# WIBC 10-Q 9/30/2008

# Section 1: 10-Q (10-Q)

Table of Contents

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

# FORM 10-Q

**(Mark One)**

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended September 30, 2008.**

**OR**

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from to**

**Commission File Number 000-50923**

# WILSHIRE BANCORP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **California**<br>State or other jurisdiction of incorporation or organization | **20-0711133**<br>I.R.S. Employer Identification Number |
| **3200 Wilshire Blvd.**<br>**Los Angeles, California**<br>Address of principal executive offices | **90010**<br>Zip Code |

**(213) 387-3200**
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, no par value**

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 number of shares of Common Stock of the registrant outstanding as of October 31, 2008 was 29,401,757.

Table of Contents

**FORM 10-Q**

**INDEX**

**WILSHIRE BANCORP, INC.**





Table of Contents

**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**WILSHIRE BANCORP, INC.**
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (DOLLARS IN THOUSANDS)**

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 54,017 | $ 82,506 |
| Federal funds sold and other cash equivalents | 3 | 10,003 |
| Cash and cash equivalents | 54,020 | 92,509 |
| | | |
| Securities available for sale, at fair value (amortized cost of $228,287 and $223,933 at September 30, 2008 and December 31, 2007, respectively) | 227,957 | 224,256 |
| Securities held to maturity, at amortized cost (fair value of $134 and $7,372 at September 30, 2008 and December 31, 2007, respectively) | 143 | 7,384 |
| Loans receivable, net of allowance for loan losses of $25,950 and $21,579 at September 30, 2008 and December 31, 2007, respectively | 1,998,147 | 1,779,558 |
| Loans held for sale—at the lower of cost or market | 10,231 | 7,912 |
| Federal Home Loan Bank stock, at cost | 15,245 | 8,695 |

| | | |
|---|---|---|
| Other real estate owned | 1,453 | 133 |
| Due from customers on acceptances | 2,896 | 3,377 |
| Cash surrender value of bank owned life insurance | 17,200 | 16,228 |
| Investment in affordable housing partnerships | 8,538 | 6,222 |
| Bank premises and equipment | 11,377 | 10,960 |
| Accrued interest receivable | 10,168 | 10,062 |
| Deferred income taxes | 10,570 | 9,151 |
| Servicing assets | 4,986 | 4,950 |
| Goodwill | 6,675 | 6,675 |
| Other intangible assets | 1,363 | 1,587 |
| Other assets | 6,166 | 7,046 |
| TOTAL | $ 2,387,135 | $ 2,196,705 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest bearing | $ 295,451 | $ 314,114 |
| Interest bearing: | | |
| Savings | 42,677 | 31,812 |
| Money market checking and NOW accounts | 469,288 | 485,547 |
| Time deposits of $100,000 or more | 765,311 | 788,883 |
| Other time deposits | 215,036 | 142,715 |
| Total deposits | 1,787,763 | 1,763,071 |
| | | |
| Federal Home Loan Bank borrowings | 300,000 | 150,000 |
| Junior subordinated debentures | 87,321 | 87,321 |
| Accrued interest payable | 7,914 | 10,440 |
| Acceptances outstanding | 2,896 | 3,377 |
| Other liabilities | 13,361 | 10,710 |
| Total liabilities | 2,199,255 | 2,024,919 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 7) | | |
| | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, no par value—authorized, 5,000,000 shares; issued and outstanding, none | | |
| Common stock, no par value—authorized, 80,000,000 shares; issued and outstanding, 29,401,757 shares and 29,253,311 shares at September 30, 2008 and December 31, 2007, respectively | 52,256 | 50,895 |
| Accumulated other comprehensive income, net of tax expense | 46 | 375 |
| Retained earnings | 136,840 | 121,778 |
| | 189,142 | 173,048 |
| Less: Treasury stock, at cost, 127,425 shares at September 30, 2008 and December 31, 2007 | (1,262) | (1,262) |
| Total shareholders' equity | 187,880 | 171,786 |
| TOTAL | $ 2,387,135 | $ 2,196,705 |

See accompanying notes to consolidated financial statements.



Table of Contents

**WILSHIRE BANCORP, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**
**(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| INTEREST INCOME: | | | | |
| Interest and fees on loans | $ 34,719 | $ 37,093 | $ 104,014 | $ 107,578 |
| Interest on investment securities | 2,798 | 2,698 | 8,021 | 7,334 |
| Interest on federal funds sold | 63 | 678 | 192 | 2,766 |
| Total interest income | 37,580 | 40,469 | 112,227 | 117,678 |
| | | | | |
| INTEREST EXPENSE: | | | | |
| Interest on deposits | 12,469 | 17,763 | 40,071 | 52,369 |
| Interest on FHLB advances and other borrowings | 2,570 | 212 | 6,969 | 598 |
| Interest on junior subordinated debentures | 1,127 | 1,556 | 3,696 | 3,829 |
| Total interest expense | 16,166 | 19,531 | 50,736 | 56,796 |

| | | | | |
|---|---|---|---|---|
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES AND LOAN COMMITMENTS | 21,414 | 20,938 | 61,491 | 60,882 |
| PROVISION FOR LOSSES ON LOANS AND LOAN COMMITMENTS | 3,400 | 4,100 | 6,200 | 10,230 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES AND LOAN COMMITMENTS | 18,014 | 16,838 | 55,291 | 50,652 |
| NON-INTEREST INCOME: | | | | |
| Service charges on deposit accounts | 3,125 | 2,398 | 8,916 | 7,189 |
| Gain on sale of loans | 410 | 1,584 | 2,192 | 5,727 |
| Loan-related servicing fees | 891 | 517 | 2,338 | 1,502 |
| Income from other earning assets | 398 | 293 | 1,108 | 846 |
| Other income | 521 | 436 | 1,551 | 1,429 |
| Total noninterest income | 5,345 | 5,228 | 16,105 | 16,693 |
| NON-INTEREST EXPENSES: | | | | |
| Salaries and employee benefits | 6,718 | 5,827 | 21,349 | 17,228 |
| Occupancy and equipment | 1,576 | 1,317 | 4,493 | 3,887 |
| Data processing | 785 | 817 | 2,320 | 2,327 |
| Outsourced service for customer | 376 | 492 | 1,218 | 1,315 |
| Professional fees | 605 | 391 | 1,559 | 970 |
| Deposit insurance premiums | 279 | 276 | 907 | 648 |
| Other operating | 1,968 | 1,927 | 5,239 | 5,780 |
| Total noninterest expenses | 12,307 | 11,047 | 37,085 | 32,155 |
| INCOME BEFORE INCOME TAXES | 11,052 | 11,019 | 34,311 | 35,190 |
| INCOME TAXES | 4,184 | 4,375 | 12,964 | 13,883 |
| NET INCOME | $ 6,868 | $ 6,644 | $ 21,347 | $ 21,307 |
| EARNINGS PER SHARE: | | | | |
| Basic | $ 0.23 | $ 0.23 | $ 0.73 | $ 0.73 |
| Diluted | $ 0.23 | $ 0.23 | $ 0.73 | $ 0.72 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| Basic | 29,397,182 | 29,350,499 | 29,355,231 | 29,355,694 |
| Diluted | 29,508,503 | 29,454,770 | 29,402,212 | 29,469,717 |

See accompanying notes to consolidated financial statements.



Table of Contents

**WILSHIRE BANCORP, INC.**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**
**(DOLLARS IN THOUSANDS)**

| | Common Stock | | | | Accumulated | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross Shares Issued and Outstanding | Treasury Shares | Shares Outstanding | Amount | Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity |
| BALANCE—January 1, 2007 | 29,197,420 | | 29,197,420 | $ 49,123 | $ (408) | $ 100,920 | $ — | $ 149,635 |
| Stock options exercised | 174,276 | | 174,276 | 115 | | | | 115 |
| Cash dividend declared | | | | | | (4,403) | | (4,403) |
| Share-based compensation expense | | | | 287 | | | | 287 |
| Tax benefit from stock options exercised | | | | 1,286 | | | | 1,286 |
| Stock repurchase | | (39,625) | (39,625) | | | | (410) | (410) |
| Cumulative impact of change in accounting for uncertainties in income taxes | | | | | | (162) | | (162) |
| Cumulative impact of change in accounting for fair valuation method adoption | | | | | | 80 | | 80 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 21,307 | | 21,307 |
| Other comprehensive income: | | | | | | | | |
| Change in unrealized gain on interest-only strips | | | | | 95 | | | 95 |
| Change in unrealized gain on securities available for sale | | | | | 318 | | | 318 |
| Comprehensive income | | | | | | | | $ 21,720 |
| BALANCE—September 30, 2007 | 29,371,696 | (39,625) | 29,332,071 | $ 50,811 | $ 5 | $ 117,742 | $ (410) | $ 168,148 |

| | Common Stock | | | | Accumulated | | | |
|---|---|---|---|---|---|---|---|---|

| | Gross Shares Issued and Outstanding | Treasury Shares | Shares Outstanding | Amount | Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| BALANCE—January 1, 2008 | 29,380,736 | (127,425) | 29,253,311 | $ 50,895 | $ 375 | $ 121,778 | $ (1,262) | $ 171,786 |
| Stock options exercised | 148,446 | | 148,446 | 415 | | | | 415 |
| Cash dividend declared | | | | | | (4,409) | | (4,409) |
| Share-based compensation expense | | | | 889 | | | | 889 |
| Tax benefit from stock options exercised | | | | 57 | | | | 57 |
| Cumulative impact of change in accounting for postretirement split-dollar accounting | | | | | | (1,876) | | (1,876) |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 21,347 | | 21,347 |
| Other comprehensive income: | | | | | | | | |
| Change in unrealized gain on interest-only strips | | | | | 49 | | | 49 |
| Change in unrealized gain on securities available for sale | | | | | (378) | | | (378) |
| Comprehensive income | | | | | | | | $ 21,018 |
| BALANCE—September 30, 2008 | 29,529,182 | (127,425) | 29,401,757 | $ 52,256 | $ 46 | $ 136,840 | $ (1,262) | $ 187,880 |

See accompanying notes to consolidated financial statements.



Table of Contents

**WILSHIRE BANCORP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 21,347 | $ 21,307 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization (accretion) of investment securities | 777 | (114) |
| Depreciation of bank premises & equipment | 1,340 | 1,205 |
| Amortization of other intangible assets | 223 | 223 |
| Amortization of investments in affordable housing partnerships | 574 | 377 |
| Provision for losses on loans and loan commitments | 6,200 | 10,230 |
| Deferred tax benefit | (1,180) | (24) |
| Loss on disposition of bank premises and equipment | 3 | 9 |
| Net gain on sale of loans | (2,192) | (5,727) |
| Origination of loans held for sale | (50,989) | (115,685) |
| Proceeds from sale of loans held for sale | 50,863 | 115,171 |
| Gain on sale or call of available for sale securities | (3) | — |
| Decrease in fair value of serving assets | 730 | 1,508 |
| Gain on sale of other real estate owned | (17) | (125) |
| Loss on sale of repossessed vehicles | 1 | 32 |
| Share-based compensation expense | 889 | 287 |
| Change in cash surrender value of life insurance | (972) | (444) |
| Servicing assets capitalized | (766) | (1,351) |
| Increase in accrued interest receivable | (106) | (345) |
| Decrease (increase) in other assets | 777 | (3,450) |
| Dividends of Federal Home Loan Bank stock | (470) | (308) |
| Tax benefit from exercise of stock options | (57) | (1,286) |
| Decrease in accrued interest payable | (2,526) | (472) |
| Increase in other liabilities | 1,587 | 593 |
| Net cash provided by operating activities | 26,033 | 21,611 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal repayment, matured or called securities held to maturity | 7,241 | 3,231 |
| Purchase of securities available for sale | (107,599) | (83,110) |
| Proceeds from matured, sale, or called securities available for sale | 102,472 | 56,278 |
| Net increase in loans receivable | (227,728) | (171,295) |
| Proceeds from sale of other loans | — | 5,385 |
| Proceeds from sale of other real estate owned | 875 | 871 |
| Proceeds from sale of repossessed vehicles | 10 | 90 |
| Purchases of investments in affodable housing partnerships | (2,889) | (1,555) |
| Purchases of bank premises and equipment | (1,589) | (1,318) |
| Purchases of Federal Home Loan Bank stock | (6,080) | (732) |
| Proceeds from disposition of bank equipment | 3 | 166 |
| Net cash used in investing activities | (235,284) | (191,989) |

See accompanying notes to consolidated financial statements.

(Continued)



Table of Contents

**WILSHIRE BANCORP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | $ 415 | $ 115 |
| Payment of cash dividend | (4,402) | (4,397) |
| Increase in Federal Home Loan Bank borrowings | 150,000 | 50,000 |
| Tax benefit from exercise of stock options | 57 | 1,286 |
| Net increase (decrease) in deposits | 24,692 | (3,815) |
| Increase in junior subordinated debentures | — | 25,774 |
| Cash paid to acquire treasury stock | — | (410) |
| Net cash provided by financing activities | 170,762 | 68,553 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (38,489) | (101,825) |
| CASH AND CASH EQUIVALENTS—Beginning of period | 92,509 | 205,247 |
| CASH AND CASH EQUIVALENTS—End of period | $ 54,020 | $ 103,422 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Interest paid | $ 53,262 | $ 57,267 |
| Income taxes paid | $ 13,900 | $ 14,510 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: | | |
| Transfer of loans to other real estate owned | $ 2,177 | $ 1,258 |
| Other assets transferred to bank premises and equipment | $ 174 | $ 140 |
| SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES: | | |
| Cash dividend declared, but not paid | $ 1,470 | $ 1,467 |

See accompanying notes to consolidated financial statements.

(Concluded)



Table of Contents

**WILSHIRE BANCORP, INC.**

## Notes to Consolidated Financial Statements

### Note 1. Business of Wilshire Bancorp, Inc.

Wilshire Bancorp, Inc. (hereafter, the "Company," "we," "us," or "our") succeeded to the business and operations of Wilshire State Bank, a California state-chartered commercial bank (the "Bank"), upon consummation of the reorganization of the Bank into a holding company structure, effective as of August 25, 2004. The Bank was incorporated under the laws of the State of California on May 20, 1980 and commenced operations on December 30, 1980. The Company was incorporated in December 2003 as a wholly-owned subsidiary of the Bank for the purpose of facilitating the issuance of trust preferred securities for the Bank and eventually serving as the holding company of the Bank. The Bank's shareholders approved a reorganization into a holding company structure at a meeting held on August 25, 2004. As a result of the reorganization, shareholders of the Bank are now shareholders of the Company, and the Bank is a direct wholly-owned subsidiary of the Company.

