



2005

SAEHAN BANCORP ANNUAL REPORT

Providing personalized services and establishing a relationship to deliver excellence



Consolidated Financial Statements

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 **Saehan Bank**

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Saehan Bancorp:

We have audited the accompanying consolidated statements of financial condition of Saehan Bancorp and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, changes in shareholders' 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 consolidated 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
February 17, 2006

SAEHAN BANCORP AND SUBSIDIARY
Consolidated Statements of Financial Condition
December 31, 2005 and 2004

	2005	2004
Assets		
Cash and due from banks	\$ 15,892,086	9,993,619
Federal funds sold	7,045,000	13,325,000
Cash and cash equivalents	22,937,086	23,318,619
Securities available for sale, at fair value (note 2)	55,473,634	39,740,535
Loans receivable, net of allowance for loan losses: \$4,687,276 in 2005; \$3,440,400 in 2004 (note 3)	421,180,408	286,741,214
Loans held for sale, at the lower of cost or fair value	—	9,780,235
Customers' liabilities on acceptance	517,640	589,677
Premises and equipment, net (note 4)	3,449,869	2,617,664
Accrued interest receivable	2,267,702	1,160,045
Deferred income tax assets (note 7)	2,523,709	1,377,985
Federal Home Loan Bank stock	2,640,200	1,269,000
Servicing assets	1,219,353	1,160,740
Other assets	825,346	959,835
Total assets	\$ 513,034,947	368,715,549
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (note 5):		
Noninterest-bearing demand	\$ 107,110,755	97,420,653
Interest bearing:		
Savings	21,940,849	21,359,201
Money market and super Negotiable Order of Withdrawal (NOW)	84,752,798	92,009,739
Time deposits of \$100,000 or more	179,311,205	69,191,498
Other time deposits	27,224,416	21,569,505
Total deposits	420,340,023	301,550,596
Accrued interest payable	1,816,558	491,446
Federal funds purchased	5,000,000	—
Other borrowed funds (note 6)	37,000,000	27,000,000
Other liabilities	3,773,033	1,578,709
Acceptance outstanding	517,640	589,677
Total liabilities	468,447,254	331,210,428
Commitments and contingencies (note 10)		
Shareholders' equity (notes 12 and 15):		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 10,000,662 and 9,369,998 shares at December 31, 2005 and 2004, respectively	39,259,554	33,165,404
Additional paid-in capital	16,331	—
Retained earnings	5,994,656	4,432,997
Accumulated other comprehensive loss	(682,848)	(93,280)
Total shareholders' equity	44,587,693	37,505,121
Total liabilities and shareholders' equity	\$ 513,034,947	368,715,549

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARYConsolidated Statements of Income and Comprehensive Income
Years ended December 31, 2005 and 2004

	2005	2004
Interest income:		
Interest and fees on loans	\$ 27,919,663	15,507,549
Interest on securities available for sale and due from banks	2,110,998	1,512,478
Interest on federal funds sold	148,297	71,345
Total interest income	30,178,958	17,091,372
Interest expense:		
Interest on deposits (note 5)	7,432,516	3,414,831
Interest on other borrowed funds (note 5)	1,336,713	142,481
Total interest expense	8,769,229	3,557,312
Net interest income before provision for credit losses	21,409,729	13,534,060
Provision for credit losses (note 3)	1,471,800	455,700
Net interest income after provision for credit losses	19,937,929	13,078,360
Noninterest income:		
Service charges on deposits	3,076,180	2,540,880
Gains on sales of loans	2,021,323	2,764,554
Letter of credit related fees	943,522	833,032
Loan servicing income	671,798	366,502
Remittance fee income	199,977	161,127
Other income	410,466	282,368
Total noninterest income	7,323,266	6,948,463
Noninterest expenses:		
Salaries and employee benefits (note 13)	8,779,815	6,651,737
Occupancy and equipment (notes 4 and 10)	2,323,187	1,660,255
Professional services	1,058,765	963,181
Data processing fees	658,170	559,615
Directors' compensation	487,763	442,411
Business development expenses	724,437	424,700
Supplies and communication	552,350	451,231
Assessment and administrative expense	321,901	281,262
Other operating expenses	850,927	923,979
Total noninterest expenses	15,757,315	12,358,371
Income before income taxes	11,503,880	7,668,452
Income taxes (note 7)	4,265,627	2,835,000
Net income	7,238,253	4,833,452
Other comprehensive income:		
Unrealized loss on securities available for sale and interest-only strip arising during period	(937,010)	(7,174)
Less income taxes on other comprehensive income	347,442	2,726
Other comprehensive loss, net of tax	(589,568)	(4,448)
Total comprehensive income	\$ 6,648,685	4,829,004
Earnings per share (note 8):		
Basic	\$ 0.73	0.50
Diluted	0.71	0.48
Weighted average shares outstanding:		
Basic	9,899,350	9,602,981
Diluted	10,265,952	9,988,940

