



SAEHAN BANCORP AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Saehan Bancorp:

We have audited the accompanying consolidated balance sheets of Saehan Bancorp and subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saehan Bancorp and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 26, 2009

SAEHAN BANCORP AND SUBSIDIARY
Consolidated Statements of Financial Condition
December 31, 2008 and 2007

Assets	2008	2007
Cash and due from banks	\$ 16,239,450	19,326,017
Federal funds sold	<u>32,792,000</u>	<u>37,430,000</u>
Cash and cash equivalents	49,031,450	56,756,017
Securities available for sale, at fair value (note 2)	44,399,116	52,681,399
Loans receivable, net of allowance for loan losses of \$22,157,000 and \$8,248,568 at December 31, 2008 and 2007, respectively (note 4)	709,552,163	687,014,620
Loans held for sale, at the lower of cost or fair value	729,277	761,074
Customers' liabilities on acceptance	180,978	351,560
Servicing assets	1,548,952	1,724,496
Accrued interest receivable	2,381,589	3,273,786
Deferred income tax assets (note 8)	12,939,478	4,004,662
Federal Home Loan Bank stock	5,771,700	7,206,500
Premises and equipment, net (note 5)	6,375,890	7,070,745
Other real estate owned	4,415,416	—
Other assets	<u>5,106,882</u>	<u>2,352,836</u>
Total assets	<u>\$ 842,432,891</u>	<u>823,197,695</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (note 6):		
Noninterest-bearing demand	\$ 112,387,018	118,705,791
Interest bearing:		
Savings	35,285,675	22,817,612
Money market and super Negotiable Order of Withdrawal (NOW)	100,432,452	133,850,814
Time deposits of \$100,000 or more	278,334,891	214,897,924
Other time deposits	<u>106,185,772</u>	<u>148,276,682</u>
Total deposits	632,625,808	638,548,823
Accrued interest payable	3,143,484	3,460,537
Other borrowed funds (note 7)	121,000,000	96,500,000
Junior subordinated debenture (note 7)	20,619,000	20,619,000
Other liabilities	2,017,453	2,545,591
Acceptance outstanding	<u>180,978</u>	<u>351,560</u>
Total liabilities	<u>779,586,723</u>	<u>762,025,511</u>
Commitments and contingencies (note 11)		
Shareholders' equity (notes 13 and 16):		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 16,032,429 and 11,160,737 shares at December 31, 2008 and 2007, respectively	71,300,915	52,262,108
Additional paid-in capital	2,329,419	1,933,257
Retained earnings (deficits)	(11,086,070)	7,022,245
Accumulated other comprehensive income (loss), net of tax	<u>301,903</u>	<u>(45,426)</u>
Total shareholders' equity	<u>62,846,167</u>	<u>61,172,184</u>
Total liabilities and shareholders' equity	<u>\$ 842,432,890</u>	<u>823,197,695</u>

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended December 31, 2008 and 2007

	2008	2007
Interest income:		
Interest and fees on loans	\$ 49,825,744	54,430,121
Interest on federal funds sold	226,250	212,010
Interest on securities available for sale and due from banks	2,264,663	2,486,519
Total interest income	52,316,657	57,128,650
Interest expense:		
Interest on deposits (note 6)	20,288,988	21,067,838
Interest on other borrowed funds (note 7)	4,938,345	5,320,325
Total interest expense	25,227,333	26,388,163
Net interest income before provision for credit losses	27,089,324	30,740,487
Provision for credit losses (note 4)	29,786,584	3,982,600
Net interest income (loss) after provision for credit losses	(2,697,260)	26,757,887
Noninterest income:		
Service charges on deposits	2,593,517	2,336,821
Gains on sales of loans	723,103	4,140,415
Letter of credit related fees	700,582	884,537
Loan servicing income	621,729	407,478
Remittance fee income	254,272	240,439
Fees from annuity, mutual funds, and insurance sales	157,378	243,998
Other income	746,515	502,725
Total noninterest income	5,797,096	8,756,413
Noninterest expenses:		
Salaries and employee benefits (notes 13 and 14)	11,912,587	14,368,207
Occupancy and equipment (notes 5 and 11)	4,974,768	4,225,372
Professional services	1,870,705	1,852,190
Data processing fees	918,369	826,805
Directors' compensation	503,830	510,337
Business development expenses	751,443	1,299,273
Supplies and communication	659,715	750,501
FDIC assessment	824,175	112,380
Assessment and administrative expense	471,889	325,040
Other operating expenses	1,694,327	679,695
Total noninterest expenses	24,581,808	24,949,800
Income (loss) before provision (benefit) for income taxes	(21,481,972)	10,564,500
Provision (benefit) for income taxes (note 8)	(8,597,005)	4,164,365
Net income (loss)	(12,884,967)	6,400,135
Other comprehensive income (loss):		
Unrealized gain on securities available for sale and interest-only strip	558,469	865,630
Income taxes on other comprehensive income	(211,140)	(341,664)
Other comprehensive income, net of tax	347,329	523,966
Total comprehensive income (loss)	\$ (12,537,638)	6,924,101
Earnings (losses) per share (note 9):		
Basic	\$ (1.04)	0.53
Diluted	(1.04)	0.53
Weighted average shares outstanding:		
Basic	\$ 12,401,413	12,021,977
Diluted	12,401,413	12,125,112

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2008 and 2007

	<u>Shares outstanding</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings (deficits)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total shareholders' equity</u>
Balance at December 31, 2006	10,663,052	\$ 46,583,162	1,110,524	5,558,550	(569,392)	52,682,844
4% stock dividend	429,097	4,934,616	—	(4,934,616)	—	—
Cash paid for fractional shares	—	—	—	(1,824)	—	(1,824)
Stock options exercised	68,588	744,330	—	—	—	744,330
Tax benefit of stock option exercise	—	—	26,490	—	—	26,490
Share-based compensation cost	—	—	796,243	—	—	796,243
Comprehensive income:						
Net income	—	—	—	6,400,135	—	6,400,135
Change in unrealized gain on securities available for sale, net of tax	—	—	—	—	547,297	547,297
Change in unrealized loss on interest-only strip, net of tax	—	—	—	—	(23,331)	(23,331)
Total comprehensive income						<u>6,924,101</u>
Balance at December 31, 2007	11,160,737	52,262,108	1,933,257	7,022,245	(45,426)	61,172,184
8% stock dividend	892,717	5,222,394	—	(5,222,394)	—	—
Cash paid for fractional shares	—	—	—	(954)	—	(954)
Issuance of common stocks	3,978,975	13,816,413	—	—	—	13,816,413
Share-based compensation cost	—	—	396,162	—	—	396,162
Comprehensive loss:						
Net loss	—	—	—	(12,884,967)	—	(12,884,967)
Change in unrealized gain on securities available for sale, net of tax	—	—	—	—	335,574	335,574
Change in unrealized gain on interest-only strip, net of tax	—	—	—	—	11,755	11,755
Total comprehensive loss						<u>(12,537,638)</u>
Balance at December 31, 2008	<u>16,032,429</u>	<u>\$ 71,300,915</u>	<u>2,329,419</u>	<u>(11,086,070)</u>	<u>301,903</u>	<u>62,846,167</u>