Our corporate headquarters and primary banking facilities are located at 3200 Wilshire Boulevard, Los Angeles, California 90010. In addition, we have 21 full-service Bank branch offices in Southern California, Texas, New York and New Jersey. We also have 6 loan production offices utilized primarily for the origination of loans under our Small Business Administration ("SBA") lending program in Colorado, Georgia, Texas, Virginia, and Washington.

**Note 2. Basis of Presentation**

The consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission ("SEC") rules and regulations for interim financial reporting and therefore do not necessarily include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The information provided by these interim financial statements reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the Company's consolidated statements of financial condition as of September 30, 2008 and December 31, 2007, the related statements of operations and shareholders' equity for the three months and nine months ended September 30, 2008 and 2007, and the statements of cash flows for nine months ended September 30, 2008 and 2007. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. To conform to the consolidated financial statements of the prior period to the current period's presentation, we have (i) reclassified change in the fair valuation of servicing assets and liabilities of $333,000 from other non-interest income to loan-related servicing income, and (ii) separately disclosed investment in affordable housing partnerships from other assets, increasing the net cash provided by operating activities and net cash used in investing activities by $1,555,000.

The unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The accounting policies used in the preparation of these interim financial statements were consistent with those used in the preparation of the financial statements for the year ended December 31, 2007.

**Note 3. Fair Value Option and Measurement for Financial Assets and Liabilities**

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Under the statement, the fair value option may be applied instrument by instrument, with only a few exceptions, but may only apply to entire instruments and not to portions of instruments. The fair value option is a one-time election for existing instruments and is irrevocable. The Company adopted SFAS No. 159 as of January 1, 2008. All assets and liabilities are evaluated for eligibility of the fair value option under the statement. Based on the analysis performed, the Company concluded that the fair value option provided by this statement is not elected for any of the existing instruments under its current asset and liability balances. The Company will constantly review the new asset and liability additions on an ongoing basis, and will elect fair value option pursuant to SFAS No. 159 for any new instruments that fall in line with the fair value accounting and reporting.



Table of Contents

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstance. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants in the markets where we conduct business. SFAS No. 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency.

In October 2008, the FASB issued FASB Staff Position ("FSP") SFAS No.157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of SFAS No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. This FSP is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting for as a change in the valuation technique or its application shall be accounted for as a change in accounting estimate under SFAS No. 154, *Accounting Changes and Error Corrections*. However, such revisions shall be exempt from SFAS No. 154 disclosure requirement. The Company adopted FSP SFAS No. 157-3 on its issuance date, October 10, 2008. The adoption of this FSP did not have a material impact on the Company's fair value determination and its consolidated financial statements.

The fair value inputs of the instruments are classified and disclosed in one of the following categories pursuant to SFAS No. 157:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The quoted price shall not be adjusted for the position size.

Level 2 – Pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies, including the use of pricing matrices. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Pricing inputs are inputs unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Company adopted SFAS No. 157 as of January 1, 2008 and FSP SFAS No.157-3 as of October 10, 2008. It used the following methods and assumptions in estimating our fair value disclosure for financial instruments. Financial assets and liabilities recorded at fair value on a recurring basis are listed as follows:

Securities available for sale – Investment in available-for-sale securities is recorded at fair value pursuant to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. The securities available for sale include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities. Our existing investment available-for-sale security holdings as of September 30, 2008 are measured using matrix pricing models in lieu of direct price quotes and recorded based on Level 2 measurement inputs.



Table of Contents

Servicing assets and interest-only strips – Small Business Administration ("SBA") loan servicing assets and interest-only strips represent the value associated with servicing SBA loans sold. The value is determined through a discounted cash flow analysis which uses interest rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management judgment. Adjustments are only made when the discounted cash flows are less than the carrying value. The Company classifies SBA loan servicing assets and interest-only strips as recurring with Level 3 measurement inputs.

Servicing liabilities – SBA loan servicing liabilities represent the value associated with servicing SBA loans sold. The value is determined through a discounted cash flow analysis which uses interest rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management judgment. Adjustments are only made when the discounted cash flows are less than the carrying value. The Company classifies SBA loan servicing liabilities as recurring with Level 3 measurement inputs.

Financial assets and liabilities recorded at fair value on a nonrecurring basis are listed as follows:

Impaired loans – A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral. The fair value is determined through appraisals and other matrix pricing models, which required a significant degree of management judgment. The Company measures impairment on all nonaccrual loans and trouble debt restructured loans, except automobile loans, for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. The Company records impaired loans as nonrecurring with Level 3 measurement inputs.

The table below summarizes the valuation of our investments by the above SFAS No. 157 fair value hierarchy levels as of September 30, 2008:

**Assets Measured at Fair Value**
**(dollars in thousands)**

| | As of September 30, 2008 | | | |
|---|---|---|---|---|
| | | Fair Value Measurements Using: | | |
| | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available for sale securities | $ 227,957 | $ — | $ 227,957 | $ — |
| Servicing assets | 4,986 | — | — | 4,986 |
| Interest-only strips | 658 | — | — | 658 |
| Servicing liabilities | (330) | — | — | (330) |
| Impaired loans | 26,592 | — | — | 26,592 |



Table of Contents

Financial instruments measured at fair value on a recurring basis, which were part of the asset balances that were deemed to have Level 3 fair value inputs when determining valuation, are identified in the table below by asset category with a summary of changes in fair value for the quarter ended September 30, 2008 (dollars in thousands):

| | Realized | Unrealized Gains in Other | Net Purchases | Transfers | At | Net Cumulative |
|---|---|---|---|---|---|---|

| | At June 30, 2008 | Losses in Net Income | Comprehensive Income | Sales and Settlements | In/out of Level 3 | September 30, 2008 | Unrealized Gains |
|---|---|---|---|---|---|---|---|
| Servicing assets | $ 5,039 | $ (197) | $ — | $ 144 | $ — | $ 4,986 | $ — |
| Interest-only strips | 702 | (62) | 18 | — | — | 658 | 237 |
| Servicing liabilities | (349) | 19 | — | — | — | (330) | — |

Financial instruments measured at fair value on a recurring basis, which were part of the asset balances that were deemed to have Level 3 fair value inputs when determining valuation, are identified in the table below by asset category with a summary of changes in fair value for the nine months ended September 30, 2008 (dollars in thousands):

| | At December 31, 2007 | Realized Losses in Net Income | Unrealized Gains in Other Comprehensive Income | Net Purchases Sales and Settlements | Transfers In/out of Level 3 | At September 30, 2008 | Net Cumulative Unrealized Gains |
|---|---|---|---|---|---|---|---|
| Servicing assets | $ 4,950 | $ (730) | $ — | $ 766 | $ — | $ 4,986 | $ — |
| Interest-only strips | 753 | (180) | 85 | — | — | 658 | 237 |
| Servicing liabilities | (379) | 49 | — | — | — | (330) | — |

**Note 4. Bank Owned Life Insurance (BOLI) Obligation**

FASB Emerging Issue Task Force ("EITF") 06-4 requires an employer to recognize obligations associated with endorsement split-dollar life insurance arrangements that extend into the participant's post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. EITF 06-4 is effective as of the beginning of the entity's first fiscal year after December 15, 2007. We adopted EITF 06-4 on January 1, 2008 using the later option, i.e., based on the future death benefit. Upon this adoption, we recognized increases in the liability for unrecognized post-retirement obligations of $806,000 and $1,070,000 for directors and officers, respectively, as a cumulative adjustment to the current year's beginning equity. During the third quarter and the first nine months of 2008, the increases in BOLI expense and liability related to the adoption of EITF 06-4 were $36,000 and $108,000, respectively, which were included as part of the other expense and other liabilities balances in the consolidated financial statements.



Table of Contents

**Note 5. Shareholder's Equity**

***Earnings per Share***

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity. The following table provides the basic and diluted EPS computations for the periods indicated below (dollars in thousands, except per share data):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Numerator: | | | | |
| Net income - numerator for basic earnings per share and diluted earnings per share- income available to common stockholders | $ 6,868 | $ 6,644 | $ 21,347 | $ 21,307 |
| Denominator: | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted-average shares | 29,397,182 | 29,350,499 | 29,355,231 | 29,355,694 |
| Effect of dilutive securities: | | | | |
| Stock option dilution | 111,321 | 104,271 | 46,981 | 114,023 |
| Denominator for diluted earnings per share: | | | | |
| Adjusted weighted-average shares And assumed conversions | 29,508,503 | 29,454,770 | 29,402,212 | 29,469,717 |
| Basic earnings per share | $ 0.23 | $ 0.23 | $ 0.73 | $ 0.73 |
| Diluted earnings per share | $ 0.23 | $ 0.23 | $ 0.73 | $ 0.72 |

***Stock Repurchase Program***

In July 2007, the Company's Board of Directors authorized a stock repurchase program to repurchase up to $10 million of the Company's common stock until July 31, 2008. During 2008, there were no such repurchases. This program completed its term and expired as of July 31, 2008.

**Note 6. Business Segment Information**

The following disclosure about segments of the Company is made in accordance with the requirements of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company segregates its operations into three primary segments: banking operations, trade finance services ("TFS") and Small Business Administration lending services. The Company determines the operating results of each segment based on an internal management system that allocates certain expenses to each segment.

*Banking Operations* - The Company provides lending products, including commercial, consumer and real estate loans to its customers.

*Trade Finance Services* - The trade finance department allows the Company's import/export customers to handle their international transactions. Trade finance products include, among others, the issuance and collection of letters of credit, international collection, and import/export financing.

*Small Business Administration Lending Services* - The SBA department mainly provides customers with access to the U.S. SBA guaranteed lending program.



Table of Contents

The following are the results of operations of the Company's segments for the periods indicated below:

| (dollars in thousands) Business Segment | Three Months Ended September 30, 2008 Banking Operations | TFS | SBA | Total | Three Months Ended September 30, 2007 Banking Operations | TFS | SBA | Total |
|---|---|---|---|---|---|---|---|---|
| Net interest income | $ 18,116 | $ 577 | $ 2,721 | $ 21,414 | $ 16,020 | $ 758 | $ 4,160 | $ 20,938 |
| Less provision (recapture) for credit losses | 2,239 | 595 | 566 | 3,400 | 1,693 | 1,549 | 858 | 4,100 |
| Non-interest income | 4,070 | 312 | 963 | 5,345 | 3,165 | 275 | 1,788 | 5,228 |
| Net revenue | 19,947 | 294 | 3,118 | 23,359 | 17,492 | (516) | 5,090 | 22,066 |
| Non-interest expenses | 11,148 | 293 | 866 | 12,307 | 9,390 | 287 | 1,370 | 11,047 |
| Income before taxes | $ 8,799 | $ 1 | $ 2,252 | $ 11,052 | $ 8,102 | $ (803) | $ 3,720 | $ 11,019 |
| Business segment assets | $ 2,181,042 | $ 49,825 | $ 156,268 | $ 2,387,135 | $ 1,882,810 | $ 46,871 | $ 171,126 | $ 2,100,807 |

| (dollars in thousands) Business Segment | Nine Months Ended September 30, 2008 Banking Operations | TFS | SBA | Total | Nine Months Ended September 30, 2007 Banking Operations | TFS | SBA | Total |
|---|---|---|---|---|---|---|---|---|
| Net interest income | $ 50,725 | $ 1,714 | $ 9,052 | $ 61,491 | $ 45,839 | $ 2,460 | $ 12,583 | $ 60,882 |
| Less provision (recapture) for credit losses | 2,819 | (692) | 4,073 | 6,200 | 5,822 | 3,135 | 1,273 | 10,230 |
| Non-interest income | 11,519 | 853 | 3,733 | 16,105 | 9,626 | 987 | 6,080 | 16,693 |
| Net revenue | 59,425 | 3,259 | 8,712 | 71,396 | 49,643 | 312 | 17,390 | 67,345 |
| Non-interest expenses | 33,541 | 801 | 2,743 | 37,085 | 27,694 | 760 | 3,701 | 32,155 |
| Income before taxes | $ 25,884 | $ 2,458 | $ 5,969 | $ 34,311 | $ 21,949 | $ (448) | $ 13,689 | $ 35,190 |
| Business segment assets | $ 2,181,042 | $ 49,825 | $ 156,268 | $ 2,387,135 | $ 1,882,810 | $ 46,871 | $ 171,126 | $ 2,100,807 |

**Note 7. Commitments and Contingencies**

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Our exposure to credit loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for extending loan facilities to customers. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing properties. Commitments at September 30, 2008 are summarized as follows (dollars in thousands):

| | |
|---|---|
| Commitments to extend credit | $ 168,508 |
| Standby letters of credit | $ 11,345 |
| Commercial letters of credit | $ 11,257 |

In the normal course of business, we are involved in various legal claims. We have reviewed all legal claims against us with counsel and have taken into consideration the views of such counsel as to the outcome of the claims. We do not believe the final disposition of all such claims will have a material adverse effect on our financial position or results of operations.

**Note 8. Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations.* This new statement revises SFAS No. 141, which was issued June 2001. SFAS No. 141R changes multiple aspects of the accounting for business combinations. Under the guidance in SFAS No. 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be remeasured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense and additionally, restructuring costs that do not meet certain criteria at the acquisition date are to be subsequently recognized as post-acquisition costs. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 141R will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which amends Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements*. SFAS No. 160 requires a non-controlling interest or minority interest to be reported by all entities in the same way, which is as equity in the consolidated financial statements. It also requires income attributable to the non-controlling interest to be disclosed on the face of the consolidated statement of income. Furthermore, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. SFAS No. 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those years. Early adoption is prohibited. The provisions of SFAS No. 160 should be applied prospectively, except for presentation and disclosure requirements. The presentation and disclosure requirements should be applied retrospectively for all periods presented. We are currently assessing the impact that the adoption of SFAS No. 160 will have on our consolidated financial statements.