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARYConsolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2005 and 2004

	Shares Outstanding	Common Stock	Additional paid-in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2003	8,217,590	\$ 25,435,301	—	6,220,520	(88,832)	31,566,989
10% stock dividend	824,854	6,619,453	—	(6,619,453)	—	—
Cash paid for fractional shares	—	—	—	(1,522)	—	(1,522)
Stock warrants exercised	184,470	738,497	—	—	—	738,497
Stock options exercised	143,084	372,153	—	—	—	372,153
Comprehensive income:						
Net income	—	—	—	4,833,452	—	4,833,452
Change in unrealized loss on securities available for sale, net of tax	—	—	—	—	(6,590)	(6,590)
Change in unrealized gain on interest-only strip, net of tax	—	—	—	—	2,142	2,142
Total comprehensive income						4,829,004
Balance at December 31, 2004	9,369,998	33,165,404	—	4,432,997	(93,280)	37,505,121
5% stock dividend	471,822	5,673,660	—	(5,673,660)	—	—
Cash paid for fractional shares	—	—	—	(2,934)	—	(2,934)
Stock options exercised	158,842	420,490	—	—	—	420,490
Tax benefit of stock option exercise	—	—	16,331	—	—	16,331
Comprehensive income:						
Net income	—	—	—	7,238,253	—	7,238,253
Change in unrealized loss on securities available for sale, net of tax	—	—	—	—	(579,053)	(579,053)
Change in unrealized gain on interest-only strip, net of tax	—	—	—	—	(10,515)	(10,515)
Total comprehensive income						6,648,685
Balance at December 31, 2005	10,000,662	\$ 39,259,554	16,331	5,994,656	(682,848)	44,587,693

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARYConsolidated Statements of Cash Flows
Years ended December 31, 2005 and 2004

	2005	2004
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Cash flows from operating activities:		
Net income	\$ 7,238,253	4,833,452
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	612,480	465,671
Amortization (accretion) of discount and premium on securities available for sale, net	9,326	(13,170)
Other than temporary impairment on securities available for sale	—	140,000
Provision for credit losses	1,471,800	455,700
Provision (benefit) for deferred income tax	(722,451)	89,000
Loss on disposition of premise and equipment	54,651	116,081
Gain on sales of loans	(2,021,323)	(2,764,554)
Tax benefit from stock option exercise	16,331	—
Proceeds (origination) from sales of loans held for sale, net	11,454,419	(5,261,413)
Increase in accrued interest receivable	(1,107,657)	(306,475)
Decrease (increase) in other assets	134,489	(808,678)
Increase in accrued interest payable	1,325,112	126,102
Increase in other liabilities	2,194,324	281,935
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Net cash and cash equivalents provided by (used in) operating activities	20,659,754	(2,646,349)
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Cash flows from investing activities:		
Net increase in loans receivable	(135,639,256)	(57,791,750)
Purchases of securities available for sale	(25,546,706)	(23,858,607)
Proceeds from sale, matured, or called securities available for sale	8,808,229	20,466,414
Purchase of Federal Home Loan Bank stock	(1,371,200)	—
Purchases of premise and equipment	(1,499,337)	(1,113,714)
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Net cash and cash equivalents used in investing activities	(155,248,270)	(62,297,657)
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Cash flows from financing activities:		
Net increase in deposits	118,789,427	47,895,521
Payments from securities sold under repurchase agreement	—	(5,000,000)
Proceeds from federal funds purchased	5,000,000	—
Proceeds from other borrowed funds	10,000,000	27,000,000
Proceeds from exercise of stock options	420,490	372,153
Proceeds from exercise of warrants	—	738,497
Stock dividend paid-in cash for fractional shares	(2,934)	(1,522)
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Net cash and cash equivalents provided by financing activities	134,206,983	71,004,649
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Net increase (decrease) in cash and cash equivalents	(381,533)	6,060,643
Cash and cash equivalents, beginning of year	23,318,619	17,257,976
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Cash and cash equivalents, end of year	\$ 22,937,086	23,318,619
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Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Interest	\$ 7,444,117	3,431,210
Income taxes	4,572,511	3,096,380
Noncash financing activities:		
Transfer of retained earnings to common stock for stock dividend	\$ 5,673,660	6,619,453

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2005 and 2004

(I) Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Saeahan Bancorp (Bancorp) and its wholly owned subsidiary, Saeahan Bank (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 seven branch offices in the Greater Los Angeles area and one loan production office in the City of Seattle. The Bank's principal client base comprises small to mid-size 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 Company). All material inter-company 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 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. The factors to consider in the estimation of credit losses included but are not limited to 1) changes in policies, underwriting standard, collection, and charge-off practices, 2) changes in economic conditions, 3) changes in nature and volume of loans, 4) changes in experience and ability of the lending management, 5) changes in trend delinquencies and classified assets, 6) changes in quality of loan review, 7) concentrations of credit, 8) the effects of transfer risk on international lending activities, and 9) the effect of external factors such as legal and regulatory requirements on the level of estimated credit losses in the institution's current portfolio. Such regulatory agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is possible that the allowance for loan losses may change materially in the near term.

