)	(17,739)	(268,495)	(12,199)	9,614	(271,080)
Net interest income (expense)	268,415	7,717	276,132	(12,199)	—	263,933
Core deposit intangible impairment loss	(324)	—	(324)	—	—	(324)
Income tax benefit (expense)	(55,212)	(465)	(55,677)	4,740	—	(50,937)
Net income (loss)	111,393	257	111,650	100,877	(111,650)	100,877
As of December 31, 2006:						
Loans held in portfolio	6,134,231	501,429	6,635,660	—	—	6,635,660
Goodwill	226,780	—	226,780	—	—	226,780
Core deposit intangible, net	28,325	—	28,235	—	—	28,235
Total assets	10,104,907	797,588	10,902,495	1,035,495	(1,591,576)	10,346,414
Total deposits	6,306,789	918,224	7,225,013	—	(22,168)	7,202,845
Year ended December 31,						
2005:						
Total interest and dividend income	397,771	7,311	405,082	—	(2,682)	402,400
Total interest expense	(152,976)	(2,237)	(155,213)	(9,379)	2,682	(161,910)
Net interest income (expense)	244,795	5,074	249,869	(9,379)	—	240,490
Core deposit intangible impairment loss	(203)	—	(203)	—	—	(203)

Income tax benefit (expense)	(52,099)	182	(51,917)	5,573	—	(46,344)
Net income (loss)	110,881	1,321	112,202	97,826	(112,202)	97,826

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

30. Parent Company

The unconsolidated balance sheets of UCBH Holdings, Inc. at December 31, 2007 and 2006, were as follows (dollars in thousands):

BALANCE SHEETS

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and due from banks	\$ 18,114	\$ 11,496
Other equity investments	3,433	3,182
Equipment, net	122	178
Investment in subsidiary	1,259,949	1,013,437
Other assets	10,121	7,202
Total assets	<u>\$ 1,291,739</u>	<u>\$ 1,035,495</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued interest payable	\$ 3,409	\$ 2,375
Short-term borrowings	35,000	—
Subordinated debentures	281,615	240,549
Other liabilities	4,612	6,500
Total liabilities	<u>324,636</u>	<u>249,424</u>
Common stock	1,044	994
Additional paid-in capital	427,474	341,616
Retained earnings	554,568	464,616
Accumulated other comprehensive loss	(15,983)	(21,155)
Total stockholders' equity	<u>967,103</u>	<u>786,071</u>
Total liabilities and stockholders' equity	<u>\$ 1,291,739</u>	<u>\$ 1,035,495</u>

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

30. Parent Company — (Continued)

The unconsolidated statements of operations of UCBH Holdings, Inc. for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

STATEMENTS OF OPERATIONS

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income:			
Dividends from subsidiary	\$ 21,500	\$ 7,500	\$ 30,000
Acquisition termination fee	—	5,000	—
Other income	<u>3</u>	<u>15</u>	<u>—</u>
Total income	<u>21,503</u>	<u>12,515</u>	<u>30,000</u>
Expense:			
Interest expense on junior subordinated debentures	20,157	12,106	9,353
Loss on extinguishment of subordinated debentures	—	—	1,196
Other general and administrative	<u>4,348</u>	<u>7,099</u>	<u>6,788</u>
Total expense	<u>24,505</u>	<u>19,205</u>	<u>17,337</u>
Income (loss) before income tax benefit and equity in undistributed net income of subsidiary	(3,002)	(6,690)	12,663
Income tax benefit	9,705	4,740	5,573
Equity in undistributed net income of subsidiary	<u>95,605</u>	<u>102,827</u>	<u>79,590</u>
Net income	<u><u>\$ 102,308</u></u>	<u><u>\$ 100,877</u></u>	<u><u>\$ 97,826</u></u>

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

30. Parent Company — (Continued)

The unconsolidated statements of cash flows of UCBH Holdings, Inc. for the years ended December 31, 2007, 2006 and 2005, were as follows (dollars in thousands):