In February 2008, the FASB issued FSP SFAS No.157-2, which delays the effective date of SFAS No. 157, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay is intended to allow the FASB and constituents additional time to consider the effect of various implementation issues that have arise, or that may arise, from the application of SFAS No. 157. This FSP applies to various nonfinancial assets and liabilities, including goodwill and nonfinancial long-lived assets, and it defers the effective date of SFAS No. 157 to such nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We are currently assessing the impact that the adoption of FSP SFAS No.157-2 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities,* which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This new statement has the same scope as SFAS No. 133. Accordingly, it applies to all entities. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors a better and clearer understanding of the derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We do not expect the adoption of SFAS No. 161 would have a material impact on our consolidated financial statements (In September 2008, FASB issued FSP SFAS No.133-1 and FASB Interpretation No. ("FIN") 45-4 to clarify the effective date of SFAS No. 161, see detail for FSP SFAS No.133-1 and FIN 45 below).





In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles ("GAAP").* This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles", which is currently under SEC review. We are currently assessing the impact that the adoption of SFAS No. 162 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Gurantee Insurance Contracts,* which interprets and clarifies provisions of SFAS No. 60, *Accounting and Reporting by Insurance Enterprises.* This statement reduces diversity and conflicts, but increases comparability and disclosure in financial reporting of financial guarantee insurance contracts by insurance enterprises. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years, except for some disclosures about the insurance enterprise's risk-management activities. The disclosures about the risk-management activities are to be effective for the first period (including interim periods) beginning after issuance of this statement. Except for those disclosures, early adoption is not permitted. We do not expect the adoption of SFAS No. 163 would have a material impact on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Shared-Based Payment Transactions Are Participating Securities,* which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, *Earnings per Share.* FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented are adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early adoption is not permitted. We do not expect the adoption of FSP No. EITF 03-6-1 would have a material impact on our consolidated financial statements.

In September 2008, the FASB issued FSP SFAS No.133-1 and FIN 45-4, *Disclosure about Credit Derivatives and Certain Guarantees: An Amendment of SFAS No. 133 and FIN 45; and Clarification of the Effective Date of SFAS No. 161.* This FSP is to address the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives and certain guarantees. FSP SFAS No.133-1 and FIN 45-4 amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of guarantee. Further, this FSP clarifies FASB's intent about the effective date of SFAS No. 161. While Paragraph 7 of SFAS No. 161 states, "this Statement shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008," this FSP clarifies the FASB's intent that the disclosures required by SFAS No. 161 should be provided for any reporting period, annual or quarterly interim, beginning after November 15, 2008. Similarly, the provisions of this FSP that amend SFAS No. 133 and FIN 45 are effective for financial statements issued for reporting periods, annual or interim, ending after November 15, 2008. This FSP encourages amendments applied in periods earlier than the required initial adoption to facilitate comparison. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption. We do not expect the adoption of FSP SFAS No.133-1 would have a material impact on our consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No.157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of SFAS No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. This FSP is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting for as a change in the valuation technique or its application shall be accounted for as a change in accounting estimate under SFAS No. 154, *Accounting Changes and Error Corrections*. However, such revisions shall be exempt from SFAS No. 154 disclosure requirement. We utilized and followed this FSP in our fair valuation procedures pursuant SFAS No. 157 (refer to Note 3 above).



Table of Contents

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

This discussion presents management's analysis of our results of operations and financial condition as of and for the three and nine months ended September 30, 2008 and 2007, respectively, and includes the statistical disclosures required by the Securities and Exchange Commission Guide 3 ("Statistical Disclosure by Bank Holding Companies"). The discussion should be read in conjunction with our financial statements and the notes related thereto which appear elsewhere in this Quarterly Report on Form 10-Q.

Statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including our expectations, intentions, beliefs, or strategies regarding the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "expect," "anticipate," "seek," "estimate," "intend," "plan," "projection," and "outlook," and similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results may differ materially from those in such forward-looking statements due to fluctuations in interest rates, inflation, government regulations, economic conditions, customer disintermediation and competitive product and pricing pressures in the geographic and business areas in which we conduct operations, including our plans, objectives, expectations and intentions and other factors discussed under the section entitled "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2007, including the following:

- If a significant number of customers fail to perform under their loans, our business, profitability, and financial condition would be adversely affected.
- Increases in our allowance for loan losses could materially affect our earnings adversely.
- Banking organizations are subject to interest rate risk and variations in interest rates may negatively affect our financial performance.
- The profitability of Wilshire Bancorp will be dependent on the profitability of the Bank.
- Wilshire Bancorp relies heavily on the payment of dividends from the Bank.
- The holders of recently issued debentures have rights that are senior to those of our common shareholders.
- Adverse changes in domestic or global economic conditions, especially in California, could have a material adverse effect on our business, growth, and profitability.

- Recently negative development in the financial industry and U.S. and global credit markets may affect our operations and results.

- Our operations may require us to raise additional capital in the future, but that capital may not be available or may not be on terms acceptable to us when it is needed.

- The short-term and long-term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks is uncertain.

- Maintaining or increasing our market share depends on market acceptance and regulatory approval of new products and services.

- Significant reliance on loans secured by real estate may increase our vulnerability to downturns in the California real estate market and other variables impacting the value of real estate.

- If we fail to retain our key employees, our growth and profitability could be adversely affected.

- We may be unable to manage future growth.



Table of Contents

- Unexpected litigation or unexpected outcomes of pending litigation matters may negatively affect our results of operations, financial condition or reputation.

- We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services.

- Our directors and executive officers beneficially own a significant portion of our outstanding common stock.

- The market for our common stock is limited, and potentially subject to volatile changes in price.

- We face substantial competition in our primary market area.

- Anti-takeover provisions of our charter documents may have the effect of delaying or preventing changes in control or management.

- We are subject to significant government regulation and legislation that increase the cost of doing business and inhibits our ability to compete.

- We could be negatively impacted by downturns in the South Korean economy.

- Additional shares of our common stock issued in the future could have a dilutive effect.

- Shares of our preferred stock issued in the future could have dilutive and other effects.

These factors and the risk factors referred to in our Annual Report on Form 10-K for the year ended December 31, 2007 could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.



Table of Contents

**Selected Financial Data**

The following table presents selected historical financial information (unaudited) as of and for the three and nine months ended September 30, 2008 and 2007. In the opinion of our management, the information presented reflects all adjustments considered necessary for a fair presentation of the results of such periods. The operating results for the interim periods are not necessarily indicative of our future operating results.

| | Three months ended | Nine months ended |
|---|---|---|

| | September 30, | | September 30, | |
|---|---|---|---|---|
| | (dollars in thousands, except per share data) | | | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | $ 6,868 | $ 6,644 | $ 21,347 | $ 21,307 |
| Net income per share, basic | 0.23 | 0.23 | 0.73 | 0.73 |
| Net income per share, diluted | 0.23 | 0.23 | 0.73 | 0.72 |
| Net interest income before provision for loan losses and loan commitments | 21,414 | 20,938 | 61,491 | 60,882 |
| | | | | |
| **Average balances:** | | | | |
| Assets | 2,381,999 | 2,075,790 | 2,299,152 | 2,021,416 |
| Cash and cash equivalents | 79,748 | 116,849 | 77,218 | 132,561 |
| Investment debt securities | 228,826 | 206,974 | 226,726 | 193,982 |
| Net loans | 1,979,435 | 1,667,899 | 1,906,985 | 1,613,867 |
| Total deposits | 1,774,451 | 1,772,434 | 1,735,283 | 1,742,712 |
| Shareholders’ equity | 186,332 | 167,015 | 181,122 | 161,367 |
| **Performance Ratios:** | | | | |
| Annualized return on average assets | 1.15% | 1.28% | 1.24% | 1.41% |
| Annualized return on average equity | 14.74% | 15.91% | 15.71% | 17.61% |
| Net interest margin | 3.86% | 4.35% | 3.82% | 4.32% |
| Efficiency ratio | 45.99% | 42.22% | 47.79% | 41.45% |
| **Capital Ratios:** | | | | |
| Tier 1 capital to adjusted total assets | 10.19% | 10.41% | | |
| Tier 1 capital to risk-weighted assets | 11.68% | 12.18% | | |
| Total capital to risk-weighted assets | 14.01% | 15.06% | | |

| | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|
| **Period-end balances as of:** | | | |
| Total assets | $ 2,387,135 | $ 2,196,705 | $ 2,100,807 |
| Securities investments | 228,100 | 231,640 | 206,723 |
| Total loans, net of unearned income | 2,034,328 | 1,809,050 | 1,724,625 |
| Total deposits | 1,787,763 | 1,763,071 | 1,748,158 |
| Junior subordinated debentures | 87,321 | 87,321 | 87,321 |
| FHLB borrowings | 300,000 | 150,000 | 70,000 |
| Shareholders’ equity | 187,879 | 171,786 | 168,148 |
| **Asset Quality Ratios:** | | | |
| Net charge-offs to average total loans for the quarter | 0.07% | 0.23% | 0.14% |
| Non-performing loans to total loans | 0.67% | 0.59% | 0.48% |
| Non-performing assets to total loans and other real estate owned | 0.75% | 0.60% | 0.52% |
| Allowance for loan losses to total loans | 1.28% | 1.19% | 1.21% |
| Allowance for loan losses to non-performing loans | 189.01% | 203.55% | 251.48% |

Wilshire Bancorp, Inc. succeeded to the business and operations of Wilshire State Bank upon consummation of the reorganization of the Bank into a holding company structure, effective as of August 25, 2004. Prior to the completion of the reorganization, the Bank was subject to the information, reporting and proxy statement requirements of the Exchange Act pursuant to the regulations of its primary regulator, the Federal Deposit Insurance Corporation, or FDIC. Accordingly, the Bank filed annual and quarterly reports, proxy statements and other information with the FDIC. Pursuant to Rule 12g-3 of the Securities Exchange Act of 1934, as amended, or Exchange Act, the Company has succeeded to the reporting obligations of the Bank and the reporting obligations of the Bank to the FDIC have terminated. Filings by the Company under the Exchange Act, such as this Form 10-Q, are to be made with the Securities and Exchange Commission, or SEC. Note that while we refer generally to the "Company" throughout this filing, all references to the Company prior to August 25, 2004, except where otherwise indicated, are to the Bank.

We operate community banks doing a general commercial banking business, with our primary market encompassing the multi-ethnic population of the Los Angeles metropolitan area. Our full-service offices are located primarily in areas where a majority of the businesses are owned by diversified ethnic groups.





We have also expanded and diversified our business with the focus on our commercial and consumer lending divisions. Over the past several years, our network of branches and loan production offices has been expanded geographically. We currently maintain 21 full-service branch banking offices in Southern California, Texas, New Jersey, and New York, and 6 separate loan production offices in Aurora, Colorado (the Denver area); Atlanta, Georgia; Dallas, Texas; Houston, Texas; Annandale, Virginia, and Seattle, Washington.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. We have particularly identified several accounting policies that, due to judgments, estimates and assumptions inherent in those policies are critical to an understanding of our consolidated financial statements. These policies relate to the classification and valuation of investment securities, the methodologies that determine our allowance for loan losses, the treatment of non-accrual loans, the valuation of retained interests and servicing assets related to the sales of SBA loans, and the accounting for income tax provisions and the uncertainty in income taxes. In each area, we have identified the variables most important in the estimation process. We believe that we have used the best information available to make the estimates necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuation and could have an impact on our net income.

Our significant accounting policies are described in greater detail in our 2007 Annual Report on Form 10-K in the "Critical Accounting Policies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 1 to the Consolidated Financial Statements ("Summary of Significant Accounting Policies") of this report, which are essential to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. There has been no material modification to these policies during the quarter ended September 30, 2008.

## Results of Operations

### Net Interest Income and Net Interest Margin

Our primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets and interest paid on liabilities obtained to fund those assets.  Our net interest income is affected by changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes.  Our net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes.  Interest rates charged on our loans are affected principally by the demand for such loans, the supply of money available for lending purposes and other competitive factors.  Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the Federal Reserve Board ("FRB").

Our average interest-earning assets increased to $2.22 billion in the third quarter of 2008, as compared with $1.93 billion in the same quarter of 2007, and average net loans increased to $1.98 billion in the third quarter of 2008, as compared with $1.67 billion in the same quarter of 2007. Average interest-bearing deposits slightly increased to $1.47 billion in the third quarter of 2008, as compared with $1.45 billion in the same quarter of 2007. FHLB advances and other borrowings have significantly increased to $309.6 million in the third quarter of 2008 from $24.3 million in the same quarter of last year (see "Financial Condition-Deposits and Other Sources of Funds" below), and average balance on our junior subordinated debentures has slightly increased to $87.3 million in the third quarter of 2008 from $84.8 million in the third quarter of 2007. As a result, total interest bearing liabilities increased to $1.87 billion in the third quarter of 2008, as compared with $1.56 billion in the third quarter of 2007.



Table of Contents

The federal funds rate reductions of 200 and 25 basis points in the first quarter of 2008 and second quarter of 2008, respectively, have resulted in a decrease in our earning-asset yields as well as our cost of funds. The average yields on our interest-earning assets decreased to 6.77% for the third quarter of 2008 from 8.40% for the third quarter of the prior year. Consistent with the decrease in average yields on interest-earning assets, the cost of funds for average yields on interest-earning liabilities also decreased to 3.46% for the third quarter of 2008 from 5.01% for the prior year's same quarter. Although our earning-asset yields have decreased relatively more compared to our cost of funds, our net interest income increased because our average net loan balance significantly increased to $1.98 billion for the third quarter of 2008, as compared to $1.67 billion for the same quarter a year ago. As a result, although interest income decreased to $37.6 million for the third quarter of 2008, as compared with $40.5 million for the prior year's same period, interest expense decreased faster than interest income to more than offset the loss in income. Interest expense decreased to $16.2 million for the third quarter of 2008, as compared with $19.5 million for the prior year's same period. As a result, our net interest income increased to 21.4 million for the third quarter of 2008, as compared with $20.9 million for the same quarter a year ago.