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income (loss)	\$ (12,884,967)	6,400,135
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,871,279	1,464,448
Amortization (accretion) of discount and premium on securities available for sale, net	26,518	(7,665)
Share-based compensation expense	396,162	796,243
Provision for credit losses	29,786,584	3,982,600
FHLB stock dividends	(396,600)	(196,600)
Other-than-temporary impairment loss on securities	356,500	—
Benefit for deferred income tax	(9,177,654)	(1,207,430)
Gain (loss) on disposition of premise and equipment	182,876	(11,132)
Gain on sales of loans	(723,103)	(4,140,415)
Gain on sales of other real estate owned	(260,184)	—
Excess tax benefit from stock option exercise	—	26,490
Origination of loans identified as held for sale	(22,604,095)	(73,747,840)
Proceeds from sales of loans held for sale	23,358,995	78,198,096
(Increase) decrease in accrued interest receivable	892,197	(410,508)
(Increase) decrease in servicing asset	175,544	(436,379)
(Increase) decrease in other assets	(6,909,278)	(1,662,112)
Increase (decrease) in accrued interest payable	(317,053)	(458,270)
Increase (decrease) in other liabilities	(528,138)	(986,131)
Net cash and cash equivalents provided by operating activities	<u>3,245,583</u>	<u>7,603,530</u>
Cash flows from investing activities:		
Net increase in loans receivable	(52,304,154)	(167,669,303)
Purchases of securities available for sale	(6,987,813)	—
Proceeds from matured or called securities available for sale	15,457,273	4,322,246
Purchase of Federal Home Loan Bank stock	—	(4,636,800)
Proceeds from sale of Federal Home Loan Bank stock	1,831,400	185,600
Purchases of premise and equipment	(1,359,300)	(2,371,078)
Net cash and cash equivalents used in investing activities	<u>(43,362,594)</u>	<u>(170,169,335)</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	(5,923,015)	117,997,244
Issuance of junior subordinated debentures	—	20,619,000
Proceeds from other borrowed funds	24,500,000	49,500,000
Proceeds from exercise of stock options	—	744,330
Proceeds from issuance of common stocks	13,816,413	—
Excess tax benefit from exercise of stock options	—	(26,490)
Stock dividend paid in cash for fractional shares	(954)	(1,824)
Net cash and cash equivalents provided by financing activities	<u>32,392,444</u>	<u>188,832,260</u>
Net increase (decrease) in cash and cash equivalents	<u>(7,724,567)</u>	<u>26,266,455</u>
Cash and cash equivalents, beginning of year	<u>56,756,017</u>	<u>30,489,562</u>
Cash and cash equivalents, end of year	\$ <u>49,031,450</u>	\$ <u>56,756,017</u>
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Interest	\$ 24,910,281	25,929,892
Income taxes	2,390,051	6,322,160
Noncash financing activities:		
Transfer of retained earnings to common stock for stock dividend	\$ 5,222,394	4,934,616
Transfer of loans to other real estate owned	4,415,416	—

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Saeahan Bancorp (the Bancorp) and its wholly owned subsidiary, Saeahan Bank (the Bank). The Bank's primary operations are related to traditional banking activities, including acceptance of deposits and lending of loans. The Bank's primary deposit products are demand and time deposits, and its primary lending products are commercial business loans. The Bank maintains 10 branch offices in the Greater Los Angeles area and three loan production offices in other areas. The Bank's principal client base comprises small to midsize businesses, entrepreneurs, professionals, and individuals. The Bank offers a broad range of lending, deposit, international banking, and other products and services.

(a) *Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the accounts of the Bancorp and the Bank (collectively, the Company). All material intercompany transactions and balances have been eliminated in the consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and to prevailing practices within the banking industry.

(b) *Use of Estimates*

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in process of collection, due from banks, and federal funds sold. Generally, federal funds are purchased and sold for an one-day period. The Company is required to maintain minimum reserve balances with the Federal Reserve Bank under the Federal Reserve Act. The reserve requirement balance was approximately \$3.3 million at December 31, 2008 and \$3.6 million at December 31, 2007.

(d) *Securities Available for Sale*

Investments securities are classified into one of three categories and accounted for as follows:

- Securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost, adjusted for amortization of premiums and accretion of discounts
- Securities that are bought and held principally for the purpose of selling in the near future are classified as "trading securities" and reported at fair value. Unrealized gains and losses are recognized in earnings
- Securities not classified as held-to-maturity or trading securities are classified as "available-for-sale" and reported at fair value. Unrealized gains and losses are reported, net of

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Notes to Consolidated Financial Statements

December 31, 2008 and 2007

taxes, as a separate component of accumulated other comprehensive income in shareholders' equity.

Accreted discounts and amortized premiums on investment securities are included in interest income, and unrealized and realized gains or losses related to holding or selling securities are calculated using the specific-identification method. The Company assesses, at each reporting date, whether there is an "other-than-temporary" impairment to the Company's investment securities. The Company examines all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment (OTTI). Specific investment level factors the Company examines to assess impairment include the severity and duration of the loss, an analysis of the issuers of the securities, and if there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, the Company reexamines the financial resources and overall ability the Bank has and the intent management has to hold the securities until their fair values recover. To the extent there is an impairment of value deemed "other than temporary" for a security held to maturity or available for sale, a loss is recognized in earnings and a new cost basis established for the security.

There were no trading or held-to-maturity investment securities at December 31, 2008 and 2007.

(e) ***Loans Receivable***

Loans receivable are reported at the principal amount outstanding, net of deferred loan fees and unearned income. Interest revenue on loans is generally accrued based on the principal amount outstanding. Interest income is not recognized on loans if collection of the interest is deemed to be unlikely. Loan origination fees are deferred and amortized over the terms of the related loans as adjustments to the loans' yields.

Loans are placed on nonaccrual when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent interest payments are received.

(f) ***Allowance for Loan Losses***

Loan losses are charged, and recoveries are credited, to the allowance for loan losses account. Additions to the allowance for loan losses account are charged to the provision for the credit losses. Charge-offs to the allowance for loan losses are made when specific assets are considered uncollectible or are transferred to real estate acquired in settlement of loans and the fair value of the property is less than the loan's recorded investment. Recoveries are credited to the allowance for loan losses. The allowance for loan losses is maintained at a level, which in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The adequacy of the allowance is determined by management based upon an evaluation and review of the loan portfolio, consideration of historical loan loss experience, specific impaired loans, current economic conditions, changes in the composition of the loan portfolio, and other risk factors. Allowances for impaired loans are generally determined based on collateral values less selling costs or the present value of estimated cash flows, depending on type of underlying collateral.

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Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term.

(g) Other Real Estate Owned

Assets acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

(h) Loans Held for Sale and Servicing Asset

Loans designated as held for sale in the secondary market are carried at the lower of cost or market value in the aggregate. Loan fees and costs are deferred and recognized as a component of gain or loss on sale of loans when the loans are sold. Net unrealized losses are recognized through a valuation allowance established by charges to operations.

Certain Small Business Administration (SBA) loans that may be sold prior to maturity are designated as held-for-sale at origination and are recorded at the lower of cost or market, determined on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the gain on sale of SBA loans is recognized as other noninterest income at the time of the sale. The remaining portion of the gain, presented as unearned income in note 3, is deferred and amortized over the remaining life of the loans as an adjustment to yield.

Upon sale of such loans, the Bank receives a fee for servicing the loans. The servicing asset is recorded based on the present value of the contractually specified servicing fee, net of servicing cost, over the estimated life of the loan, using a discount rate of 1.0% above the main note rate, with an average discount rate of 9.79%, and an average constant prepayment rate of 18.95% in 2007. During 2008, the discount rate was 1.0% above the main note rate, with an average discount rate of 7.40% and an average constant prepayment rate of 17.75%. The servicing asset is amortized in proportion to and over the period of estimated servicing income. The Bank has capitalized \$409,080 and \$975,869 of servicing assets and amortized \$584,624 and \$539,490 during the years ended December 31, 2008 and 2007, respectively. Management periodically evaluates the servicing assets for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment. No impairment existed at December 31, 2008 and 2007.