(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 a one-day period.

(d) Securities Available for Sale

Investment 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 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. 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. There were no trading or held-to-maturity securities at December 31, 2005 and 2004.

(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

SAEHAN BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2005 and 2004

to the loans' yields. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded as income when collected.

Loans are placed on nonaccrual when they are specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. 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 of interest payments received.

(f) 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 or the present value of estimated cash flows.

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) 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 as determined by a fair value analysis we perform using prevailing market assumptions. 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% above the main note rate, with a range of discount rates between 5.75% to 8.25%, and an average constant prepayment rate of 12.5% in 2004. During 2005, the discount rate was 1% above the main note rate, with an average discount rate of 8.14% and an average constant prepayment rate of 15.64%. The servicing asset is amortized in proportion to and over the period of estimated servicing income. The Bank has capitalized \$439,581 and \$549,969 of servicing assets and amortized \$131,962 and \$379,952 during the years ended December 31, 2005 and 2004, respectively. Management periodically evaluates the servicing assets for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment. For purposes of measuring impairment, the servicing assets are stratified by collateral type. No impairment existed at December 31, 2005 and 2004.

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.

(h) 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 three to ten years, and leasehold improvements are amortized over the lesser of the terms of the respective 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.

(i) 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.

SAEHAN BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements
December 31, 2005 and 2004

(j) Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the Bank's required investment in FHLB stock carried at cost amounted to \$2,640,200 at December 31, 2005. 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 required equal to the greater of 1% of membership asset value or 4.7% of FHLB advances.

(k) Stock Based Compensation

Stock options issued under the Company's stock option plan have no intrinsic value at the grant date, and under APB No. 25, no compensation cost is recognized for them. The Company has elected to apply the methodology in APB No. 25 and, as result, has provided pro forma disclosure of net income and earnings per share and other disclosures as if the fair value based method of accounting had been applied (note 12).

Had the Company determined compensation cost based on the fair value at the grant dates for its stock options using the fair value method of SFAS No. 123, the Company's net income and earnings per share for the years ended December 31, 2005 and 2004 would have been reduced to the pro forma amounts indicated in the following table:

	2005	2004
Net income, as reported:		
As reported	\$ 7,238,253	4,833,452
Add stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(419,035)	(238,422)
Pro forma net income	\$ 6,819,218	4,595,030
Earnings per share:		
As reported:		
Basic	\$ 0.73	0.50
Diluted	0.71	0.48
Pro forma:		
Basic	\$ 0.69	0.48
Diluted	0.66	0.46

The weighted average fair value of options granted under the Company's stock option plan was \$24.01 and \$16.50 per share in 2005 and 2004, respectively. The weighted average fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: no cash dividend yield, expected volatility of 29.31% and 23.62% in 2005 and 2004, respectively, expected lives of three to five years, and average risk-free interest rate of 3.54% and 3.22% in 2005 and 2004, respectively.

(l) Earnings per Share

Earnings per share (EPS) are presented in compliance with SFAS No. 128, Earnings per Share. Basic EPS 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 of shares that could share in the earnings. Earnings per share for 2004 were restated reflecting the 2005 two-for-one stock split and stock dividend.

(m) Reclassification

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

(n) Segment Reporting

Through its seven branches network, the Company provides a broad range of financial services to individuals and companies located

SAEHAN BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2005 and 2004

in primarily in Southern California. These services include demand, time and savings deposits, loans and international banking, and other services. While the Company 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 Company-wide basis. Accordingly, the Company considers all of its operations are aggregated in one reportable operating segment.

(o) Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 123R (Revised), Share-Based Payment (SFAS No. 123R). This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method that is currently used and requires that such transactions be accounted for using a fair value based method and recognized as expense in the consolidated statement of income. This statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. In addition, this statement amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. This statement is effective for Saehan as of January 1, 2006.