Our interest-earning assets increased to $2.22 billion for the third quarter of 2008 from $1.93 billion for the same quarter a year ago, while our interest-bearing liabilities were $1.87 billion and $1.56 billion for the third quarter of 2008 and 2007, respectively. Due to the slightly faster increase in our interest-bearing liabilities compared to our interest-earning assets, our net interest spread and margin were both lowered. The decreases were also attributable to stiff deposit competition among financial institutions and the combined 225 basis point federal funds rate cuts during the first two quarters of 2008. Our net interest spread and net interest margin have compressed in the third quarter of 2008 to 3.31% and 3.86%, respectively, lowered from 3.39% and 4.35%, in the same quarter a year ago. When compared to the prior quarter, however, net interest spread and net interest margin, have increased by 14 basis points and 8 basis points from 3.17% and 3.78%, respectively.

For the first nine months of 2008, average interest-earning assets and average net loans increased to $2.14 billion and $1.91 billion, respectively, as compared with $1.88 billion and $1.61 billion for the prior year's same period.  For the first nine months of 2008, average interest-bearing liabilities also increased to $1.79 billion from $1.52 billion, while the average interest-bearing deposit portfolio remained relatively unchanged at $1.43 billion from the same period a year ago.  The average yields on interest-earning assets decreased to 6.98% for the first nine months of 2008 from 8.36% for the prior year's same period, while our cost of funds decreased to 3.78% for the first nine months of 2008 from 5.00% for the prior year's same period.  Our business growth resulted in a slight increase in our net interest income to $61.5 million in the first nine months of 2008 as compared with $60.9 million for the prior year's same period.

Table of Contents

The following table sets forth, for the periods indicated, our average balances of assets, liabilities and shareholders' equity, in addition to the major components of net interest income and net interest margin (all yields were calculated without the consideration of tax effects, if any):

**Distribution, Yield and Rate Analysis of Net Interest Income**

| | For the Quarter Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | (dollars in thousands) | | | | | |
| | Average Balance | Interest Income/ Expense | Annualized Average Rate/Yield | Average Balance | Interest Income/ Expense | Annualized Average Rate/Yield |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Net loans(1) | $ 1,979,435 | $ 34,719 | 7.02% | $ 1,667,899 | $ 37,093 | 8.90% |
| Securities of U.S. government agencies | 214,400 | 2,629 | 4.91% | 181,787 | 2,353 | 5.18% |
| Other investment securities | 14,425 | 169 | 4.69% | 27,433 | 344 | 5.02% |
| Interest on federal fund sold | 11,485 | 63 | 2.19% | 49,601 | 679 | 5.47% |
| Total interest-earning assets | 2,219,745 | 37,580 | 6.77% | 1,926,720 | 40,469 | 8.40% |
| Cash and due from banks | 68,263 | | | 67,248 | | |
| Other assets | 93,991 | | | 81,822 | | |
| Total assets | $ 2,381,999 | | | $ 2,075,790 | | |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Money market deposits | $ 439,080 | 3,520 | 3.21% | $ 474,122 | 5,475 | 4.62% |
| Super NOW deposits | 21,144 | 72 | 1.36% | 22,317 | 70 | 1.26% |
| Savings deposits | 41,273 | 359 | 3.48% | 29,790 | 186 | 2.50% |
| Time certificates of deposit in denominations of $100,000 or more | 770,812 | 6,702 | 3.48% | 780,463 | 10,276 | 5.27% |
| Other time deposits | 197,044 | 1,816 | 3.69% | 142,877 | 1,756 | 4.92% |
| FHLB advances and other borrowings | 309,576 | 2,570 | 3.32% | 24,249 | 212 | 3.50% |
| Junior subordinated debenture | 87,321 | 1,127 | 5.16% | 84,800 | 1,556 | 7.34% |
| Total interest-bearing liabilities | 1,866,250 | 16,166 | 3.46% | 1,558,618 | 19,531 | 5.01% |
| Non-interest-bearing deposits | 305,098 | | | 322,865 | | |
| Total deposits and other borrowings | 2,171,348 | | | 1,881,483 | | |
| Other liabilities | 24,319 | | | 27,292 | | |
| Shareholders' equity | 186,332 | | | 167,015 | | |
| Total liabilities and shareholders' equity | $ 2,381,999 | | | $ 2,075,790 | | |
| Net interest income | | $ 21,414 | | | $ 20,938 | |
| Net interest spread(2) | | | 3.31% | | | 3.39% |
| Net interest margin(3) | | | 3.86% | | | 4.35% |

(1) Net loan fees have been included in the calculation of interest income. Net loan fees were approximately $912,000 and $1,757,000 for the quarters ended September 30, 2008 and 2007, respectively. Net loans are net of the allowance for loan losses, deferred fees, unearned income, and related direct costs, but include those loans placed on non-accrual status.

(2) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(3) Represents net interest income as a percentage of average interest-earning assets.



Table of Contents

**Distribution, Yield and Rate Analysis of Net Interest Income**

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | (dollars in thousands) | | | | | |
| | Average Balance | Interest Income/ Expense | Annualized Average Rate/Yield | Average Balance | Interest Income/ Expense | Annualized Average Rate/Yield |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Net loans(1) | $ 1,906,985 | $ 104,014 | 7.27% | $ 1,613,867 | $ 107,578 | 8.89% |
| Securities of U.S. government agencies | 210,905 | 7,475 | 4.73% | 168,580 | 6,320 | 5.00% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other investment securities | 15,822 | 546 | 4.60% | 27,184 | 1,014 | 4.97% |
| Interest on federal fund sold | 9,966 | 192 | 2.57% | 68,190 | 2,766 | 5.41% |
| Total interest-earning assets | 2,143,678 | 112,227 | 6.98% | 1,877,821 | 117,678 | 8.36% |
| Cash and due from banks | 67,252 | | | 64,371 | | |
| Other assets | 88,222 | | | 79,224 | | |
| Total assets | $ 2,299,152 | | | $ 2,021,416 | | |
| | | | | | | |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Money market deposits | $ 409,726 | 10,243 | 3.33% | $ 434,001 | 14,796 | 4.55% |
| Super NOW deposits | 22,062 | 227 | 1.37% | 21,803 | 195 | 1.19% |
| Savings deposits | 36,646 | 907 | 3.30% | 29,368 | 492 | 2.23% |
| Time certificates of deposit in denominations of $100,000 or more | 784,790 | 23,222 | 3.95% | 789,478 | 31,284 | 5.28% |
| Other time deposits | 178,342 | 5,472 | 4.09% | 151,310 | 5,602 | 4.94% |
| FHLB advances and other borrowings | 269,818 | 6,969 | 3.44% | 21,951 | 598 | 3.63% |
| Junior subordinated debenture | 87,321 | 3,696 | 5.64% | 69,383 | 3,829 | 7.36% |
| Total interest-bearing liabilities | 1,788,705 | 50,736 | 3.78% | 1,517,294 | 56,796 | 5.00% |
| Non-interest-bearing deposits | 303,717 | | | 316,752 | | |
| Total deposits and other borrowings | 2,092,422 | | | 1,834,046 | | |
| Other liabilities | 25,608 | | | 26,003 | | |
| Shareholders' equity | 181,122 | | | 161,367 | | |
| Total liabilities and shareholders' equity | $ 2,299,152 | | | $ 2,021,416 | | |
| Net interest income | | $ 61,491 | | | $ 60,882 | |
| Net interest spread(2) | | | 3.20% | | | 3.36% |
| Net interest margin(3) | | | 3.82% | | | 4.32% |

(1) Net loan fees have been included in the calculation of interest income. Net loan fees were approximately $3,381,000 and $5,281,000 for the nine months ended September 30, 2008 and 2007, respectively. Net loans are net of the allowance for loan losses, deferred fees, unearned income, and related direct costs, but include those loans placed on non-accrual status.

(2) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(3) Represents net interest income as a percentage of average interest-earning assets.





The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities, respectively, and the amount of change attributable to changes in average daily balances (volume) or changes in average daily interest rates (rate). All yields were calculated without the consideration of tax effects, if any, and the variances attributable to both the volume and rate changes have been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amount of the changes in each:

**Rate/Volume Analysis of Net Interest Income**
**(dollars in thousands)**

| | Three Months Ended September 30, 2008 vs. 2007 — Increase (Decrease) Due to Change In | | | Nine Months Ended September 30, 2008 vs. 2007 — Increase (Decrease) Due to Change In | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| **Interest income:** | $ 6,241 | (8,615) | $ (2,374) | $ 17,764 | $ (21,328) | $ (3,564) |
| Net loans(1) | | | | | | |
| Securities of U.S. government agencies | 405 | (129) | 276 | 1,516 | (361) | 1,155 |
| Other investment securities | (154) | (21) | (175) | (397) | (71) | (468) |
| Interest on federal fund sold | (346) | (270) | (616) | (1,594) | (980) | (2,574) |
| Total interest income | 6,146 | (9,035) | (2,889) | 17,289 | (22,740) | (5,451) |
| | | | | | | |
| **Interest expense:** | | | | | | |
| Money market deposits | (380) | (1,575) | (1,955) | (789) | (3,764) | (4,553) |
| Super NOW deposits | (4) | 6 | 2 | 2 | 30 | 32 |
| Savings deposits | 85 | 88 | 173 | 142 | 273 | 415 |
| Time certificates of deposit in denominations of $100,000 or more | (126) | (3,448) | (3,574) | (185) | (7,877) | (8,062) |
| Other time deposits | 565 | (505) | 60 | 913 | (1,043) | (130) |
| FHLB advances and other borrowings | 2,369 | (11) | 2,358 | 6,404 | (33) | 6,371 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Junior subordinated debenture | 45 | (474) | (429) | 869 | (1,002) | (133) |
| Total interest expense | 2,554 | (5,919) | (3,365) | 7,356 | (13,416) | (6,060) |
| | | | | | | |
| Change in net interest income | $ 3,592 | $ (3,116) | $ 476 | $ 9,933 | $ (9,324) | $ 609 |

(1) Net loan fees have been included in the calculation of interest income. Loan fees were approximately $912,000 and $1,757,000 for the quarters ended September 30, 2008 and 2007, respectively, and approximately $3,381,000 and $5,281,000 for the nine months ended September 30, 2008 and 2007, respectively. Net loans are net of the allowance for loan losses, deferred fees, unearned income, and related direct costs, but include those loans placed on non-accrual status.

**Provision for Loan Losses and Provision for Loan Commitments**

Due to the credit risk inherent in our lending business, we set aside allowances through charges to earnings. Such charges are made not only for our outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credits or letters of credit. The charges made for our outstanding loan portfolio were credited to allowance for loan losses, whereas charges for off-balance sheet items were credited to reserve for off-balance sheet items, which is presented as a component of other liabilities.





We recorded a provision for loan losses and loan commitments of $3.4 million in the third quarter of 2008 as compared to a provision of $4.1 million for the prior year's same quarter. The provision for loan losses and loan commitments in the first nine months of 2008 was $6.2 million, as compared to $10.2 million in the first nine months of 2007. The decrease in the provision for loan losses and loan commitments was in line with our enhanced lending policy and our strategy of improving loan quality (see "Financial Condition – Allowance for Loan Losses and Loan Commitments" below for further discussion). The $3.4 million provision in the third quarter of 2008 was net of a recovery of $395,000 to the reserve for loan commitments, while the $4.1 million provision in the third quarter of 2007 included $220,000 provision to the reserve for loan commitments. The procedures for monitoring the adequacy of the allowance for loan losses and loan commitments, as well as detailed information concerning the allowance itself, are described in the section entitled "Allowance for Loan Losses and Loan Commitments" below.

**Non-interest Income**

Total non-interest income remained relatively unchanged at $5.3 million in the third quarter of 2008 compared to the same quarter a year ago. However, non-interest income as a percentage of average assets decreased to 0.22% for the third quarter of 2008 from 0.25% for the prior year's same period, primarily due to $306.2 million, or 14.75%, increase in average assets between the two periods. For the first nine months of 2008, total non-interest income decreased to $16.1 million as compared with $16.7 million in the same period of 2007, and such nine-month non-interest income of 2008 and 2007 represent 0.70% and 0.83% of average assets, respectively.

The following table sets forth the various components of our non-interest income for the periods indicated:

**Non-interest Income**
**(dollars in thousands)**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **For Three Months Ended September 30,** | **(Amount)** | **(%)** | **(Amount)** | **(%)** |
| Service charges on deposit accounts | $ 3,125 | 58.4% | $ 2,398 | 45.9% |
| Loan-related servicing fees | 891 | 16.7% | 517 | 9.9% |
| Gain on sale of loans | 410 | 7.7% | 1,584 | 30.3% |
| Income from other earning assets | 398 | 7.4% | 293 | 5.6% |
| Other income | 521 | 9.8% | 436 | 8.3% |
| Total | $ 5,345 | 100.0% | $ 5,228 | 100.0% |
| Average assets | $ 2,381,999 | | $ 2,075,790 | |
| Non-interest income as a % of average assets | | 0.22% | | 0.25% |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **For Nine Months Ended September 30,** | **(Amount)** | **(%)** | **(Amount)** | **(%)** |
| Service charges on deposit accounts | $ 8,916 | 55.4% | $ 7,189 | 43.0% |
| Loan-related servicing fees | 2,338 | 14.5% | 1,502 | 9.0% |
| Gain on sale of loans | 2,192 | 13.6% | 5,727 | 34.3% |
| Income from other earning assets | 1,108 | 6.9% | 846 | 5.1% |
| Other income | 1,551 | 9.6% | 1,429 | 8.6% |
| Total | $ 16,105 | 100.0% | $ 16,693 | 100.0% |
| Average assets | $ 2,299,152 | | $ 2,021,416 | |
| Non-interest income as a % of average assets | | 0.70% | | 0.83% |

Our largest source of non-interest income in the third quarter of 2008 was service charge income on deposit accounts, which represented over 55% of our total non-interest income. Service charge income increased to $3.1 million in the third quarter of 2008 and $8.9 million in the first nine months of 2008, as compared with $2.4 million and $7.2 million, respectively, for the prior year's same periods. The increase in service charge income was mainly due to our increase of over 20% during February 2008 in the service charges we apply to our customers' deposit accounts. We constantly review service charge rates and the managers' authority to waive those rates to maximize service charge income while maintaining a competitive position.