An interest-only strip is recorded based on the present value of the excess of future interest income, over the contractually specified servicing fee, calculated using the same assumptions as noted above. Interest-only strip receivables are accounted for at fair value, with unrealized gains or losses recorded as an adjustment in accumulated other comprehensive income in shareholders' equity.

(i) Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the assets. Equipment is depreciated over 3 to 10 years, and leasehold improvements are amortized over the lesser of the terms of the respective

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leases or the estimated useful lives. Repairs and maintenance are charged to operating expenses as incurred. Costs of improvements are added to the applicable property accounts.

(j) Junior Subordinated Debentures

The Company has established a statutory business trust (the Trust) that is a wholly owned subsidiary of the Bancorp. The Trust issued variable rate capital security representing undivided preferred beneficial interests in the assets of the Trust. The Bancorp is the owner of all the beneficial interests represented by the common securities of the Trust.

Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised December 2003) – an Interpretation of ARB No. 51*, requires that variable interest entities be consolidated by a company if that company is subject to a majority of expected loss from the variable interest entity's activities or is entitled to receive a majority of the entity's expected residual returns or both. The Trust is not consolidated and junior subordinated debt represents liabilities of the Bancorp to the Trust.

(k) Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between financial and income tax reporting of the allowance for loan losses and accumulated depreciation. The deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

(l) Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank's required investment in FHLB stock carried at cost amounted to \$5,771,700 and \$7,206,500 at December 31, 2008 and 2007, respectively. A new capital plan of the FHLB was approved by the Federal Housing Finance Board and was implemented on April 1, 2004. Each member is required to own a minimum stock amount equal to the greater of 1.0% of membership asset value or 4.7% of FHLB advances.

(m) Stock Based Compensation

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, on January 1, 2006, using the "modified prospective" method. Under this method, awards that are granted, modified, or settled after December 31, 2005 are measured and accounted for in accordance with SFAS No. 123(R). Also under this method, expense is recognized for services attributed to the current period for unvested awards that were granted prior to January 1, 2006, based upon the fair value determined at the grant date under SFAS No. 123, *Accounting for Stock-Based Compensation*. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock compensation under the intrinsic value method permitted by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, the Company previously recognized no compensation cost for employee stock options that were granted with an exercise price equal to the market value of the underlying common stock on the date of grant.

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In November 2005, the FASB issued Staff Position No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of the Share-Based Payment Awards* (FAS 123R-3). The Company has adopted the alternative transition method prescribed by FAS 123R-3 and concluded that it has no pool of tax benefits as of the adoption date of SFAS No. 123(R).

SFAS No. 123(R) requires that cash flows resulting from the realization of excess tax benefits recognized on awards that were fully vested at the time of adoption of SFAS No. 123(R) be classified as a financing cash inflow and an operating cash outflow in the consolidated statements of cash flows. Before the adoption of SFAS No. 123(R), the Company presented all tax benefits realized from the exercise of stock options as an operating cash inflow.

(n) Earnings per Share

Basic earnings per share (EPS) are computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings.

(o) Reclassification

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current financial statement presentation.

(p) Segment Reporting

Through its nine-branch network, the Company provides a broad range of financial services to individuals and companies located in primarily in southern California. These services include demand, time and savings deposits, loans and international banking, and other services. While the Company's chief decision makers monitor the revenue streams of the Company's various products and services, operations are managed and financial performance is evaluated on a companywide basis. Accordingly, the Company considers all of its operations to be aggregated in one reportable operating segment.

(q) Recent Accounting Pronouncements

FASB Staff Position (FSP) EITF 99-20-1, *Amendments to the Impairment Guidance of Emerging Issues Task Force (EITF) Issue No. 99-20* – In January 2009, the FASB issued FSP EITF 99-20-1, which revises the OTTI guidance on beneficial interests in securitized financial assets that are within the scope of EITF Issue No. 99-20, *Recognition of Interest Income and Impaired on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets*. FSP EITF 99-20-1 amends EITF Issue No. 99-20 to more closely align its OTTI guidance with Paragraph 16 of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, by (1) removing the notion of a “market participant” and (2) inserting a “probable” concept related to the estimation of a beneficial interest's cash flows. FSP EITF 99-20-1 is effective prospectively for interim and annual periods ending after December 15, 2008. Retrospective application of FSP EITF 99-20-1 is prohibited. The adoption of this guidance did not have a material effect on the Company's financial condition, results of operations, or cash flows.

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FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* – In June 2008, the FASB issued FSP EITF 03-6-1, which clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common stockholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and is not expected to have a significant impact on the Company's financial condition or results of operations.

(2) Securities Available for Sale

The following is a summary of securities available for sale at December 31, 2008 and 2007:

	<u>Amortized cost</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Estimated fair value</u>
2008:				
U.S. government-sponsored agency securities	\$ 15,975,319	342,426	—	16,317,745
Mortgage-backed securities	16,022,510	208,045	76,096	16,154,459
Municipal bonds	11,901,069	67,252	46,609	11,921,712
FNMA preferred stock	3,500	1,700	—	5,200
Total	<u>\$ 43,902,398</u>	<u>619,423</u>	<u>122,705</u>	<u>44,399,116</u>
2007:				
U.S. government-sponsored agency securities	\$ 20,467,149	106,588	29,137	20,544,600
Mortgage-backed securities	19,983,575	13,881	166,336	19,831,120
Municipal bonds	11,944,151	82,960	21,432	12,005,679
FNMA preferred stock	360,000	—	60,000	300,000
Total	<u>\$ 52,754,875</u>	<u>203,429</u>	<u>276,905</u>	<u>52,681,399</u>

In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, FSP No. FAS 115-1 and FSP No. FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its application to Certain Investments*, and Staff Accounting Bulletin No. 59, the Company periodically evaluates its investments for OTTI.

In September 2008, the Federal Housing Finance Agency placed Fannie Mae under receivership and suspended indefinitely the payment of future dividends on their issues of preferred stock. In light of these developments, the Company recognized in 2008 an OTTI loss of \$356,500 on its agency preferred stocks to write down the value of these securities to their respective market values as of December 24, 2008. The amortized cost balance of the FNMA securities was \$360,000 as of December 24, 2008, and an impairment loss of \$356,500 was recognized to write down the amortized cost balance to its fair value of \$35,000 as of December 24, 2008. As of December 31, 2008, the Company held Fannie Mae preferred stock with carrying value of \$5,200.

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The Company did not engage in any sale transactions pertaining to investment securities during 2008 and 2007. Additionally, accrued interest and dividends receivable on investment securities totaled \$330,597 and \$419,638 at December 31, 2008 and 2007, respectively.

Gross unrealized losses on investment securities and the fair value of the related investment securities, aggregated by the investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2008 and 2007:

	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2008:						
U.S. government-sponsored agency securities	\$ —	—	—	—	—	—
Municipal bonds	46,609	4,233,488	—	—	46,609	4,233,488
Mortgage-backed securities	76,096	6,477,373	—	—	76,096	6,477,373
FNMA preferred stock	—	—	—	—	—	—
Total	\$ 122,705	10,710,861	—	—	122,705	10,710,861
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2007:						
U.S. government-sponsored agency securities	\$ —	—	29,137	10,969,270	29,137	10,969,270
Municipal bonds	—	—	21,432	5,432,153	21,432	5,432,153
Mortgage-backed securities	137,343	16,297,520	28,993	1,748,766	166,336	18,046,286
FNMA preferred stock	60,000	300,000	—	—	60,000	300,000
Total	\$ 197,343	16,597,520	79,562	18,150,189	276,905	34,747,709

All individual securities that have been in a continuous unrealized loss position for less than 12 months at December 31, 2008 had investment grade ratings upon purchase. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities, and the various rating agencies have reaffirmed these securities' long-term investment grade status at December 31, 2008. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, the Company has the ability and management intends to hold these securities until their fair values recover to cost. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for less than 12 months as of December 31, 2008 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2008 are warranted.