STATEMENTS OF CASH FLOWS

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:			
Net income	\$ 102,308	\$ 100,877	\$ 97,826
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(95,605)	(102,827)	(79,590)
Loss on extinguishment of subordinated debenture	—	—	1,196
Depreciation expense	56	67	70
Amortization of purchase premiums	(172)	—	—
Amortization of subordinated debenture fees	357	122	165
Loss on sale of equipment	—	14	—
Excess tax benefit from stock option exercises	(5,115)	(2,007)	—
Changes in operating assets and liabilities:			
Decrease in other assets	1,839	6,754	13,935
Increase in accrued interest payable	1,034	1,262	12
Decrease in other liabilities	(262)	(320)	(246)
Net cash provided by operating activities	<u>4,440</u>	<u>3,942</u>	<u>33,368</u>
Cash flows from investing activities:			
Cash acquired from Summit Bank Corporation acquisition	—	39	—
Capital contribution to subsidiaries	(77,288)	(77,326)	(30,200)
Equity investment purchase	(251)	(406)	(2,753)
Purchases of equipment	—	(162)	(111)
Proceeds from sale of equipment	—	14	—
Net cash used in investing activities	<u>(77,539)</u>	<u>(77,841)</u>	<u>(33,064)</u>
Cash flows from financing activities:			
Net increase in short-term borrowings	35,000	—	—
Proceeds from stock option exercises	10,572	4,374	3,863
Proceeds from issuance of subordinated debentures	41,238	77,321	40,000
Redemption of subordinated debenture	—	—	(30,000)
Excess tax benefit from stock option exercises	5,115	2,007	—
Payment of cash dividend on common stock	(12,208)	(10,849)	(8,700)
Net cash provided by financing activities	<u>79,717</u>	<u>72,853</u>	<u>5,163</u>
Net (decrease) increase in cash and cash equivalents	6,618	(1,046)	5,467
Cash and cash equivalents beginning of year	<u>11,496</u>	<u>12,542</u>	<u>7,075</u>
Cash and cash equivalents end of year	<u><u>\$ 18,114</u></u>	<u><u>\$ 11,496</u></u>	<u><u>\$ 12,542</u></u>

[Table of Contents](#)

UCBH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

31. Unaudited Quarterly Condensed Consolidated Financial Information

The summarized unaudited quarterly supplemental consolidated financial information for the years ended December 31, 2007 and 2006, was as follows (dollars in thousands, except for earnings per share data):

	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
2007:				
Total interest and dividend income	\$ 185,936	\$ 182,751	\$ 173,715	\$ 163,946
Total interest expense	(99,837)	(98,827)	(94,980)	(90,116)
Net interest income	86,099	83,924	78,735	73,830
Recovery of (provision for) loan losses	(14,025)	(3,010)	(2,098)	(1,048)
Noninterest income	(2,522)	10,822	9,924	12,445
Noninterest expense	(47,526)	(43,578)	(42,821)	(43,895)
Income before income tax expense	22,026	48,158	43,740	41,332
Income tax expense	(5,780)	(17,337)	(15,530)	(14,301)
Net income	<u>\$ 16,246</u>	<u>\$ 30,821</u>	<u>\$ 28,210</u>	<u>\$ 27,031</u>
Earnings per share				
Basic	\$ 0.16	\$ 0.30	\$ 0.28	\$ 0.27
Diluted	\$ 0.15	\$ 0.29	\$ 0.27	\$ 0.26
2006:				
Total interest and dividend income	\$ 142,663	\$ 137,892	\$ 131,006	\$ 123,452
Total interest expense	(76,484)	(71,768)	(64,956)	(57,872)
Net interest income	66,179	66,124	66,050	65,580
Recovery of (provision for) loan losses	(1,350)	(936)	(1,249)	(307)
Noninterest income	11,969	10,968	10,129	14,077
Noninterest expense	(38,122)	(37,419)	(37,131)	(42,748)
Income before income tax expense	38,676	38,737	37,799	36,602
Income tax expense	(12,194)	(13,167)	(12,393)	(13,183)
Net income	<u>\$ 26,482</u>	<u>\$ 25,570</u>	<u>\$ 25,406</u>	<u>\$ 23,419</u>
Earnings per share:				
Basic	\$ 0.28	\$ 0.27	\$ 0.27	\$ 0.25
Diluted	\$ 0.27	\$ 0.26	\$ 0.26	\$ 0.24

32. Subsequent Events

On January 24, 2008, UCBH's Board of Directors declared a quarterly cash dividend of \$0.04 per share of common stock. The dividend will be paid on April 11, 2008, to stockholders of record as of March 31, 2008.