Table of Contents

Our second largest source of non-interest income was trade finance and loan servicing income, which represented approximately 15% of the total non-interest income. This fee income consists of trade-financing fees and servicing fees on SBA loans sold. With the expansion of our trade-financing activities and the growth of our servicing loan portfolio, this fee income has generally increased. In the third quarter of 2008, it increased to $891,000 as compared with $517,000 for the prior year's same period. Such increase was primarily attributable to an additional $184,000 in income related to the disposal of servicing assets and interest-only ("I/O") strips in the third quarter of 2008, as compared with the same quarter a year ago. For the first nine months of 2008, servicing income increased to $2.3 million from $1.5 million in the prior year's same period. The servicing fee income on sold loans is credited when we collect the monthly payments on the sold loans we are servicing and charged by the monthly amortization of servicing rights and I/O strips that we originally capitalized upon sale of the related loans. Such servicing rights and I/O strips are also charged against the loan service fee income account when the sold loans are paid off. For the first nine months of 2008, $613,000 of servicing assets and I/O strips were charged back to this loan service fee income account by the early pay-offs as compared with $1.4 million in the prior year's same period.

Our third largest source of non-interest income for the third quarter of 2008 was the gain on the sale of loans. It has substantially decreased to $0.4 million and $2.2 million in the third quarter and the first nine months of 2008 from $1.6 million and $5.7 million, respectively, for the prior year's same periods. This non-interest income is derived primarily from the sale of the guaranteed portion of SBA loans. We sell the guaranteed portion of SBA loans in government securities secondary markets and retain servicing rights. Due to the weakened economy and ongoing credit crisis, our SBA loan production levels in 2008 decreased. The production of loans guaranteed under the SBA 7(a) program decreased to $10.2 million and $54.1 million, respectively, for the third quarter and the first nine months of 2008, as compared with $39.7 million and $120.8 million, respectively, for the prior year's same periods. Such reduction of 7(a) guarantee loan production, coupled with the lowered sales premium on SBA loans, decreased the gain on sale of the guaranteed portions of SBA loans to $0.4 million and $2.2 million in the third quarter and the first nine months of 2008, as compared with $1.6 million and $5.7 million, respectively, for the prior year's same periods.

Income from other earning assets mainly represents dividend income on FHLB stock ownership and increases in the cash surrender value of BOLI. For the third quarter and first nine months of 2008, the balance increased to $398,000 and $1.1 million respectively, as compared with $293,000 and $846,000, respectively in the prior year's same periods. These increases were primarily attributable to $96,000 and $237,000 increases in FHLB stock dividend income in the third quarter and first nine months of 2008, respectively, which were due to $6.7 million increase in FHLB stock corresponding to our increase in FHLB borrowings from the third quarter end of 2007.

Other non-interest income represents income from miscellaneous sources, such as checkbook sales income, gain on sales of investment securities, excess of insurance proceeds over carrying value of an insured loss, and generally increases as our business activities grow. For the third quarter and the first nine months of 2008, this miscellaneous income amounted to $521,000 and $1.6 million, respectively, as compared with $436,000 and $1.4 million in the prior year's same periods.

**Non-interest Expense**

Total noninterest expense increased to $12.3 million and $37.1 million in the third quarter and the first nine months of 2008, respectively, from $11.0 million and $32.2 million, respectively, in the same periods of 2007. These increases were mainly attributable to the increase in stock compensation expenses for new stock options granted in June 2008 and various expenses associated with the integration of our new Los Angeles offices opened in December of 2007 and August of 2008. However, due to continuing efforts to minimize operating expenses during our expansion, we were able to maintain non-interest expenses as a percentage of average assets at the low level of 0.52% and 1.61% in the third quarter and first nine months of 2008, respectively, as compared with 0.53% and 1.59% in the prior year's same periods. Our efficiency ratio was 46.0% and 47.8% in the third quarter and the first nine months of 2008, respectively, compared to 42.2% and 41.5% in the same periods a year ago. The increase was primarily due to an increase in stock compensation expenses and various expenses related to the integration of our new Los Angeles offices that were opened in December of 2007 and August of 2008.



Table of Contents

The following table sets forth a summary of non-interest expenses for the periods indicated:

**Non-interest Expenses**
**(dollars in thousands)**

| For the Quarter Ended September 30, | 2008 (Amount) | 2008 (%) | 2007 (Amount) | 2007 (%) |
|---|---|---|---|---|
| Salaries and employee benefits | $ 6,718 | 54.6% | $ 5,827 | 52.7% |
| Occupancy and equipment | 1,576 | 12.8% | 1,317 | 11.9% |
| Data processing | 785 | 6.4% | 817 | 7.4% |
| Professional fees | 605 | 4.9% | 391 | 3.5% |

| | | | | |
|---|---|---|---|---|
| Outsourced service for customer | 376 | 3.1% | 492 | 4.5% |
| Deposit insurance premium | 279 | 2.3% | 276 | 2.5% |
| Office supplies | 202 | 1.6% | 150 | 1.4% |
| Directors' fees | 120 | 1.0% | 146 | 1.3% |
| Advertising | 242 | 2.0% | 255 | 2.3% |
| Communications | 109 | 0.9% | 119 | 1.1% |
| Investor relation expenses | 69 | 0.6% | 55 | 0.5% |
| Amortization of investments in affordable housing partnerships | 225 | 1.8% | 142 | 1.3% |
| Amortization of other intangible assets | 75 | 0.6% | 75 | 0.7% |
| Other operating | 926 | 7.4% | 985 | 8.9% |
| Total | $ 12,307 | 100.0% | $ 11,047 | 100.0% |
| Average assets | $ 2,381,999 | | $ 2,075,790 | |
| Non-interest expenses as a % of average assets | | 0.52% | | 0.53% |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **For the Nine Months Ended September 30,** | **(Amount)** | **(%)** | **(Amount)** | **(%)** |
| Salaries and employee benefits | $ 21,349 | 57.6% | $ 17,228 | 53.6% |
| Occupancy and equipment | 4,493 | 12.1% | 3,887 | 12.1% |
| Data processing | 2,320 | 6.3% | 2,327 | 7.2% |
| Professional fees | 1,559 | 4.2% | 970 | 3.0% |
| Outsourced service for customer | 1,218 | 3.3% | 1,315 | 4.1% |
| Deposit insurance premium | 907 | 2.4% | 648 | 2.0% |
| Office supplies | 523 | 1.4% | 470 | 1.5% |
| Directors' fees | 321 | 0.9% | 419 | 1.3% |
| Advertising | 594 | 1.6% | 653 | 2.0% |
| Communications | 332 | 0.9% | 354 | 1.1% |
| Investor relation expenses | 250 | 0.7% | 239 | 0.7% |
| Amortization of investments in affordable housing partnerships | 574 | 1.5% | 377 | 1.2% |
| Amortization of other intangible assets | 223 | 0.6% | 223 | 0.7% |
| Other operating | 2,422 | 6.5% | 3,045 | 9.5% |
| Total | $ 37,085 | 100.0% | $ 32,155 | 100.0% |
| Average assets | $ 2,299,152 | | $ 2,021,416 | |
| Non-interest expenses as a % of average assets | | 1.61% | | 1.59% |

Salaries and employee benefits historically represent more than half of total non-interest expense and generally increase as our branch network and business volume expand. These expenses increased to $6.7 million and $21.3 million in the third quarter and the first nine months of 2008, respectively, as compared with $5.8 million and $17.2 million for the prior year's same periods. Such increases were the result of overall compensation increases, coupled with $0.6 million increase in stock compensation expense resulting from the options granted in June 2008 under the 2008 stock option plan. Although additional staffing was necessitated by our new office openings and business growth in the past 12 months, we have successfully controlled and maintained the total number of employee headcount through effective allocation of our human resources. The number of full-time equivalent employees remained roughly unchanged at 357 as of September 30, 2008, as compared with 358 as of September 30, 2007. Nonetheless, our asset growth helped us improve our assets per employee ratio to $6.7 million at September 30, 2008 from $5.9 million at September 30, 2007.



Table of Contents

Occupancy and equipment expenses represent about 12% of total noninterest expenses. These expenses increased to $1.6 million and $4.5 million in the third quarter and first nine months of 2008, respectively, as compared with $1.3 million and $3.9 million for the same periods a year ago. The increases were primarily attributable to the additional office space and lease expenses for our additional California branch offices opened in December 2007 and August 2008, respectively.

Data processing expenses and office supplies together represent about 8% of total noninterest expenses in the third quarter and first nine months of 2008. These expenses increased to $987,000 and $2,843,000 in the third quarter of 2008 and the first nine months of 2008, respectively, as compared with $967,000 and $2,797,000 for the prior year's same periods. Such relatively small increases in these two expense categories compared to the extent of our business growth correspond to our effort of effectively managing and monitoring on overhead expenses to enhance profitability.

Professional fees generally increase as we grow. They increased to $605,000 and $1,559,000 in the third quarter and the first nine months of 2008, respectively, as compared with $391,000 and $970,000 for the prior year's same periods. The $214,000 increase between the current quarter and the same quarter a year ago was mainly attributable to the $205,000 increase in legal fees related to loan collection, property foreclosure and repossession, and various other legal consultations. The $589,000 increase from the first nine months of 2007 to the first nine months of 2008 was mainly attributable to the $375,000 increase in legal fees related to loan collection, property foreclosure and repossession, and various other legal consultations, and the $289,000 increase in fees related to consulting, system test, and various accounting and auditing services.

Outsourced service costs for customers are payments made to third parties who provide services that were traditionally provided by the Bank's customers, such as armored car services or bookkeeping services, and are recouped from their deposit balances maintained with us. Due mainly to the increase in service activities and the increase in depositors demanding such services, our outsourced service costs generally rise in proportion with our business growth. Nonetheless, with our successful cost control measures, these expenses decreased to $376,000 and $1,2 million in the third quarter and the first nine months of 2008, respectively, as compared with $492,000 and $1.3 million for the prior year's same periods.

Deposit insurance premium expenses represent The Financing Corporation ("FICO") and FDIC insurance premium assessments. In the third quarter and first nine months of 2008, these expenses totaled $279,000 and $907,000, respectively, as compared with $276,000 and $648,000 for the prior year's same periods. The difference of $259,000 between the first nine months' balances of 2008 and 2007 was primarily attributable to the new $251,000 FDIC risk insurance premium assessment beginning in the second quarter of 2007. Prior to the second quarter of 2007, only FICO premium of $50,000 was assessed.

Other non-interest expenses, such as director's fees, advertising, communications, and other miscellaneous expenses, were $1.8 million and $4.7 million for the third quarter 2008 and the first nine months of 2008, respectively, as compared with $1.8 million and $5.3 million for the same periods in 2007.

**Provision for Income Taxes**

For the quarter ended September 30, 2008, we made a provision for income taxes of $4.2 million on pretax net income of $11.1 million, representing an effective tax rate of 37.9%, as compared with a provision for income taxes of $4.4 million on pretax net income of $11.0 million, representing an effective tax rate of 39.7% for the same quarter in 2007. For the first nine months of 2008, we made a provision for income taxes of $13.0 million on pretax net income of $34.3 million, representing an effective tax rate of 37.8%, as compared with a provision for income taxes of $13.9 million on pretax net income of $35.2 million, representing an effective tax rate of 39.5%, for the same period of 2007.

The effective tax rates in the third quarter and the first nine months of 2008 were lower than those for the prior year's same periods, due mainly to an increase in low income housing tax credit funds. Our lower effective tax rates compared to statutory rates were mainly due to state tax benefits derived from doing business in an enterprise zone and our ownership of BOLI and low income housing tax credit funds.



Table of Contents

## Financial Condition

**Investment Portfolio**

Investments are one of our major sources of interest income and are acquired in accordance with a written comprehensive investment policy addressing strategies, types and levels of allowable investments. Management of our investment portfolio is set in accordance with strategies developed and overseen by our Asset/Liability Committee. Investment balances, including cash equivalents and interest-bearing deposits in other financial institutions, are subject to change over time based on our asset/liability funding needs and interest rate risk management objectives. Our liquidity levels take into consideration anticipated future cash flows and all available sources of credits and are maintained at levels management believes are appropriate to assure future flexibility in meeting anticipated funding needs.

*Cash Equivalents and Interest-bearing Deposits in other Financial Institutions*

We buy or sell federal funds and high quality money market instruments, and maintain deposits in interest-bearing accounts in other financial institutions to help meet liquidity requirements and provide temporary holdings until the funds can be otherwise deployed or invested.

*Investment Securities*

Management of our investment securities portfolio focuses on providing an adequate level of liquidity and establishing a balanced interest rate-sensitive position, while earning an adequate level of investment income without taking undue risk. As of September 30, 2008, our investment portfolio is primarily comprised of United States government agency securities, accounting for 94% of our entire investment portfolio. Our U.S. government agency securities holdings are all "prime/conforming" mortgage backed securities, or MBS's, and collateralized mortgage obligations, or CMO's, guaranteed by FNMA, FHLMC, or GNMA. Currently, there are no subprime mortgages in our investment portfolio. Besides the U.S. government agency securities, we also have a 3% investment in corporate debt and 3% in municipal debt securities. Among all of our corporate and municipal debt securities, the majority are "Triple A" rated, and all are considered investment grade. We adopted SFAS No. 157 and SFAS No. 159 effective January 1, 2008, and we adopted FSP SFAS No.157-3 effective October 10, 2008. Pursuant to the fair value elective option of SFAS No. 159, we have chosen to continue classifying our existing instruments of investment securities as "held-to-maturity" or "available-for-sale" under SFAS No. 115. Investment securities that we intend to hold until maturity are classified as held-to-maturity securities, and all other investment securities are classified as available-for-sale. The carrying values of available-for-sale investment securities are adjusted for unrealized gains or losses as a valuation allowance and any gain or loss is reported on an after-tax basis as a component of other comprehensive income. The fair market values of our held-to-maturity and available-for-sale securities were respectively $0.1 million and $228.0 million as of September 30, 2008 (See Note 3).