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The amortized cost and estimated fair value of securities available for sale at December 31, 2008, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Estimated fair value
Due within one year	\$ 7,386,623	7,451,904
Due after one year through five years	24,407,391	24,744,346
Due after five years through ten years	5,971,958	6,015,669
Due after ten years	6,132,926	6,181,997
FNMA preferred stock	3,500	5,200
Total	\$ 43,902,398	44,399,116

Securities with amortized cost of approximately \$9,997,000 and \$11,773,000 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

(3) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The Company adopted SFAS No. 157 on January 1, 2008. In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP No. FAS 157-2 delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a material impact on the Company's financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

In October 2008, the FASB issued FSP No. 157-3, *Determining Fair Value of a Financial Asset in a Market That Is Not Active*. FSP No. 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP No. 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued, and did not have a significant impact on the Company's financial condition or results of operations.

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SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a three-level fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

- Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3 Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and assumptions in estimating its fair value disclosure for financial instruments:

Securities Available for Sale – The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, as well as other U.S. government and agency debentures that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities and municipal bonds. The Company does not have any Level 3 investment securities.

Loans Held for Sale – Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies these loans as Level 2 and subject to nonrecurring fair value adjustments.

Impaired Loans – SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost related to liquidation of the collateral. These loans are classified as Level 2 and subject to nonrecurring fair value adjustments.

Servicing Assets and Servicing Liabilities – The fair values of servicing assets and servicing liabilities are based on a valuation model that calculates the present value of estimated net future cash flows related to contractually specify servicing fees. The valuation model incorporates assumptions that market participants would use in estimating future cash flows. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Fair value measurements of

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servicing assets and servicing liabilities use significant unobservable inputs. As such, the Company classifies them as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2008, assets and liabilities measured at fair value on a recurring basis are as follows:

	<u>Level 1</u> <u>Quoted prices</u> <u>in active</u> <u>markets for</u> <u>identical</u> <u>assets</u>	<u>Level 2</u> <u>Significant</u> <u>observable</u> <u>inputs</u>	<u>Level 3</u> <u>Significant</u> <u>unobservable</u> <u>inputs</u>	<u>Balance as of</u> <u>December 31,</u> <u>2008</u>
Assets:				
Securities available for sale:				
U. S. government agency securities	\$ 16,317,745	—	—	16,317,745
Mortgage-backed securities	—	16,154,459	—	16,154,459
Municipal bonds	—	11,921,712	—	11,921,712
Equity securities	5,200	—	—	5,200
Total securities available for sale	\$ <u>16,322,945</u>	<u>28,076,171</u>	<u>—</u>	<u>44,399,116</u>
Servicing assets	\$ —	—	1,548,952	1,548,952
Liabilities:				
Servicing liabilities	\$ —	—	88,291	88,291

The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

	<u>Fair value measurements using significant unobservable inputs (Level 3)</u>					
	<u>Beginning</u> <u>balance as of</u> <u>January 1,</u> <u>2008</u>	<u>Purchases,</u> <u>issuances and</u> <u>settlements</u>	<u>Realized and</u> <u>unrealized</u> <u>losses</u> <u>in earnings</u>	<u>Realized and</u> <u>unrealized</u> <u>gains in other</u> <u>comprehensive</u> <u>income</u>	<u>Transfers</u> <u>in and/or out</u> <u>of Level 3</u>	<u>Ending</u> <u>balance as of</u> <u>December 31,</u> <u>2008</u>
Assets:						
Servicing assets	\$ 1,724,496	409,080	(584,624)	—	—	1,548,952
Liabilities:						
Servicing liabilities	\$ 93,657	—	(5,366)	—	—	88,291

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As of December 31, 2008, assets and liabilities measured at fair value on a nonrecurring basis are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
	Quoted prices in active markets for identical assets	Significant observable inputs with no active market with identical characteristics	Significant unobservable inputs	Balance as of December 31, 2008
Assets:				
Loans held for sale	\$ —	729,277	—	729,277
Impaired loans	—	48,744,950	20,366,031	69,110,981

The Company does not record impaired loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Assets and Liabilities Not Measured at Fair Value on a Recurring or Nonrecurring Basis

SFAS No. 107, *Disclosures About Fair Value of Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis or nonrecurring basis are discussed herein.

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The Company estimates fair value amounts of financial instruments using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop estimates of fair value amounts. Accordingly, the estimates presented herein do not necessarily indicate the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimates of fair value amounts.

	December 31, 2008		December 31, 2007	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets:				
Cash and cash equivalents	\$ 49,031,450	49,031,450	56,756,017	56,756,017
Securities available for sale	43,902,398	44,399,116	52,681,399	52,681,399
Loans receivable, net of allowance for loan losses	709,552,163	704,880,912	687,014,620	687,821,736
Loans held for sale	729,277	729,277	761,074	761,074
Accrued interest receivable	2,381,589	2,381,589	3,273,786	3,273,786
FHLB stock	5,771,700	5,771,700	7,206,500	7,206,500
Liabilities:				
Deposits	\$ 632,625,808	632,686,222	638,548,823	638,737,822
Other borrowed funds	121,000,000	124,045,095	96,500,000	95,247,545
Junior subordinated debentures	20,619,000	20,619,000	20,619,000	20,619,000
Accrued interest payable	3,143,484	3,143,484	3,460,537	3,460,537

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(a) Cash and Cash Equivalents

The carrying amounts approximate fair values due to the short-term nature of these instruments.

(b) Securities Available for Sale

The fair value of securities equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

(c) Loans Receivable, Net of Allowance for Loan Losses and Loans Held for Sale

For variable rate loans that reprice frequently with no significant change in credit risk, carrying amounts approximate fair values. Fair values of other loans (for e.g., fixed rate real estate and rental property mortgage loans, and commercial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The estimated fair values of loans include judgments regarding future expected loss experience and risk characteristics. The estimated fair value is net of allowance for loan losses.

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(d) *Accrued Interest Receivable*

The carrying amounts of accrued interest receivable approximate fair values due to its short-term nature.

(e) *Federal Home Loan Bank Stock*

The carrying amounts approximate fair value as the stock may be resold to the issuer at carrying value.

(f) *Deposits*

The fair values of demand deposits such as interest-bearing checking accounts, savings accounts, super NOW accounts, and money market demand accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The fair values of certificates of deposit are estimated using a discounted cash flow analysis that applies interest rates currently being offered to certificates with similar remaining maturity.

(g) *Other Borrowed Funds and Junior Subordinated Debentures*

Discount cash flows have been used to value FHLB advances and, for variable rate of junior subordinated debentures that resets quarterly, the carrying amount approximates fair values.

(h) *Accrued Interest Payable*

The carrying amounts of accrued interest payable approximate its fair values due to its short-term nature.

(i) *Commitment to Extend Credit and Standby Letter of Credit*

The fair value of loan commitments and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The estimated fair values of these are excluded from the above table because they are not material.

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(4) Loans Receivable and Allowance for Loan Losses

The following is a summary of loans by major categories at December 31, 2008 and 2007:

	2008	2007
Real estate loans	\$ 465,258,785	435,053,836
Construction loans	33,585,655	34,657,853
Commercial loans	210,917,605	197,640,981
Consumer loans	24,155,527	29,975,667
Total	733,917,572	697,328,337
Less:		
Deferred loan (fees) costs, net	(278,846)	41,145
Unearned income	(1,929,563)	(2,106,294)
Allowance for loan losses	(22,157,000)	(8,248,568)
Net loans	\$ 709,552,163	687,014,620

As of December 31, 2008 and 2007, the Company serviced loans sold to unaffiliated parties in the amount of approximately \$130,024,000 and \$128,205,000, respectively.