[Table of Contents](#)**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. *Controls and Procedures***Disclosure Controls and Procedures**

UCBH Holdings, Inc. (the “Company”) has carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2007. As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2007.

Management’s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by or under the supervision of a company’s principal executive and principal financial officers, and effected by a company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. It includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of a company are being made only in accordance with authorizations of management and board of directors of a company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company’s assets that could have a material effect on its financial statements.

Management of the Company has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2007. In making its assessment of internal control, management used the criteria described in “Internal Control — Integrated Framework” issued by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission.

As a result of its assessment, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2007.

In conducting an assessment of the effectiveness of the Company’s internal control over financial reporting, the Company has excluded the acquisition of Business Development Bank Ltd. from management’s report on internal control over financial reporting. The Business Development Bank Ltd. acquisition was completed on December 11, 2007, and constituted 2.9% and 0.2% of the total assets and revenues, respectively, of the Company as of December 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

[Table of Contents](#)

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report incorporated by reference into Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

The Company has made no change in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting during the quarter ended December 31, 2007.

Item 9B. Other Information

None.

[Table of Contents](#)**PART III****Item 10. *Directors and Executive Officers of the Registrant***

The information required by this item with respect to our executive officers, directors, the audit committee financial expert and the Audit Committee is incorporated by reference from the information contained in the section captioned “Election of Directors”, “Executive Officers” and “Board Meeting and Committees — Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Stockholders.

The information required by this item with respect to the Company’s Code of Conduct is incorporated by reference from the information contained in the section captioned “Corporate Governance — Code of Conduct” in the Proxy Statement. The Code of Conduct is publicly available on our website at www.ucbh.com. If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer or Corporate Controller, we will disclose the nature of such amendment or waiver on that website.

Item 11. *Executive Compensation*

The information required by this item with respect to our named executive officers is incorporated by reference from the information contained in the sections captioned “Board Meetings and Committees — Executive Compensation, Summary Compensation Table, Employment and Change in Control Agreements, Option Grants and Executive Deferred Compensation” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Stockholders.

The information required by this item with respect to the compensation of our directors is incorporated by reference from the information contained in the sections captioned “Board Meetings and Committees — Director Compensation and Director Deferred Compensation Plan” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Stockholders.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference from the information contained in the sections captioned “Board Meetings and Committees - Security Ownership of Certain Beneficial Owners” and “Election of Directors” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Stockholders. For information on the Company’s equity compensation plans, see Note 21 to the Consolidated Financial Statements.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated by reference from the information contained in the section captioned “Related Party Transactions” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Shareholders

Item 14. *Principal Accounting Fees and Services*

The information required by this item is incorporated by reference from the information contained in the sections captioned “Ratification of Selection of Independent Auditors — Independent Auditor Fees” in the Company’s definitive Proxy Statement for the May 22, 2008, Annual Meeting of Shareholders.

[Table of Contents](#)**PART IV****Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this report.

1. The following consolidated financial statements of UCBH Holdings, Inc. and subsidiaries are filed as part of this report under Item 8 — Financial Statements and Supplementary Data:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	75
Consolidated Balance Sheets as of December 31, 2007 and 2006	77
Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005	78
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2007, 2006 and 2005	79
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	80
Notes to Consolidated Financial Statements	81

2. All other financial schedules are omitted due to the required information is not applicable, or contained in the Consolidated Financial Statements or the notes thereto.