Table of Contents

The following table summarizes the book value, market value and distribution of our investment securities as of the dates indicated:

**Investment Securities Portfolio**
**(dollars in thousands)**

| | As of September 30, 2008 | | | As of December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Market Value | Unrealized Gain (Loss) | Amortized Cost | Market Value | Unrealized Gain (Loss) |
| Held to Maturity: | | | | | | |
| Securities of government sponsored enterprises | $— | $— | $— | $7,000 | $7,001 | $1 |
| Collateralized mortgage obligation. | 143 | 134 | (9) | 164 | 151 | (13) |
| Municipal securities | — | — | — | 220 | 220 | — |
| Total held to maturity securities | $143 | $134 | $(9) | $7,384 | $7,372 | $(12) |
| Available for Sale: | | | | | | |
| Securities of government sponsored enterprises | $27,968 | $27,967 | $(1) | $64,932 | $65,175 | $243 |
| Mortgage backed securities | 125,217 | 124,990 | (227) | 60,470 | 60,557 | 87 |
| Collateralized mortgage obligation | 60,722 | 61,027 | 305 | 73,416 | 73,286 | (130) |
| Corporate securities | 7,056 | 7,041 | (15) | 17,390 | 17,484 | 94 |
| Municipal securities | 7,324 | 6,932 | (392) | 7,725 | 7,754 | 29 |
| Total available for sale securities | $228,287 | $227,957 | $(330) | $223,933 | $224,256 | $323 |



Table of Contents

The following table summarizes the maturity and repricing schedule of our investment securities at their carrying values and their weighted average yields (without the consideration of tax effects, if any) at September 30, 2008:

**Investment Maturities and Repricing Schedule**
**(dollars in thousands)**

| | Within One Year | After One But Within Five Years | After Five But Within Ten Years | After Ten Years | Total |
|---|---|---|---|---|---|
| **Held to Maturity:** | | | | | |
| Mortgage backed securities | $ — | $ 143 | $ — | $ — | $ 143 |
| | | | | | |
| **Available-for-sale:** | | | | | |
| Securities of government sponsored enterprises | 2,005 | 17,042 | 8,920 | — | 27,967 |
| Mortgage backed securities | 9,229 | 1,235 | 524 | 114,002 | 124,990 |
| Collateralized mortgage obligation | 9,211 | 51,816 | — | — | 61,027 |
| Corporate securities | — | 7,041 | — | — | 7,041 |
| Municipal securities | — | — | 4,366 | 2,566 | 6,932 |
| Total investment Securities | $ 20,445 | $ 77,277 | $ 13,810 | $ 116,568 | $ 228,100 |

Our investment securities holdings decreased to $228.1 million at September 30, 2008, compared to holdings of $231.6 million at December 31, 2007. Total investment securities as a percentage of total assets were 9.6% and 10.5% at September 30, 2008 and December 31, 2007, respectively. As of September 30, 2008, investment securities with a carrying value of $213.6 million were pledged to secure certain deposits.

As of September 30, 2008, due to substantial decreases in short-term interest rates during the first quarter of 2008, our held-to-maturity securities, which are carried at their amortized costs, were mostly called by the issuers. The investment balance decreased to $0.1 million at September 30, 2008 from $7.4 million at December 31, 2007. Our available-for-sale securities, which are stated at their fair market values, increased to $228.0 million at September 30, 2008 from $224.3 million at December 31, 2007.



Table of Contents

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2008 and December 31, 2007:

| **As of September 30, 2008** | (dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | | Gross | | Gross | | Gross |

| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
|---|---|---|---|---|---|---|
| Securities of government sponsored enterprises | $ 17,883 | $ (117) | $ — | $ — | $ 17,883 | $ (117) |
| Collateralized mortgage obligation | 4,401 | (163) | 2,909 | (124) | 7,310 | (287) |
| Mortgage backed securities | 69,001 | (559) | 542 | (2) | 69,543 | (561) |
| Corporate securities | — | — | 1,951 | (49) | 1,951 | (49) |
| Municipal securities | 5,877 | (401) | — | — | 5,877 | (401) |
| | $ 97,162 | $ (1,240) | $ 5,402 | $ (175) | $ 102,564 | $ (1,415) |

**As of December 31, 2007**

| | (dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| Description of Securities | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Securities of government sponsored enterprises | $ — | $ — | $ 4,993 | $ (7) | $ 4,993 | $ (7) |
| Collateralized mortgage obligation | 1,749 | (11) | 9,266 | (436) | 11,015 | (447) |
| Mortgage backed securities | 37,967 | (36) | 2,545 | (27) | 40,512 | (63) |
| Corporate securities | 4,972 | (1) | 1,983 | (16) | 6,955 | (17) |
| Municipal securities | 1,392 | (13) | 2,347 | (2) | 3,739 | (15) |
| | $ 46,080 | $ (61) | $ 21,134 | $ (488) | $ 67,214 | $ (549) |

As of September 30, 2008, the total unrealized losses less than 12 months old were $1.2 million, and total unrealized losses more than 12 months old were $175,000. The aggregate related fair value of investments with unrealized losses less than 12 months old was $97.2 million at September 30, 2008, and those with unrealized losses more than 12 months old were $5.4 million. As of December 31, 2007, the total unrealized losses less than 12 months old were $61,000 and total unrealized losses more than 12 months old were $488,000. The aggregate related fair value of investments with unrealized losses less than 12 months old was $46.1 million at December 31, 2007, and those with unrealized losses more than 12 months old were $67.2 million.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, we consider, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.





The Company performs a detailed evaluation of the investment portfolio in assessing individual positions that have market values that have declined below cost. In assessing whether there is other-than-temporary impairment, the Company considers in a disciplined manner:

- Whether or not all contractual cash flows due on a security will be collected
- The Company's positive intent and ability to hold the debt security until recovery in fair value or maturity

A number of factors are considered in the analysis, including but not limited to:

- Issuer's credit rating
- Likelihood of the issuer's default or bankruptcy
- Collateral underlying the security
- Industry in which the issuer operates
- Nature of the investment
- Severity and duration of the decline in fair value
- Analysis of the average life and effective maturity of the security

The Company does not believe that any individual unrealized loss as of September 30, 2008 represents an other-than-temporary impairment. The unrealized losses on our government sponsored enterprises ("GSE") bonds, collateralized mortgage obligations ("CMOs"), and mortgage-backed securities ("MBS") are attributable to both changes in interest rates and a repricing of risk in the market. All GSE bonds, GSE CMO, and GSE MBS securities are backed by U.S. Government Sponsored and Federal Agencies and therefore rated "AAA." The Company has no exposure to the "Subprime Market" in the form of Asset Backed Securities ("ABS") and Collateralized Debt Obligations ("CDOs") that had previously been rated "AAA" but has since been downgraded to below investment grade. The Company has the intent and ability to hold the securities in an unrealized loss position at September 30, 2008 until the market value recovers or the securities mature.

Municipal bonds and corporate bonds are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. The unrealized losses on our investment in municipal and corporate securities were primarily attributable to both changes in interest rates and a repricing of risk in the market. The Company has the intent and ability to hold the securities in an unrealized loss position at September 30, 2008 until the market value recovers or the securities mature.

**Loan Portfolio**

All loans are carried at face amount, less principal repayment collected, net of deferred loan fees, and the allowance for loan losses. Interest on loans is accrued daily on a simple interest basis. Total loans net of unearned loans and allowance for loan losses increased to $2.01 billion at September 30, 2008, as compared with $1.79 billion at December 31, 2007. Total loans net of unearned income as a percentage of total assets as of September 30, 2008 and December 31, 2007 were 85.2% and 82.4%, respectively.





The following table sets forth the amount of total loans outstanding and the percentage distributions in each category, as of the dates indicated:

**Distribution of Loans and Percentage Composition of Loan Portfolio**

| | Amount Outstanding (dollars in thousands) | |
|---|---|---|
| | **September 30, 2008** | **December 31, 2007** |
| Construction | $ 43,161 | $ 59,443 |
| Real estate secured | 1,566,813 | 1,386,622 |
| Commercial and industrial | 407,381 | 335,332 |
| Consumer | 21,661 | 33,569 |
| Total loans(1) | 2,039,016 | 1,814,966 |
| Unearned Income | (4,688) | (5,917) |
| Gross loans, net of unearned income | 2,034,328 | 1,809,049 |
| Allowance for loan losses | (25,950) | (21,579) |
| Net loans | $ 2,008,378 | $ 1,787,470 |
| | | |
| Percentage breakdown of gross loans: | | |
| Construction | 2.1% | 3.3% |
| Real estate secured | 76.8% | 76.4% |
| Commercial and industrial | 20.0% | 18.4% |
| Consumer | 1.1% | 1.9% |
| Total loans | 100.00% | 100.0% |

(1) Includes loans held for sale, at the lower of cost or market, of $10.2 million and $7.9 million at September 30, 2008 and December 31, 2007, respectively

Real estate secured loans consist primarily of commercial real estate loans and are extended to finance the purchase or improvement of commercial real estate or businesses thereon. The properties may be either user owned or held for investment purposes. Loans secured by real estate totaled $1.57 billion and $1.39 billion as of September 30, 2008 and December 31, 2007, respectively. The real estate secured loans as a percentage of total loans were 76.8% and 76.4% at September 30, 2008 and December 31, 2007, respectively. Home mortgage loans represent a small fraction of our total real estate secured loan portfolio. Total home mortgage loans outstanding were only $40.9 million at September 30, 2008 and $38.0 million at December 31, 2007. Due to the higher risk exposure of those residential mortgage loans compared to other classes of loans in our loan portfolio, we limited ourselves from originating such loans starting 2007.

Commercial and industrial loans include revolving lines of credit as well as term business loans. Commercial and industrial loans at September 30, 2008 increased to $407.4 million, as compared with $335.3 million at December 31, 2007. Commercial and industrial loans as a percentage of total loans were 20.0% at September 30, 2008, increasing from 18.4% at December 31, 2007.

Consumer loans have historically represented less than 5% of our total loan portfolio. The majority of consumer loans are concentrated in automobile loans, which we provide as a service only to existing customers. As consumer loans present a higher risk potential compared to our other loan products, especially given current economic conditions, we have reduced our effort in consumer lending since 2007. Accordingly, as of September 30, 2008, our volume of consumer loans was down by $11.9 million from the prior year end. As of September 30, 2008, the balance of consumer loans was $21.7 million, or 1.1% of total loans, as compared to $33.6 million, or 1.9% of total loans as of December 31, 2007. Consumer loans as a percentage of total loans have historically been minimal.

Construction loans are extended as a temporary financing vehicle only. Construction loans decreased to $43.2 million, or 2.1% of total loans, at the end of the third quarter of 2008, as compared with $59.4 million, or 3.3% of total loans at the end of 2007. The $16.2 million decrease in loan balance between September 30, 2008 and December 31, 2007 was primarily a result of our stricter loan underwriting policy.

Our loan terms vary according to loan type. Commercial term loans have typical maturities of three to five years and are extended to finance the purchase of business entities, business equipment, leasehold improvements or to provide permanent working capital. We generally limit real estate loan maturities to five to eight years. Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. We generally seek diversification in our loan portfolio, and our borrowers are diverse as to industry, location, and their current and target markets.

The following table shows the contractual maturity distribution and repricing intervals of the outstanding loans in our portfolio, as of September 30, 2008. In addition, the table shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates. The table excludes the gross amount of non-accrual loans of $21.0 million:

**Loan Maturities and Repricing Schedule**

| | At September 30, 2008 | | | |
|---|---|---|---|---|
| | Within One Year | After One But Within Five Years | After Five Years | Total |
| | (dollars in thousands) | | | |
| Construction | $ 43,161 | $ — | $ — | $ 43,161 |
| Real estate secured | 621,043 | 837,088 | 95,176 | 1,553,307 |
| Commercial and industrial | 384,706 | 14,329 | 967 | 400,002 |
| Consumer | 14,781 | 6,739 | — | 21,520 |
| Total loans, net of non-accrual loans | $ 1,063,691 | $ 858,156 | $ 96,143 | $ 2,017,990 |
| Loans with variable (floating) interest rates | $ 902,225 | $ 21,606 | $ — | $ 923,831 |
| Loans with predetermined (fixed) interest rates | $ 161,466 | $ 836,550 | $ 96,143 | $ 1,094,159 |

A majority of the properties that we have taken as collateral are located in Southern California. The loans generated by our loan production offices, which are located outside of our main geographical market, are generally collateralized by properties in close proximity to those offices.

**Non-performing Assets**

Non-performing assets, or NPAs, consist of non-performing loans, or NPLs, restructured loans, and other NPAs. NPLs are reported at their outstanding principal balances, net of any portion guaranteed by SBA, and consist of loans on non-accrual status and loans 90 days or more past due and still accruing interest. Restructured loans are loans of which the terms of repayment have been renegotiated, resulting in a reduction or deferral of interest or principal, Other NPAs consist of properties, mainly other real estate owned (OREO) and repossessed vehicles, acquired by foreclosure or similar means that management intends to offer for sale.





The following table provides information with respect to the components of our non-performing assets as of the dates indicated (the figures in the table are net of the portion guaranteed by SBA, with the total amounts adjusted and reconciled for the SBA guarantee portion for the gross nonperforming assets):

**Non-performing Assets**
**(dollars in thousands)**

| | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|
| **Nonaccrual loans: (1)** | | | |
| Real estate secured | $ 9,506 | $ 8,154 | $ 6,014 |
| Commercial and industrial | 3,593 | 1,986 | 2,037 |
| Consumer | 134 | 154 | 126 |
| Total | 13,233 | 10,294 | 8,177 |
| **Loans 90 days or more past due and still accruing:** | | | |
| Real estate secured | 490 | 117 | — |
| Commercial and industrial | 4 | 4 | 5 |
| Consumer | 2 | 187 | 130 |
| Total | 496 | 308 | 135 |
| Total nonperforming loans | 13,729 | 10,602 | 8,312 |
| Repossessed vehicles | 18 | 50 | 58 |
| Other real estate owned | 1,453 | 133 | 612 |
| Total nonperforming assets, net of SBA guarantee | 15,200 | 10,785 | 8,982 |
| | | | |
| Guaranteed portion of nonperforming SBA loans | 7,792 | 4,424 | 7,705 |

| | | | |
|---|---|---|---|
| Guaranteed portion of other real estate owned | — | 5 | — |
| Total gross nonperforming assets | 22,992 | 15,214 | 16,687 |
| Restructured loans (2) | 2,542 | — | — |
| Total gross nonperforming assets and restructured loans | $ 25,534 | $ 15,214 | $ 16,687 |
| | | | |
| Nonperforming loans as a percentage of total loans | 0.67% | 0.59% | 0.48% |
| Nonperforming assets as a percentage of total loans and other nonperforming assets | 0.75% | 0.60% | 0.52% |
| Allowance for loan losses as a percentage of nonperforming loans | 189.01% | 203.55% | 251.48% |

(1) During the nine months ended September 30, 2008, no interest income related to these loans was included in interest income. Additional interest income of approximately $1,838,000 would have been recorded during the nine months ended September 30, 2008, if these loans had been paid in accordance with their original terms and had been outstanding throughout the quarter ended September 30, 2008 or, if not outstanding throughout the nine months ended September 30, 2008, since origination.