An analysis of the activity in the allowance for loan losses and reserve for off-balance credit risk for the years ended December 31, 2008 and 2007 is as follows:

	2008		2007	
	Allowance for loan losses	Allowance for off- balance sheet items	Allowance for loan losses	Allowance for off- balance sheet items
Balance, beginning of year	\$ 8,248,568	317,000	5,477,827	317,000
Provision charged to operating Expenses	29,786,584	155,340	3,982,600	—
Loan recoveries	386,152	—	15,993	—
Loans charged off	(16,264,304)	—	(1,227,852)	—
Balance, end of year	\$ 22,157,000	472,340	8,248,568	317,000

The reserve and provision for off-balance credit losses, recorded in other liabilities and other operating expenses, respectively, are primarily related to undisbursed funds on line of credit.

At December 31, 2008 and 2007, the Company's impaired loans were \$74,310,000 and \$15,875,275, respectively, and related impairment reserves were \$9,471,000 and \$3,856,183, respectively. Interest income of \$2,184,948 and \$847,600 was recognized on impaired loans during the years ended December 31, 2008 and 2007, respectively. Loans on which the accrual of interest has been discontinued amounted to \$42,012,121 and \$9,651,845 at December 31, 2008 and 2007, respectively. If interest on these

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loans had been accrued, interest income would have increased by approximately \$1,154,862 in 2008 and \$580,990 in 2007. The following table provides information of the Company's nonaccrual loans as of December 31, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Real estate loans	\$ 39,486,523	5,002,165
Commercial and industrial loans	2,363,877	4,431,615
Consumer loans	<u>161,721</u>	<u>218,065</u>
Total nonaccrual loans	\$ <u>42,012,121</u>	<u>9,651,845</u>

The Company is not committed to lend additional funds to debtors whose loans are considered to be impaired. Additionally, there were no loans past due 90 days or more still accruing at December 31, 2008 and 2007.

Other Real Estate Owned (OREO)

As of December 31, 2008, there were four OREO properties with a combined net carrying value of \$4,415,416. During the year ended December 31, 2007, there was no OREO property. During the year ended December 31, 2008, an OREO property, with a carrying value of \$1,042,152, was sold, and a gain of \$260,184 was realized.

Restructured Loans

Restructured loans totaled \$8,873,386 and \$2,051,664 at December 31, 2008 and 2007, respectively, and the related allowances were \$218,378 and \$211,568, respectively.

(5) Premises and Equipment

Premises and equipment at December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 336,116	336,116
Leasehold improvements	6,026,845	5,725,166
Equipment, furniture, and fixtures	4,658,727	4,326,498
Computer software	<u>1,029,355</u>	<u>795,148</u>
Total	12,051,043	11,182,928
Less accumulated depreciation	<u>(5,675,153)</u>	<u>(4,112,183)</u>
Premise and equipment, net	\$ <u>6,375,890</u>	<u>7,070,745</u>

Total depreciation and amortization included in occupancy and equipment expenses was \$1,871,279 and \$1,464,448 for the years ended December 31, 2008 and 2007, respectively.

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(6) Deposits

The scheduled maturities of time deposits were as follows at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Three months or less	\$ 139,748,069	163,516,006
Over three months to twelve months	244,542,335	197,766,883
Over twelve months	230,259	1,891,717
Total	<u>\$ 384,520,663</u>	<u>363,174,606</u>

A summary of interest expense related to deposits and other borrowings is as follows for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Super NOW	\$ 21,381	27,606
Money market funds and savings	4,649,012	6,159,214
Time deposits:		
\$100,000 or more	10,374,499	8,707,215
Other time deposits	5,244,096	6,173,803
Other	4,938,345	5,320,325
Total	<u>\$ 25,227,333</u>	<u>26,388,163</u>

Accrued interest payable on deposits totaled \$2,918,479 and \$3,265,642 at December 31, 2008 and 2007, respectively.

(7) Other Borrowed Funds and Junior Subordinated Debentures

The Company has a line of credit with the FHLB with total outstanding amount of \$121,000,000 and maturities of four years or less at December 31, 2008. The interest rates range from 0.05% to 5.29%.

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FHLB advances represent collateralized obligations with the FHLB. The following is a summary of contractual maturities pertaining to FHLB advances:

Year of maturity	2008		2007	
	Amount	Weighted average interest rate	Amount	Weighted average interest rate
2008	\$ —	—%	\$ 21,500,000	3.30%
2009	61,000,000	1.26	15,000,000	4.96
2010	35,000,000	5.06	35,000,000	5.06
2011	20,000,000	5.11	20,000,000	5.11
2012	5,000,000	5.09	5,000,000	5.09
	<u>\$ 121,000,000</u>	3.15	<u>\$ 96,500,000</u>	4.66

The Company has pledged loans receivable with carrying values of \$550.5 million as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is \$178.6 million, of which \$57.6 million remained available as of December 31, 2008.

For the year ended December 31, 2008 and 2007, interest expense on FHLB advances totaled \$3.9 million and \$4.2 million, respectively, and the weighted average interest rates were 3.15% and 4.66%, respectively.

Total credit lines for a correspondent bank amounted to \$5 million at December 31, 2008 and 2007. There was no outstanding balance as of December 31, 2008 and 2007.

Junior Subordinated Debentures

In March 2007, the Company issued a junior subordinated note bearing interest at the three-month London InterBank Offered Rate (LIBOR) plus 1.62% totaling \$20,619,000. The note has a floating rate, which resets quarterly. Under the terms and transactions, the note will mature in March 2037 and is redeemable, in whole or in part, without penalty, at the option of the Bancorp after June 30, 2012.

In November 2008, the Bancorp committed to the Federal Reserve Bank of San Francisco (the FRB) that no interest payments on the junior subordinated debentures would be made without the prior written consent of the FRB. In addition, the limitations imposed by the FRB prohibited the Bank from providing a dividend to the Bancorp without the prior written consent of the FRB. The Bancorp's Board of Directors has elected to pay quarterly interest payments on its outstanding trust preferred securities on December 30, 2008 and obtained the prior written consent of the FRB accordingly. No dividend was declared during 2008. See note 15, "Regulatory Matters," for further discussion.

For the years ended December 31, 2008 and 2007, interest expense on the junior subordinated debentures totaled \$1,037,108 and \$1,066,949, respectively, and weighted average interest rates were 5.01% and 6.73%, respectively.

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(8) Income Taxes

The provisions for income taxes for the years ended December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Current income tax expense:		
Federal	\$ 203,535	4,438,594
State	377,114	933,201
Total	<u>580,649</u>	<u>5,371,795</u>
Deferred income tax benefit:		
Federal	(6,547,999)	(915,108)
State	(2,629,655)	(292,322)
Total	<u>(9,177,654)</u>	<u>(1,207,430)</u>
Income taxes	\$ <u><u>(8,597,005)</u></u>	<u><u>4,164,365</u></u>

As of December 31, 2008 and 2007, deferred income tax liabilities have been provided for taxable temporary differences, and deferred income tax assets have been provided for deductible temporary differences. The net deferred income tax assets included in the consolidated statements of financial condition include the following components:

	<u>2008</u>	<u>2007</u>
Allowance for loan losses	\$ 9,323,968	3,145,801
Accumulated depreciation	347,404	418,358
Unrealized loss on available-for-sale securities and loans	—	46,283
Share-based compensation expense	201,687	378,958
Net operating loss	5,958,258	—
Other	686,980	17,417
Total deferred income tax assets	<u>16,518,297</u>	<u>4,006,817</u>
Unrealized gain on available-for-sale securities	(211,140)	—
Mark-to-market accounting for loans receivables net of allowance for loan losses	(2,153,992)	—
State taxes	(1,213,687)	(2,155)
Total deferred income tax liabilities	<u>(3,578,819)</u>	<u>(2,155)</u>
Net deferred income tax assets	\$ <u><u>12,939,478</u></u>	<u><u>4,004,662</u></u>

In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon factors such as the

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scheduled reversal of temporary differences and projected future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

For tax purposes only, the Company adopted the mark-to-market accounting method for the loans receivable effective beginning January 1, 2008 under the Internal Revenue Code Sec. 475 (the IRC 475). Per the IRC 475, as the Company meets certain criteria of being a dealer in securities, the Company is required to account loans receivable at its fair market value and recognize gain or loss as if such loans were sold for their respective fair market value on the last business day of a taxable year. The dealer in securities is defined as a taxpayer who regularly purchases securities from or sells securities to customers in the ordinary course of a trade or business. Accordingly, the deferred tax asset has been provided to properly account for temporary differences pertaining to unrealized gain or losses calculated based on the carrying and fair values of the loans receivables, net of allowance for loan losses.