3. Exhibits:

Index to Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>				<u>Filed Herewith</u>
		<u>Form</u>	<u>File No.</u>	<u>Exhibit</u>	<u>Filing Date</u>	
2.1	Agreement and Plan of Merger by and among UCBH Holdings, Inc. ("Buyer"), UCBH Merger Sub, Inc., a wholly owned subsidiary of Buyer, and Pacifica Bancorp, Inc. dated May 23, 2005	10-Q	000-24947	2.1	August 9, 2005	
2.2	Agreement and Plan of Merger by and among UCBH Holdings, Inc. ("Buyer"), United Commercial Bank, a wholly owned subsidiary of Buyer, and Asian American Bank & Trust Company dated August 2, 2005	10-Q	000-24947	2.2	November 9, 2005	
2.3	Agreement and Plan of Merger by and among UCBH Holdings, Inc. ("Buyer"), United Commercial Bank, a wholly owned subsidiary of Buyer, and Great Eastern Bank dated October 13, 2005	S-4	000-24947	2.1	December 12, 2005	
2.4	Agreement and Plan of Merger by and among UCBH Holdings, Inc. ("Buyer"), UCB Merger, LLC, a wholly owned subsidiary of Buyer, and Summit Bank Corporation dated September 18, 2006	10-Q	000-24947	2.4	November 14, 2006	
2.5	Agreement and Plan of Merger by and among UCBH Holdings, Inc. ("Buyer"), UCB Merger II, LLC, a wholly owned subsidiary of Buyer, CAB Holding, LLC, CAB International Holding Limited, and Dr. Paul Shi H. Huang dated January 10, 2007	10-Q	000-24947	2.5	May 10, 2007	

[Table of Contents](#)

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.6	Sale and Purchase Agreement among United Commercial Bank, Charoen Pokphand Group Co., Ltd., M. Thai Group Limited and DEG — Deutsche Investitions und Entwicklungsgesellschaft mbH dated March 26, 2007	10-Q	000-24947	2.6	May 10, 2007	
2.7	Agreement for Transfer of Equity Interest in Business Development Bank Limited by and among Kasikornbank Public Co., Ltd., Charoen Pokphand Group Company Limited, and United Commercial Bank dated March 26, 2007	10-Q	000-24947	2.7	May 10, 2007	
3.1	Second Amended and Restated Certificate of Incorporation of UCBH Holdings, Inc.	10-Q	000-24947	3.1	May 10, 2004	
3.2	Amended and Restated Bylaws of UCBH Holdings, Inc., as amended and restated	8-K	000-24947	3.1	March 29, 2007	
3.3	Certificate of Designation, Preferences and Rights of Series A Participating Preferred Stock (filed as Exhibit A to Exhibit 4.7 hereto)	8-K	000-24947	1	January 29, 2003	
4.0	Form of Stock Certificate of UCBH Holdings, Inc.	S-1	333-58325	4.0	July 1, 1998	
4.1	Indenture of UCBH Holdings, Inc., dated April 17, 1998, between UCBH Holdings, Inc. and Wilmington Trust Company, as trustee	S-4	333-58335	4.1	July 1, 1998	
4.2	Form of Certificate of Series B Junior Subordinated Debenture	S-4	333-58335	4.2	July 1, 1998	
4.3	Certificate of Trust of UCBH Trust Co.	S-4	333-58335	4.3	July 1, 1998	
4.4	Amended and Restated Declaration of Trust of UCBH Trust Co.	S-4	333-58335	4.4	July 1, 1998	
4.5	Form of Series B Capital Security Certificate for UCBH Trust Co.	S-4	333-58335	4.5	July 1, 1998	
4.6	Form of Series B Guarantee of the Company relating to the Series B Capital Securities	S-4	333-58335	4.6	July 1, 1998	
4.7	Rights Agreement dated as of January 28, 2003	8-K	000-24947	1	January 29, 2003	
4.8	Indenture of UCBH Holdings, Inc., dated September 22, 2005, between UCBH Holdings, Inc. and Wilmington Trust Company, as trustee	10-Q	000-24947	2.2	November 9, 2005	
4.9	Indenture between UCBH Holdings, Inc. and Wilmington Trust Company, as trustee, dated December 15, 2006	10-K	000-24947	4.9	March 1, 2007	
4.10	Junior subordinated indenture between UCBH Holdings, Inc. and Wilmington Trust Company, as trustee, dated December 28, 2006	10-K	000-24947	4.10	March 1, 2007	
4.11	Junior Subordinated Indenture between Summit Bank Corporation and The Bank of New York, as trustee, dated September 30, 2003	10-K	000-24947	4.11	March 1, 2007	
4.12	Registration Rights, Lockup and Standstill Agreement by and among UCBH Holdings, Inc., CAB International Holding Limited and Dr. Paul Shi H. Huang	10-Q	000-24947	4.12	May 10, 2007	