(2) A "restructured loan" is one the terms of which were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower.

Loans are generally placed on non-accrual status when they become 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. The past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower has experienced some changes in financial status, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full.

Despite the fact that our loan portfolio continued to grow, our emphasis on asset quality control enabled us to maintain a relatively low level of NPLs as of September 30, 2008. However, the general economic condition of the United States as well as the local economies in which we do business have experienced a severe downturn in the housing sector and the transition to below-trend GDP growth continued. The downward movement of the macro economic environment affected our borrowers' strength and our NPLs, net of SBA guaranteed portion, increased to $13.7 million, or 0.67% of the total loans at the end of the third quarter of 2008, as compared with $10.6 million, or 0.59% of the total loans, at the end of 2007. The $3.1 million increase of NPLs was comprised of a $2.9 million net increase in non-accrual loans, and a $0.2 million net increase in delinquent loans.



Table of Contents

Management also believes that the reserve provided for non-performing loans, together with the tangible collateral, were adequate as of September 30, 2008. See "Allowance for Loan Losses and Loan Commitments" below for further discussion. Except for the $13.7 million disclosed in the table above, as of September 30, 2008, management was not aware of any material credit problems of borrowers that would cause it to have serious doubts about the ability of a borrower to comply with the present loan payment terms.

Overall, total NPAs increased to $15.2 million at September 30, 2008, as compared with $10.8 million and $9.0 million at December 31, 2007 and September 30, 2007, respectively.

**Allowance for Loan Losses and Loan Commitments**

Based on the credit risk inherent in our lending business, we set aside allowances through charges to earnings. Such charges were not only made for the outstanding loan portfolio, but also for off-balance sheet loan commitments, such as commitments to extend credit or letters of credit. Charges made for our outstanding loan portfolio were credited to the allowance for loan losses, whereas charges related to loan commitments were credited to the reserve for loan commitments, which is presented as a component of other liabilities.

The allowance for loan losses and allowance for loan commitments are maintained at levels that are believed to be adequate by management to absorb estimated probable loan losses inherent in the loan portfolio. The adequacy of the allowances is determined through periodic evaluations of the loan portfolio and other pertinent factors, which are inherently subjective as the process calls for various significant estimates and assumptions. Among other factors, the estimates involve the amounts and timing of expected future cash flows and fair value of collateral on impaired loans, estimated losses on loans based on historical loss experience, various qualitative factors, and uncertainties in estimating losses and inherent risks in the various credit portfolios, which may be subject to substantial change.

On a quarterly basis, we utilize a classification migration model and individual loan review analysis as starting points for determining the adequacy of our allowance for loan losses. Our loss migration analysis tracks a certain number of quarters of loan loss history to determine historical losses by classification category for each loan type, except certain loans (automobile, mortgage and credit scored based business loans), which are analyzed as homogeneous loan pools. These calculated loss factors are then applied to outstanding loan balances based on Company defined utilization rate of exposure for unused off-balance sheet loan commitments, such as letters of credit, we record a reserve for loan commitments.

The individual loan review analysis is the other part of the allowance allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios. Further allowance assignments are made based on general and specific economic conditions, as well as performance trends within specific portfolio segments and individual concentrations of credit.

We increased our allowance for loan losses to $26.0 million at September 30, 2008, representing an increase of 24.2%, or $5.1 million from $20.9 million at September 30, 2007. With the increase of our non-performing loans, our allowance requirements have increased and we have maintained the ratio of allowance for loan losses to total loans at 1.28%, slightly higher than 1.21% retained at the third quarter-end of 2007. Management believes that the current ratio of 1.28% is adequate for our loan portfolio.

Our allowance for losses on loan commitments decreased to $1.2 million at September 30, 2008, as compared to $2.1 million at September 30, 2007. The $0.9 million decrease was primarily related to a net recovery of $763,000 in the first nine months of 2008.

In the third quarter and first nine months of 2008, both charge-offs and loan loss provision were lowered compared to the same periods of 2007.



Table of Contents

The table below summarizes for the end of the periods indicated, the balance of allowance for loan losses and its percent of such loan balance for each type of loan:

**Distribution and Percentage Composition of Allowance for Loan Losses**
**(dollars in thousands)**

| Balance as of | September 30, 2008 Reserve Amount | September 30, 2008 Total Loans | September 30, 2008 (%) | December 31, 2007 Reserve Amount | December 31, 2007 Total Loans | December 31, 2007 (%) |
|---|---|---|---|---|---|---|
| Applicable to: | | | | | | |
| Construction loans | $ 201 | $ 43,161 | 0.47% | $ 557 | $ 59,443 | 0.94% |
| Real estate secured | 11,205 | 1,566,813 | 0.72% | 13,445 | 1,386,622 | 0.97% |
| Commercial and industrial | 14,065 | 407,381 | 3.45% | 7,023 | 335,332 | 2.09% |
| Consumer | 479 | 21,661 | 2.21% | 554 | 33,569 | 1.65% |
| Total Allowance | $ 25,950 | $ 2,039,016 | 1.28% | $ 21,579 | $ 1,814,966 | 1.19% |

The table below summarizes for the periods indicated, loan balances at the end of each period, the daily averages during the period, changes in the allowance for loan losses arising from loans charged off, recoveries on loans previously charged off, additions to the allowance and certain ratios related to the allowance for loan losses:

**Allowance for Loan losses and Loan Commitments**
**(dollars in thousands)**

| As of and for the period of | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| Allowance for loan losses: | | | | |
| Balances at beginning of period | $ 23,494 | $ 19,378 | $ 21,579 | $ 18,654 |
| Actual charge-offs: | | | | |
| Real estate secured | 204 | 99 | 247 | 262 |
| Commercial and industrial | 1,106 | 2,131 | 3,487 | 5,383 |
| Consumer | 203 | 251 | 807 | 1,370 |
| Total charge-offs | 1,513 | 2,481 | 4,541 | 7,015 |
| Recoveries on loans previously charged off: | | | | |
| Real estate secured | 38 | — | 38 | — |
| Commercial and industrial | 74 | 2 | 1,758 | 18 |
| Consumer | 62 | 123 | 153 | 189 |
| Total recoveries | 174 | 125 | 1,949 | 207 |
| Net charge-offs (recoveries) | 1,339 | 2,356 | 2,592 | 6,808 |
| Provision for loan losses | 3,795 | 3,880 | 6,963 | 9,056 |
| Balances at end of period | $ 25,950 | $ 20,902 | $ 25,950 | $ 20,902 |
| Allowance for loan commitments: | | | | |
| Balances at beginning of period | $ 1,630 | $ 1,845 | $ 1,998 | $ 891 |
| (Recovery) provision for losses in loan commitments | (395) | 220 | (763) | 1,174 |
| Balances at end of period | $ 1,235 | $ 2,065 | $ 1,235 | $ 2,065 |
| Ratios: | | | | |
| Net loan charge-offs to average total loans | 0.07% | 0.14% | 0.13% | 0.42% |
| Allowance for loan losses to total loans at period-end | 1.28% | 1.21% | 1.28% | 1.21% |
| Net loan charge-offs to allowance for loan losses | 5.16% | 11.27% | 9.99% | 32.57% |
| Net loan charge-offs to provision for loan losses and loan commitments | 39.40% | 57.46% | 41.81% | 66.55% |

Table of Contents

**Contractual Obligations**

The following table represents our aggregate contractual obligations to make future payments (principal and interest) as of September 30, 2008:

| (dollars in thousands) | One Year or Less | Over One Year To Three Years | Over Three Years To Five Years | Over Five Years | Total |
|---|---|---|---|---|---|
| FHLB borrowings | $ 175,128 | $ 132,083 | $ — | $ — | $ 307,211 |
| Junior subordinated debentures | 3,251 | 4,392 | 11,558 | 77,321 | 96,522 |
| Operating leases | 3,161 | 4,205 | 2,768 | 2,461 | 12,595 |
| Time deposits | 982,926 | 18,052 | — | 10 | 1,000,988 |
| Total | $ 1,164,466 | $ 158,732 | $ 14,326 | $ 79,792 | $ 1,417,316 |

**Off-Balance Sheet Arrangements**

During the ordinary course of business, we provide various forms of credit lines to meet the financing needs of our customers. These commitments, which represent a credit risk to us, are not shown or stated in any form on our balance sheets.

As of September 30, 2008 and December 31, 2007, we had commitments to extend credit of $168.5 million and $284.9 million, respectively. Obligations under standby letters of credit were $11.3 million and $10.0 million at September 30, 2008 and December 31, 2007, respectively, and our obligations under commercial letters of credit were $11.3 million and $10.8 million at such dates, respectively.

In the normal course of business, we are involved in various legal claims. We have reviewed all legal claims against us with counsel and have taken into consideration the views of counsel as to the outcome of the claims. In our opinion, the final disposition of all such claims will not have a material adverse effect on our financial position and results of operations.

**Deposits and Other Sources of Funds**

*Deposits*

Deposits are our primary source of funds. Total deposits increased to $1.79 billion at September 30, 2008, as compared with $1.76 billion at December 31, 2007.

Total non-time deposits at September 30, 2008 decreased to $807.4 million over the last nine months from $831.5 million at December 31, 2007, while time deposits increased to $980.3 million at September 30, 2008 from $931.6 million at December 31, 2007.

Consistent with our efforts to decrease interest expenses, we have permitted relatively expensive time deposits to expire. The average rate paid on time deposits in denominations of $100,000 or more for the third quarter and the first nine months of 2008 decreased to 3.48% and 3.95%, respectively, from 5.27% and 5.28% in the same periods of the prior year.

The following tables summarize the distribution of average daily deposits and the average daily rates paid for the quarters indicated:

**Average Deposits**
**(dollars in thousands)**

| | September 30, 2008 | | December 31, 2007 | | September 30, 2007 | |
|---|---|---|---|---|---|---|
| For the quarters ended: | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Demand, non-interest-bearing | $ 305,098 | | $ 310,502 | | $ 322,865 | |
| Money market | 439,080 | 3.21% | 478,153 | 4.43% | 474,122 | 4.62% |
| Super NOW | 21,144 | 1.36% | 24,613 | 1.65% | 22,317 | 1.26% |
| Savings | 41,273 | 3.48% | 31,144 | 2.80% | 29,790 | 2.50% |
| Time certificates of deposit in denominations of $100,000 or more | 770,812 | 3.48% | 738,769 | 5.00% | 780,463 | 5.27% |
| Other time deposits | 197,044 | 3.69% | 133,567 | 4.65% | 142,877 | 4.92% |
| Total deposits | $ 1,774,451 | 2.81% | $ 1,716,748 | 3.82% | $ 1,772,434 | 4.01% |



Table of Contents

The scheduled maturities of our time deposits in denominations of $100,000 or greater at September 30, 2008 were as follows:

**Maturities of Time Deposits of $100,000 or More, at September 30, 2008**
**(dollars in thousands)**

| | | |
|---|---|---|
| Three months or less | $ | 452,500 |
| Over three months through six months | | 159,561 |
| Over six months through twelve months | | 139,717 |
| Over twelve months | | 13,533 |
| Total | $ | 765,311 |

A number of clients carry deposit balances of more than 1% of our total deposits, but the California State Treasury was the only depositor which had a deposit balance of more than 5% of total deposits at September 30, 2008 and December 31, 2007.

We accept brokered deposits on a selective basis at reasonable interest rates to augment deposit growth. In the first nine months of 2008, the ongoing credit crisis and stiff competition for customer deposits among banks within the markets where we do business has driven up interest rates of various deposit products. As a result, brokered deposits have been lower in cost compared to other time deposits. We have increased these deposits to $132.6 million at September 30, 2008 from $62.6 million at December 31, 2007 in order to limit our reliance on high interest rate time deposits.

*FHLB Borrowings*

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may obtain advances from the FHLB as an alternative to retail deposit funds. We have historically utilized borrowings from the FHLB in order to take advantage of their flexibility and comparatively low cost. Due to the ongoing credit crisis and stiff competition for customer deposits among banks, we have increased FHLB borrowing as an alternative to fund our growing loan portfolio. See "Liquidity Management" below for details relating to the FHLB borrowings program.

The following table is a summary of FHLB borrowings for the quarters indicated (dollars in thousands):

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| Balance at quarter-end | $ | 300,000 | $ | 150,000 |
| Average balance during the quarter | $ | 308,478 | $ | 46,890 |
| Maximum amount outstanding at any month-end | $ | 320,000 | $ | 155,000 |
| Average interest rate during the quarter | | 3.32% | | 4.24% |
| Average interest rate at quarter-end | | 3.33% | | 4.22% |

**Asset/Liability Management**

We seek to ascertain optimum and stable utilization of available assets and liabilities as a vehicle to attain our overall business plans and objectives. In this regard, we focus on measurement and control of liquidity risk, interest rate risk and market risk, capital adequacy, operation risk and credit risk. See further discussion on these risks in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2007. Information concerning interest rate risk management is set forth under "Item 3 - Quantitative and Qualitative Disclosures about Market Risk."





**Liquidity Management**

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet our cash flow requirements. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of its customers and to take advantage of investment opportunities as they arise. Liquidity management involves our ability to convert assets into cash or cash equivalents without incurring significant loss, and to raise cash or maintain funds without incurring excessive additional cost. For this purpose, we maintain a portion of our funds in cash and cash equivalents, deposits in other financial institutions and loans and securities available for sale. Our liquid assets at September 30, 2008 and December 31, 2007 totaled approximately $292.2 million and $324.7 million, respectively. Our liquidity levels measured as the percentage of liquid assets to total assets were 12.2% and 14.8% at September 30, 2008 and December 31, 2007, respectively.