The principal reasons for the difference in the effective tax rate and the federal statutory rate are as follows:

	<u>2008</u>	<u>2007</u>
Federal income tax at statutory tax rate	34%	34%
Net state income tax	7	4
Other	(1)	1
	<u>40%</u>	<u>39%</u>

Income tax receivables of \$3,130,483 and \$869,170 were at December 31, 2008 and 2007, respectively, and were included in other assets in the consolidated statements of financial condition.

The Company has not adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and the Company does not expect a material effect on its financial condition or results of operations. The Company is required to adopt FIN 48 for fiscal years beginning after December 15, 2008.

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(9) Earnings Per Share

The EPS data for 2007 was retroactively restated reflecting the 2008 stock dividend of 8%. The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations at December 31, 2008 and 2007:

	<u>Income (loss)</u> <u>(numerator)</u>	<u>Weighted</u> <u>shares</u> <u>(denominator)</u>	<u>Per share</u> <u>amount</u>
2008:			
Basic EPS – income available to common shareholders	\$ (12,884,966)	12,401,413	(1.04)
Effect of dilutive securities:			
Stock options assumed exercised	<u>—</u>	<u>—</u>	<u>—</u>
Diluted EPS – income available to common shareholders	\$ <u>(12,884,966)</u>	<u>12,401,413</u>	<u>(1.04)</u>
2007:			
Basic EPS – income available to common shareholders	\$ 6,400,135	12,021,977	0.53
Effect of dilutive securities:			
Stock options assumed exercised	<u>—</u>	<u>103,136</u>	<u>—</u>
Diluted EPS – income available to common shareholders	\$ <u>6,400,135</u>	<u>12,125,112</u>	<u>0.53</u>

(10) Related-Party Transactions

As part of its normal banking activities, the Company has extended credit to its directors and officers. All such extensions of credits are on terms similar to transactions with nonaffiliated parties and involve only normal credit risks.

The following summarizes the activities during 2008 and 2007:

		<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$	4,507,444	2,039,450
New loans originated		2,172,346	2,496,060
Principal repayments		<u>(46,114)</u>	<u>(28,066)</u>
Balance at end of year	\$	<u>6,633,676</u>	<u>4,507,444</u>

(11) Commitments and Contingencies

The consolidated financial statements do not reflect various other commitments and contingent liabilities, such as commitments to extend credit and letters of credit, which arise in the normal course of business.

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The Company leases its premises from unaffiliated parties under noncancelable operating leases. Future noncancelable minimum rental commitments under the operating leases approximated the following amounts:

	<u>Amount</u>
Year ending December 31:	
2009	\$ 2,231,336
2010	2,219,785
2011	2,099,050
2012	1,318,477
2013	1,204,913
Thereafter	<u>2,309,606</u>
Total	<u>\$ 11,383,167</u>

The total rental expense recorded under such leases for 2008 and 2007 amounted to approximately \$2,645,000 and \$2,110,000, respectively.

Litigation

In the normal course of business, the Company is involved in various legal claims. Management has reviewed all legal claims against the Company with outside legal counsel and has taken into consideration the views of such counsel as to the outcome of the claims. In management's opinion, the final disposition of all such claims will not have a material adverse effect on the Company's financial position or results of operations.

(12) Off-Balance-Sheet Credit Risk

In the normal course of meeting the financing instruments needs of its customers, the Company is a party to financial instruments with off-balance-sheet credit risk. These financial instruments include commitments to extend credit, which are legally binding loan commitments with set expiration dates. They are intended to be disbursed, subject to certain conditions, upon request of the borrower. The Company evaluates the creditworthiness of each customer. The Company requires collateral or other security to support off-balance-sheet financial instruments with credit risk. However, when the commitment is funded, the Company receives collateral to the extent deemed necessary. The amount of collateral obtained, if deemed necessary by the Company upon the extension of credit, is based upon management's evaluation.

Collateral held varies, but may include accounts receivable, inventory, personal property, equipment, and income-producing commercial or residential properties. At December 31, 2008 and 2007, the Company had loan commitments granted and undisbursed of \$65,505,423 and \$97,041,319, and commitments under outstanding commercial letters of credit of \$3,516,159 and \$8,567,098, at December 31, 2008 and 2007, respectively. Standby letters of credit and guarantees of \$13,793,459 and \$8,815,250, at December 31, 2008 and 2007, respectively. Management does not anticipate any material losses as a result of these transactions.

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(13) Employee Share-Based Compensation

The Company has three stock option plans, under which options to purchase shares of the Company's common stock may be granted to key employees and directors as of December 31, 2008. There is the 1998 Stock Option Plan (1998 Plan), the 2004 Stock Option Plan (2004 Plan), and the 2006 Stock Option Plan (2006 Plan).

(a) 1998 Plan

Under the 1998 Plan, the total numbers of option shares that can be granted are 2,589,902 shares, and the options shall not be less than the fair value of the Company's stock on the effective date of grant. Options will vest over three to five years. No option may be granted with a term of more than 10 years. There were no options granted under the 1998 Plan in 2008 and 2007.

The following is a summary of the 1998 Plan transactions for the years ended December 31, 2008 and 2007:

	2008		2007	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Options outstanding – beginning of year	31,748	\$ 3.83	39,743	\$ 3.84
Options exercised	—		(500)	3.85
Options forfeited	—		(7,495)	4.07
Options outstanding – end of year	31,748	3.83	31,748	3.83
Options exercisable – end of year	31,748	3.83	31,748	3.83

For the years ended December 31, 2008 and 2007, no compensation expense for the 1998 Plan was recognized in the consolidated statements of operations.

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The following information under the 1998 Plan is presented for the years ended December 31, 2008 and 2007:

	Year ended December 31	
	2008	2007
Grant date fair value of options granted	\$ —	—
Fair value of options vested	—	—
Total intrinsic value of options exercised	—	4,192
Cash received from options exercised	—	2,075
Actual tax benefit realized from tax deductions on options exercised	—	—

As of December 31, 2008 and 2007, stock options outstanding under the 1998 Plan were as follows:

	Options outstanding				Options exercisable			
	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life
2008:								
\$3.75 through \$4.00	31,748	\$ (58,099)	3.83	1.65	31,748	\$ (58,099)	3.83	1.65
	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life
2007:								
\$3.75 through \$4.98	31,748	\$ 83,999	3.83	2.73	31,748	\$ 83,999	3.83	2.73

(b) 2004 Plan

Under the 2004 Plan, the total numbers of option shares that can be granted are 1,349,188 shares, and the options shall not be less than the fair value of the Company's stock on the effective date of grant. Options will vest over three to five years. No option may be granted with a term of more than 10 years.