[Table of Contents](#)

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.13	Floating Rate Junior Subordinated Debentures between United Commercial Bank and Wilmington Trust Company, as Trustee, dated June 21, 2007	10-Q	000-24947	4.13	August 9, 2007	
10.1	Employment Agreement between UCBH Holdings, Inc., United Commercial Bank and Thomas S. Wu	10-Q	000-24947	10.1	November 9, 2004	
10.2	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and Jonathan H. Downing	8-K	000-24947	10.2	June 13, 2005	
10.3	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and Sylvia Loh as well as certain other Executive Vice Presidents of UCBH Holdings, Inc. or United Commercial Bank	10-Q	000-24947	10.3	November 9, 2004	
10.4	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and Ka Wah (Tony) Tsui and certain other Executive Vice Presidents of UCBH Holdings, Inc. or United Commercial Bank	8-K	000-24947	10.1	May 2, 2007	
10.5	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and Daniel Gautsch	8-K	000-24947	10.1	June 8, 2005	
10.6	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and Dennis Wu	8-K	000-24947	10.1	June 13, 2005	
10.7	Form of Change in Control Agreement among UCBH Holdings, Inc., United Commercial Bank and certain Senior Vice Presidents of UCBH Holdings, Inc. or United Commercial Bank	8-K	000-24947	10.1	August 15, 2007	
10.8	UCBH Holdings, Inc. Amended and Restated 2006 Equity Incentive Plan, (formerly known as UCBH Holdings, Inc. 2006 Equity Incentive Plan)	S-8	333-143774	4.2	June 15, 2007	
10.9	UCBH Holdings, Inc. Senior Executive Annual Incentive Plan	10-Q	000-24947	10.9	August 9, 2006	
10.10	Form of Indemnification Agreement of UCBH Holdings, Inc.	8-K	000-24947	10.2	August 15, 2007	
10.11	Form of Indemnification Agreement of United Commercial Bank.	8-K	000-24947	10.3	August 15, 2007	
10.12	Post Retirement Compensation Agreement between Pin Pin Chau, Chief Executive Officer of Summit Bank Corporation, and Summit Bank Corporation dated December 20, 2004	10-K	000-24947	10.12	March 1, 2007	
10.13	China Minsheng Banking Corp., Ltd. and UCBH Holdings, Inc. Investment Agreement					
14.1	Code of Conduct, as amended on August 14, 2004.	8-K	000-24947	14.1	September 1, 2004	
21.0	Subsidiaries of UCBH Holdings, Inc.					ü
23.1	Consent of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP					ü

[Table of Contents](#)

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certificate pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, signed and dated by Thomas S. Wu.					ii
31.2	Certificate pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, signed and dated by Dennis Wu.					ii
32.0	Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by Thomas S. Wu and Dennis Wu.					(1)

(1) Furnished herewith

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

UCBH HOLDINGS, INC.

Date: February 28, 2008

/s/ Thomas S. Wu
 Thomas S. Wu
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)

Date: February 28, 2008

/s/ Dennis Wu
 Dennis Wu
 Director, Executive Vice President and Chief
 Financial Officer
 (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ Thomas S. Wu</u> Thomas S. Wu	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 28, 2008
<u>/s/ Dennis Wu</u> Dennis Wu	Director, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2008
<u>/s/ Pin Pin Chau</u> Pin Pin Chau	Director	February 28, 2008
<u>/s/ Joseph J. Jou</u> Joseph J. Jou	Lead Director	February 28, 2008
<u>/s/ Li-Lin Ko</u> Li-Lin Ko	Director	February 28, 2008
<u>/s/ James Kwok</u> James Kwok	Director	February 28, 2008
<u>/s/ David S. Ng</u> David S. Ng	Director	February 28, 2008
<u>/s/ Richard Li-Chung Wang</u> Richard Li-Chung Wang	Director	February 28, 2008
<u>/s/ Dr. Godwin Wong</u> Dr. Godwin Wong	Director	February 28, 2008