As a secondary source of liquidity, we obtain advances from the FHLB to supplement our supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB are typically secured by our mortgage loans and stock issued by the FHLB. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness. As of September 30, 2008, our borrowing capacity from the FHLB was about $553.8 million and the outstanding balance was $300.0 million, or approximately 54.2% of our borrowing capacity.

On October 3 2008, Congress passed and President signed into law the Emergency Economic Stabilization Act of 2008 ("EESA"), which authorizes the United States Department of Treasury ("Treasury") to establish and manage the Treasury Capital Purchase Program ("CPP"). The program provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires institutions to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declarations of dividends. Applications must be submitted by November 14, 2008 and are subject to approval by the Treasury. The CPP provides for a minimum investment of 1% of risk-weighted assets, with maximum investment equal to the lesser of 3% of total risk-weighted assets or $25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the initial investment, and a dividend rate of 9% thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. We filed our application to participate in this program on October 29, 2008.

**Capital Resources and Capital Adequacy Requirements**

Historically, our primary source of capital has been internally generated operating income through retained earnings. In order to ensure adequate levels of capital, we conduct ongoing assessments of projected sources and uses of capital in conjunction with projected increases in assets and level of risks. We have considered, and we will continue to consider, additional sources of capital as the need arises, whether through the issuance of additional equity, debt or hybrid securities.



Table of Contents

We are subject to various regulatory capital requirements administered by federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that rely on quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can trigger regulatory actions under the prompt corrective action rules that could have a material adverse effect on our financial condition and operations. Prompt corrective action may include regulatory enforcement actions that restrict dividend payments, require the adoption of remedial measures to increase capital, terminate FDIC deposit insurance, and mandate the appointment of a conservator or receiver in severe cases. In addition, failure to maintain a well-capitalized status may adversely affect the evaluation of regulatory applications for specific transactions and activities, including acquisitions, continuation and expansion of existing activities, and commencement of new activities, and could adversely affect our business relationships with our existing and prospective clients. The aforementioned regulatory consequences for failing to maintain adequate ratios of Tier 1 and Tier 2 capital could have a material adverse effect on our financial condition and results of operations. Our capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors. See Part I, Item 1 "Description of Business — Regulation and Supervision — Capital Adequacy Requirements" in our Annual Report on Form 10-K for the year ended December 31, 2007 for additional information regarding regulatory capital requirements.

As of September 30, 2008, we were qualified as a "well capitalized institution" under the regulatory framework for prompt corrective action. The following table presents the regulatory standards for well-capitalized institutions, compared to capital ratios as of the dates specified for the Company and the Bank:

**Wilshire Bancorp, Inc.**

| | Regulatory Well-Capitalized Standards | Regulatory Adequately-Capitalized Standards | Actual ratios for the Company as of: | | |
|---|---|---|---|---|---|
| | | | September 30, 2008 | December 31, 2007 | September 30, 2007 |
| Total capital to risk-weighted assets | 10% | 8% | 14.01% | 14.58% | 15.06% |
| Tier I capital to risk-weighted assets | 6% | 4% | 11.68% | 11.83% | 12.18% |
| Tier I capital to adjusted average assets | 5% | 4% | 10.19% | 10.36% | 10.41% |

**Wilshire State Bank**

| | Regulatory Well-Capitalized Standards | Regulatory Adequately-Capitalized Standards | Actual ratios for the Bank as of: | | |
|---|---|---|---|---|---|
| | | | September 30, 2008 | December 31, 2007 | September 30, 2007 |
| Total capital to risk-weighted assets | 10% | 8% | 13.38% | 13.59% | 13.84% |
| Tier I capital to risk-weighted assets | 6% | 4% | 11.65% | 11.80% | 12.03% |
| Tier I capital to adjusted average assets | 5% | 4% | 10.18% | 10.33% | 10.29% |

For the purposes of our regulatory capital ratio computation, the Junior Subordinated Debentures of $87.3 million, which consists of $10 million issued by the Bank and $77.3 million issued by the Company in connection with the issuance of $75 million trust preferred securities, were taken into consideration. At December 31, 2007, the Company accounted for $57.1 million of such securities as Tier 1 capital and $27.9 million as Tier 2 capital. At September 30, 2008, the portion qualified for Tier 1 capital increased to $62.6 million and the portion for Tier 2 decreased to $22.4 million. For the Bank level, only the $10 million debenture issued by the Bank in 2002 is treated as Tier 2 capital.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in lending, investing and deposit taking activities. Our profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. We evaluate market risk pursuant to policies reviewed and approved annually by our Board of Directors. The Board delegates responsibility for market risk management to the Asset & Liability Management Committee ("ALCO"), which reports monthly to the Board on activities related to market risk management. As part of the management of our market risk, ALCO may direct changes in the mix of assets and liabilities. To that end, we actively monitor and manage interest rate risk exposures.

Interest rate risk management involves development, analysis, implementation and monitoring of earnings to provide stable earnings and capital levels during periods of changing interest rates. In the management of interest rate risk, we utilize monthly gap analysis and quarterly simulation modeling to determine the sensitivity of net interest income and economic value sensitivity of the balance sheet. These techniques are complementary and are used together to provide a more accurate measurement of interest rate risk.

Gap analysis measures the repricing mismatches between assets and liabilities. The interest rate sensitivity gap is determined by subtracting the amount of liabilities from the amount of assets that reprice in a particular time interval. If repricing assets exceed repricing liabilities in any given time period, we would be deemed to be "asset-sensitive" for that period. Conversely, if repricing liabilities exceed repricing assets in a given time period, we would be deemed to be "liability-sensitive" for that period.

The significant balance of non-interest-bearing deposits puts us in an overall asset-sensitive position and we strategically plan a significant three-month positive gap to meet any unanticipated funding needs by maintaining a large portion of funds obtained from non-interest-bearing deposits in overnight investments and other cash equivalents. In general, based upon our mix of deposits, other borrowings, loans and investments, increases in interest rates would be expected to increase our net interest margin. Decreases in interest rates would be expected to have the opposite effect. However, we usually seek to maintain a balanced position over the period of one year to ensure net interest margin stability in times of volatile interest rates. This is accomplished by maintaining a similar level of interest-earning assets and interest-paying liabilities available to be repriced within one year. At September 30, 2008, our position appeared balanced for a one-year timeframe with a negligible sensitive cumulative gap (minus 28.3% of average interest-earning assets).

The change in net interest income may not always follow the general expectations of an "asset-sensitive" or a "liability-sensitive" balance sheet during periods of changing interest rates. This possibility results from interest rates earned or paid changing by differing increments and at different time intervals for each type of interest-sensitive asset and liability. The interest rate gaps reported in the tables arise when assets are funded with liabilities having different repricing intervals. Since these gaps are actively managed and change daily as adjustments are made in interest rate views and market outlook, positions at the end of any period may not reflect our interest rate sensitivity in subsequent periods. We attempt to balance longer-term economic views against prospects for short-term interest rate changes.

Although the interest rate sensitivity gap is a useful measurement and contributes to effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, the ALCO also regularly uses simulation modeling as a tool to measure the sensitivity of earnings and net portfolio value, or NPV, to interest rate changes. The NPV is defined as the net present value of an institution’s existing assets, liabilities and off-balance sheet instruments. The simulation model captures all assets, liabilities and off-balance sheet financial instruments and accounts for significant variables that are believed to be affected by interest rates. These include prepayment speeds on loans, cash flows of loans and deposits, principal amortization, call options on securities, balance sheet growth assumptions and changes in rate relationships as various rate indices react differently to market rates.

Although the simulation measures the volatility of net interest income and net portfolio value under immediate increase or decrease of market interest rate scenarios in 100 basis point increments, our main concern is the negative effect of a reasonably-possible worst scenario. The ALCO policy prescribes that for the worst possible rate-change scenario the possible reduction of net interest income and NPV should not exceed 20% of the base net interest income and 25% of the base NPV, respectively.

As our simulation measures indicate below, the net interest income increases (decreases) as market interest rates rise (fall), since we were in an overall asset-sensitive position with a 12.3% negative gap in the short run for the three-month timeframe and 16.4% cumulative positive gap for our whole portfolio. The NPV increases (decreases) as interest income increases (decreases) because the change in cash flows has a greater impact on the change in the NPV than does the change in the discount rate. However, the extent of such changes was within the tolerance level prescribed by our ALCO policy, due partly to the near-balanced cumulative gap for the one-year timeframe.





Management believes that the assumptions used to evaluate the vulnerability of our operations to changes in interest rates approximate actual experience and considers them reasonable; however, the interest rate sensitivity of our assets and liabilities and the estimated effects of changes in interest rates on our net interest income and NPV could vary substantially if different assumptions were used or actual experience differs from the historical experience on which they are based.

The following table sets forth the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities as of September 30, 2008 using the interest rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms. Actual payment patterns may differ from contractual payment patterns:

**Interest Rate Sensitivity Analysis**
**(dollars in thousands)**

| | At September 30, 2008 Amounts Subject to Repricing Within | | | | |
|---|---|---|---|---|---|
| | 0-3 months | 3-12 months | Over 1 to 5 years | After 5 years | Total |
| **Interest-earning assets:** | | | | | |
| Gross loans(1) | $ 954,683 | $ 109,008 | $ 858,156 | $ 96,143 | $ 2,017,990 |

| | | | | | |
|---|---|---|---|---|---|
| Investment securities | 3,632 | 16,813 | 77,277 | 130,378 | 228,100 |
| Federal funds sold and cash equivalents | 3 | — | — | — | 3 |
| Interest-earning deposits | — | — | — | — | — |
| Total | $ 958,318 | $ 125,821 | $ 935,433 | $ 226,521 | $ 2,246,093 |
| | | | | | |
| **Interest-bearing liabilities:** | | | | | |
| Savings deposits | $ 42,677 | $ — | $ — | $ — | $ 42,677 |
| Time deposits of $100,000 or more | 452,500 | 299,278 | 13,533 | — | 765,311 |
| Other time deposits | 86,266 | 124,759 | 4,006 | 5 | 215,036 |
| Other interest-bearing deposits | 469,288 | — | — | — | 469,288 |
| FHLB borrowings | 110,000 | 60,000 | 130,000 | — | 300,000 |
| Junior Subordinated Debentures | 71,857 | — | 15,464 | — | 87,321 |
| Total | $ 1,232,588 | $ 484,037 | $ 163,003 | $ 5 | $ 1,879,633 |
| | | | | | |
| Interest rate sensitivity gap | $ (274,270) | $ (358,216) | $ 772,430 | $ 226,516 | $ 366,460 |
| Cumulative interest rate sensitivity gap | $ (274,270) | $ (632,486) | $ 139,944 | $ 366,460 | |
| Cumulative interest rate sensitivity gap ratio (based on average interest-earning assets) | -12.27% | -28.30% | 6.26% | 16.40% | |

(1) Excludes the gross amount of non-accrual loans of approximately $21.0 million at September 30, 2008.

The following table sets forth our estimated net interest income over a 12-month period and NPV based on the indicated changes in market interest rates as of September 30, 2008. All assets presented in this table are held-to-maturity or available-for-sale. At September 30, 2008, we had no trading securities (dollars in thousand):

| Change (in Basis Points) | Net Interest Income (next twelve months) | % Change | NPV | % Change |
|---|---|---|---|---|
| +200 | $ 90,603 | 1.9% | $ 240,001 | -6.8% |
| +100 | 89,974 | 0.6% | 250,041 | -2.9% |
| 0 | 89,450 | — | 257,551 | — |
| -100 | 87,187 | -2.5% | 247,310 | -4.0% |
| -200 | 83,530 | -6.6% | 232,292 | -9.8% |

Our strategies in protecting both net interest income and economic value of equity from significant movements in interest rates involve restructuring our investment portfolio and using FHLB advances. Although our policy also permits us to purchase rate caps and floors and interest rate swaps, we are not currently engaged in any of those types of transactions.



Table of Contents

**Item 4. Controls and Procedures**

As of September 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, regarding the effectiveness of the design and operation of our "disclosure controls and procedures," as defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2008, such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance in achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2008 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



Table of Contents

## Part II. OTHER INFORMATION

**Item 1. Legal Proceedings**

In the normal course of business, we are involved in various legal claims. We have reviewed all legal claims against us with counsel and have taken into consideration the views of such counsel as to the outcome of the claims. We do not believe the final disposition of all such claims will have a material adverse effect on our financial position or results of operations.

**Item 1A. Risk Factors**

There are no material changes to our risk factors as presented in the Company's 2007 Form 10-K under the heading "Item 1A. Risk Factors."

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In July 2007, the Company's Board of Directors authorized a stock repurchase program to repurchase up to $10 million of the Company's common stock until July 31, 2008. During 2008, there were no such repurchases. This program completed its term and expired as of July 31, 2008.

**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.



Table of Contents

EXHIBITS

**Exhibit Table**

| Refereence Number | Item |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |



Table of Contents

**SIGNATURES**

Pursuant to the requirement 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.

WILSHIRE BANCORP, INC.

Date: November 7, 2008

By: /s/ Alex Ko
Alex Ko
Chief Financial Officer
(Principal Financial and Accounting Officer)



# Section 2: EX-31.1 (EX-31.1)

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Joanne Kim, certify that:

1. I have reviewed this Form 10-Q of Wilshire Bancorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2008

/s/ Joanne Kim
Joanne Kim
Chief Executive Officer

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# Section 3: EX-31.2 (EX-31.2)

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Alex Ko, certify that:

1. I have reviewed this 10-Q of Wilshire Bancorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2008

/s/ Alex Ko
Alex Ko
Chief Financial Officer

# Section 4: EX-32 (EX-32)

**EXHIBIT 32**

**CERTIFICATION OF CEO AND CFO PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Wilshire Bancorp, Inc. (the "Company") for the quarterly period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Joanne Kim, as Chief Executive Officer of the Company, and Alex Ko, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

WILSHIRE BANCORP, INC.

Date: November 7, 2008

By: /s/ Joanne Kim
Joanne Kim
Chief Executive Officer

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|---|---|
| Date: November 7, 2008 | By: /s/ Alex Ko |
| | Alex Ko |
| | Chief Financial Officer |