In December 2007, the Board of Directors approved to modify the options held by one executive by allowing such executive to cancel 108,160 options, one-half of the options held by such holder, and receive 54,080 options, one-half of the number of options canceled, at an exercise price equal to the fair market value as of the date of such modification. Incremental compensation cost of \$113,027 has been incurred due to the modification. The Company may choose not to bifurcate the amount of remaining unrecognized compensation cost and incremental fair value of modified awards but recognize the total of these two amounts over the extended vesting period. The Company has elected

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to recognize the total of remaining unrecognized compensation cost and incremental fair value of modified award over the extended vesting period.

There was no share of options granted under the 2004 Plan for years ended December 31, 2008 and 2007.

The following information under the 2004 Plan is presented for the years ended December 31, 2008 and 2007.

	<u>Year ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Grant date fair value of options granted	\$ —	—
Fair value of options vested	191,268	918,663
Total intrinsic value of options exercised	—	110,788
Cash received from options exercised	—	742,255
Actual tax benefit realized from tax deductions on options exercised	—	26,470

The following is a summary of the stock option activity during 2008 under the 2004 Plan:

	<u>2008</u>		<u>2007</u>	
	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>
Options outstanding – beginning of year	709,051	\$ 10.73	1,116,554	\$ 11.14
Options granted	—		—	
Options exercised	—		(76,493)	9.70
Options forfeited	(98,126)	9.38	(331,010)	12.34
Options outstanding – end of year	<u>610,925</u>	10.95	<u>709,051</u>	10.73
Options exercisable – end of year	550,962	10.53	638,572	10.35

For the years ended December 31, 2008 and 2007, compensation expense of \$131,585 and \$629,026, respectively, for the 2004 Plan was recognized in the consolidated statements of operations.

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As of December 31, 2008 and 2007, stock options outstanding under the 2004 Plan were as follows:

	Options outstanding				Options exercisable			
	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life
2008:								
\$9.00 through \$9.49	441,549	\$ (3,256,910)	9.38	5.95	441,549	\$ (3,256,910)	9.38	5.95
\$9.50 through \$10.49	35,043	(294,908)	10.42	2.80	21,025	(176,938)	10.42	2.80
\$10.50 through \$10.99	17,521	(149,824)	10.55	2.84	10,513	(89,898)	10.55	2.84
\$17.00 through \$17.99	116,812	(1,766,373)	17.12	7.09	77,875	(1,177,587)	17.12	7.09
	<u>610,925</u>	<u>\$ (5,468,015)</u>	10.95	5.90	<u>550,962</u>	<u>\$ (4,701,333)</u>	10.53	5.93

	Options outstanding				Options exercisable			
	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life
2007:								
\$9.00 through \$9.99	539,673	\$ (1,562,153)	9.38	7.00	539,673	\$ (1,562,153)	9.38	7.00
\$10.00 through \$10.99	52,566	(209,173)	10.46	3.88	21,024	(83,661)	10.46	3.88
\$17.00 through \$17.99	116,813	(1,242,888)	17.12	8.17	77,874	(828,584)	17.12	8.17
	<u>709,051</u>	<u>\$ (3,014,214)</u>	11.59	6.96	<u>638,572</u>	<u>\$ (2,474,398)</u>	11.18	7.04

(c) 2006 Plan

Under the 2006 Plan, the total numbers of option shares that can be granted are 584,064 shares, and the options shall not be less than the fair value of the Company's stock on the effective date of grant. Options will vest over three to five years. No option may be granted with a term of more than 10 years.

In March 2008, the Board of Directors approved the acceleration of the vesting schedule of employees who modified their options in December 2007 to match the last vesting date of original vesting schedule. The remaining unrecognized compensation expense is accelerated in accordance with the new vesting schedule.

In December 2007, the Board of Directors approved to modify the options held by nine employees by allowing such employees to elect to either (i) cancel one-half of the options held by such holder, and receive one-half of the number of options canceled at an exercise price equal to the fair market value as of the date of such modification or (ii) cancel all of the options held by such employees and receive one-half of the number of options canceled at an exercise price equal to the fair market value

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as of the date of such modification. A total of 153,712 options was canceled and 76,856 options were granted under such modification. Incremental compensation cost of \$132,369 has been incurred due to the modification. The Company may choose not to bifurcate the amount of remaining unrecognized compensation cost and incremental fair value of modified award but recognize the total of these two amounts over the extended vesting period. The Company has elected to recognize the total of remaining unrecognized compensation cost and incremental fair value of modified award over the extended vesting period.

For the year ended December 31, 2008, the estimated weighted average fair value per share of options granted under the 2006 Plan was as follows:

	Year ended December 31	
	2008	2007
Estimated weighted average fair value per share of options granted	\$ 0.94	3.52

The estimated weighted average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31	
	2008	2007
Weighted average assumptions:		
Expected volatility	26.26%	26.64%
Expected term	5.3 years	5.6 years
Risk-free interest rate	2.45%	4.04%
Expected forfeiture rate	5.69%	7.70%

Expected volatility is determined based on the historical weekly volatility of stock price of California Community Banks, which are listed on the National Stock Market with total assets up to \$2 billion, over a period equal to expected term of the options granted. The expected term of the options represents the period of time that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with previous option grants. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

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The following information under the 2006 Plan is presented for the year ended December 31, 2008:

		Year ended December 31	
		2008	2007
Grant date fair value of options granted	\$	103,685	969,485
Fair value of options vested		164,115	178,481
Total intrinsic value of options exercised		—	—
Cash received from options exercised		—	—
Actual tax benefit realized from tax deductions on options exercised		—	—

The following is a summary of the stock option activity during 2008 under the 2006 Plan:

	December 31, 2008		December 31, 2007	
	Number of shares	Weighted average exercise price per shares	Number of shares	Weighted average exercise price per shares
Options outstanding – beginning of year	287,838	\$ 9.78	181,734	\$ 14.51
Options granted	111,997	4.43	297,363	9.67
Options exercised	—	—	—	—
Options forfeited	(108,576)	10.02	(191,259)	14.08
Options outstanding – end of year	<u>291,259</u>	7.63	<u>287,838</u>	9.78
Options exercisable – end of year	53,022	9.68	13,342	14.82

For the years ended December 31, 2008 and 2007, compensation expense of \$264,577 and \$167,216, respectively, for the 2006 Plan was recognized in the consolidated statements of operations.

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As of December 31, 2008, stock options outstanding under the 2006 Plan were as follows:

	Options outstanding				Options exercisable			
	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life	Number of shares	Intrinsic value	Average exercise price per share	Weighted average remaining contractual life
2008:								
\$3.00 through \$3.99	15,000	\$ (15,000)	3.00	5.82	—	\$ —	—	—
\$4.00 through \$6.99	194,519	(832,541)	6.28	7.86	31,367	(187,888)	7.99	7.10
\$10.00 through \$10.99	40,435	(333,993)	10.26	4.29	8,984	(74,208)	10.26	4.27
\$11.00 through \$11.99	10,800	(98,388)	11.11	4.47	2,160	(19,678)	11.11	4.47
\$13.00 through \$13.99	27,136	(315,592)	13.63	3.57	9,164	(107,677)	13.75	2.13
\$15.00 through \$15.99	3,369	(44,269)	15.14	3.70	1,347	(17,700)	15.14	3.70
	<u>291,259</u>	<u>\$ (1,639,783)</u>	7.63	6.68	<u>53,022</u>	<u>\$ (407,151)</u>	9.68	5.57
2007:								
\$1.00 through \$7.99	141,411	\$ (196,404)	7.87	7.69	—	\$ —	—	—
\$9.00 through \$9.99	21,600	(66,000)	9.54	5.67	—	—	—	—
\$10.00 through \$10.99	61,776	(233,376)	10.26	5.45	—	—	—	—
\$11.00 through \$11.99	10,800	(50,000)	11.11	5.50	—	—	—	—
\$13.00 through \$13.99	34,145	(246,072)	13.66	5.33	4,672	(34,695)	13.91	4.50
\$15.00 through \$15.99	18,106	(158,252)	15.22	3.86	8,670	(76,587)	15.31	2.90
	<u>287,838</u>	<u>\$ (950,104)</u>	9.78	6.40	<u>13,342</u>	<u>\$ (111,282)</u>	16.01	3.46

(14) Employee Benefit Plans

The Company has a 401(k) plan for the benefit of its employees. The Company matches 100% of the employees' contribution up to 5% of each participant's annual compensation. Contributions to the 401(k) plan for the years ended December 31, 2008 and 2007 were approximately \$342,800 and \$184,700, respectively.

(15) Regulatory Matters

(a) Regulatory Order

The Bancorp and the Bank are subject to extensive federal and state supervision and regulation by certain regulatory agencies. In connection with such supervision and their recent examinations, the regulatory agencies will require that certain deficiencies in the Company's policies, procedures, or activities be corrected in the future. If such matters are not corrected in the future or significant progress is not made on such matters, then the Bancorp and/or the Bank may face additional regulatory action that may have an impact on the operations of the Bancorp and the Bank.

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On November 6, 2008, the members of the board of the Bank entered into a memorandum of understanding with the California Department of Financial Institutions (the DFI) and the Federal Deposit Insurance Corporation (the FDIC) to address certain issues raised in the Bank's most recent regulatory examination by the DFI on May 19, 2008. Certain of the issues to be addressed by management under the terms of the memorandum of understanding relate to the following, among others: (i) retain management acceptable to the DFI and the FDIC; (ii) notify the DFI and the FDIC prior to adding any individual as a senior executive officer of the Bank or a director; (iii) develop or revise, adopt, and implement written lending and collection policies to ensure adequate control of credit risk and lending functions; (iv) develop or revise, adopt, and implement a comprehensive policy for determining the appropriateness of the Bank's allowance for loan and lease losses; (v) develop and submit a three-year strategic plan for regulatory approval to include a comprehensive discussion of capital, liquidity, and the growth and composition of the loan and deposit portfolios, including financial projections for 2008 to 2010; (vi) maintain a minimum Tier 1 leverage capital ratio and a minimum tangible shareholders' equity to total tangible assets ratio of not less than 8.5% while maintaining an appropriate allowance for loan and lease losses; and (vii) provide periodic progress reports to the DFI and the FDIC detailing the form and manner of any actions to secure compliance with the memorandum of understanding.

Separately, the Bancorp has committed to the FRB (the Board Resolution) that it shall take all appropriate steps to fully utilize its financial and managerial resources to assist its subsidiary, the Bank, in functioning in a safe and sound manner pursuant to Regulation Y of the Board of Governors of the Federal Reserve System. In addition, the Bancorp has agreed that it will not (i) declare or pay any dividends or make any payments on its trust preferred securities or any other capital distributions without the prior written consent of the FRB; (ii) incur, increase, or renew any existing debt or purchase, redeem, or otherwise acquire any of its capital stock without the prior written consent of the FRB; (iii) directly or indirectly, issue any Junior Subordinated Debentures without the prior written approval of the FRB; (iv) shall not purchase, redeem, or otherwise acquire, directly or indirectly, any of its stock without the prior written approval of the FRB; and (v) provide periodic progress reports to the FRB detailing the form and manner of any actions to secure compliance with each provision of the Board Resolution.

If the Company fails to comply with the terms of the memorandum of understanding or any other regulatory orders or agreements the Company has entered into, or regulators believe that further enforcement action against the Company is necessary, the Company may be subject to further requirements to take corrective action, face further regulation and intervention and additional constraints on the Company's business operations, any of which could have a material adverse effect on the Company's results of operations and business.

The board and management are committed to addressing and resolving the issues arising in the memorandum of understanding on a timely basis. Since completion of the May 19, 2008 regulatory examination, actions have already been undertaken to resolve many of the issues raised by the memorandum of understanding.

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Troubled Asset Relief Program

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was enacted to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Initially introduced as the Troubled Asset Relief Program (TARP), the EESA authorized the U.S. Department of the Treasury (the Treasury) to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities, and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. Initially, \$350 billion, or half of the \$700 billion, was made immediately available to the Treasury. On January 15, 2009, the remaining \$350 billion was released to the Treasury.

The Company has applied to participate in the TARP CPP for an investment of up to \$24 million from the federal government, but the Company is still waiting for a final decision from the Treasury as to whether the Company will be able to participate in this program.

(b) *Regulatory Capital*

The Bancorp and the Bank are required to maintain a certain minimum level of regulatory capital as defined by the banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (as set forth in the regulation) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2008, the Bancorp and the Bank meet all capital adequacy requirements to which they are subject.

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(16) Condensed Financial Statements of Parent Company

The following presents the unconsolidated condensed financial statements of the parent company, Saehan Bancorp, as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Statements of financial condition:		
Assets:		
Cash and cash equivalents	\$ 2,572,794	2,369,516
Investment in Saehan Bank	80,101,148	78,108,081
Investment in trust preferred securities	619,000	619,000
Deferred income tax asset	186,326	379,272
Other assets	—	345,427
Total assets	\$ <u>83,479,268</u>	<u>81,821,296</u>
Liabilities and shareholders' equity:		
Junior subordinated debenture	\$ 20,619,000	20,619,000
Other liabilities	14,100	30,112
Shareholders' equity	62,846,168	61,172,184
Total liabilities and shareholders' equity	\$ <u>83,479,268</u>	<u>81,821,296</u>
Statements of operations:		
Other operating expense	\$ (1,821,614)	(2,205,588)
Equity in net income (loss) of Saehan Bank	(11,354,262)	7,945,856
Income tax benefit	290,909	659,867
Net income (loss)	\$ <u>(12,884,967)</u>	<u>6,400,135</u>

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	<u>2008</u>	<u>2007</u>
Statements of cash flows:		
Cash flows from operating activities:		
Net income (loss)	\$ (12,884,967)	6,400,135
Adjustments to reconcile net income (loss) to net cash and cash equivalents used in operating activities:		
Equity in net loss (income) of Saehan Bank	11,354,262	(7,945,856)
Share-based compensation expense	396,162	796,243
(Increase) decrease in deferred tax asset	192,946	(178,277)
(Increase) decrease in other assets	345,427	(345,427)
Increase (decrease) in other liabilities	(16,011)	7,905
Tax benefit from stock option exercise	—	26,490
Net cash and cash equivalents used in operating activities	<u>(612,181)</u>	<u>(1,238,787)</u>
Cash flows from investing activity:		
Payments for investments in subsidiary	<u>(13,000,000)</u>	<u>(18,619,000)</u>
Net cash and cash equivalents used in investing activity	<u>(13,000,000)</u>	<u>(18,619,000)</u>
Cash flows from financing activities:		
Issuance of junior subordinated debentures	—	20,619,000
Common stock issued through private placement	13,816,413	
Proceeds from exercise of options	—	744,330
Stock dividend paid in cash for fractional shares	<u>(954)</u>	<u>(1,824)</u>
Net cash and cash equivalents provided by financing activities	<u>13,815,459</u>	<u>21,361,506</u>
Net increase in cash and cash equivalents	203,278	1,503,719
Cash and cash equivalents, beginning of year	<u>2,369,516</u>	<u>865,797</u>
Cash and cash equivalents, end of year	\$ <u><u>2,572,794</u></u>	\$ <u><u>2,369,516</u></u>