As a result of the adoption of SFAS No. 123R, we estimate that we will recognize additional compensation expense of approximately \$467,469, net of taxes, for the full year 2006. Estimated future levels of compensation expense recognized related to stock-based awards would be impacted by new awards, modifications to awards, or cancellation of awards after the adoption of SFAS No. 123R.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and SFAS No. 140 (SFAS No. 155). This statement:

- permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation
- clarifies which interest-only strips and principal-only strips are not subject to SFAS No. 133
- establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or hybrid financial instruments that contain an embedded derivative requiring bifurcation
- clarifies that concentration of credit risks in the form of subordination are not embedded derivatives
- amends SFAS No. 140 to eliminate the prohibition on a QSPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Early adoption of this statement is allowed. We have not determined the financial impact of the adoption of SFAS No. 155 or whether we will adopt SFAS No. 155 in 2006.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements (an Amendment of APB Opinion No. 28). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS No. 154. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We will adopt this pronouncement beginning in fiscal year 2006. SFAS No. 154 is not expected to have a material impact on our financial position or results of operations.

In March 2004, the FASB issued Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF No. 03-1). This EITF describes a model involving three steps: 1) determine whether an investment is impaired; 2) determine whether the impairment is other than temporary; and 3) recognize any impairment loss in earnings. The EITF also requires several additional disclosures for cost-method investments. In September 2004, the FASB approved the deferral of the effective date for EITF No. 03-1 pending reconsideration of implementation guidance relating to debt securities that are impaired solely due to market interest rate fluctuation.

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Notes to Consolidated Financial Statements
December 31, 2005 and 2004

On November 3, 2005, FASB Staff Position (FSP) FAS Nos. 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, were issued. This FSP nullifies certain requirements of EITF No. 03-1 and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. This FSP nullified the requirements of paragraphs 10 to 18 of EITF No. 03-1, carried forward the requirements of paragraphs 8 and 9 of EITF No. 03-1 with respect to cost-method investments, and carried forward the disclosure requirements included in paragraphs 21 and 22 of EITF No. 03-1 and related examples. The guidance in this FSP shall be applied to reporting periods beginning after December 15, 2005. Adoption is not expected to have a material impact on the financial position, results of operations, or related disclosures.

In December 2003, the American Institute of Certified Public Accountants (AICPA) released Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable to credit quality. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption in 2005 did not have a material impact on the financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchange of Non-Monetary Assets, an Amendment of APB Opinion No. 29, Accounting for Non-Monetary Transactions (SFAS No. 153). SFAS No. 153 is based on the principle that exchange of nonmonetary assets should be measured based on the fair market value of the assets exchanged. SFAS No. 153 eliminates the exception of non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. We are currently assessing the provisions of SFAS No. 153 and its impact on our financial position and results of operations.

(2) Securities Available for Sale

The following is a summary of securities available for sale at December 31, 2005 and 2004:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
2005				
U.S. government sponsored entity securities	\$ 21,426,985	130	356,984	21,070,131
Municipal bonds	8,102,696	8,298	146,812	7,964,182
Mortgage-backed securities	26,740,979	—	701,658	26,039,321
FNMA preferred stock	360,000	40,000	—	400,000
Total	\$ 56,630,660	48,428	1,205,454	55,473,634
2004				
U.S. government sponsored entity securities	\$ 8,990,773	—	50,093	8,940,680
Municipal bonds	3,899,748	27,631	—	3,927,379
Mortgage-backed securities	26,650,987	—	147,511	26,503,476
FNMA preferred stock	360,000	9,000	—	369,000
Total	\$ 39,901,508	36,631	197,604	39,740,535

Accrued interest and dividends receivable on investment securities totaled \$408,397 and \$185,276 at December 31, 2005 and 2004, respectively.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31, 2005:

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	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. government sponsored entity securities	\$ 135,237	12,298,876	221,747	8,271,125	356,984	20,570,001
Municipal bonds	80,205	4,787,036	66,608	2,851,291	146,813	7,638,327
Mortgage-backed securities	85,763	6,926,485	615,894	19,112,836	701,657	26,039,321
Total	\$ 301,205	24,012,397	904,249	30,235,252	1,205,454	54,247,649

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at December 31, 2005 had investment grade ratings upon purchase. The issuers of these securities have not, to our knowledge, established any cause for default on these securities, and the various rating agencies have reaffirmed these securities' long-term investment grade status at December 31, 2005. 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 the past 12 months or longer as of December 31, 2005 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2005 are warranted.

The amortized cost and estimated fair value of securities available for sale at December 31, 2005, 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 after one year through five years	\$ 31,611,907	30,953,998
Due after five years through ten years	18,185,110	17,795,855
Due after ten years	6,473,643	6,322,781
FNMA preferred stock	360,000	400,000
Total	\$ 56,630,660	55,472,634

Securities with amortized cost of approximately \$40,559,600 and \$22,418,000 at December 31, 2005 and 2004, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The Company had purchased 10,000 shares (\$50 per share) of Fannie Mae (FNMA) Preferred Stock in 2001. The value of the stock declined by approximately 28%, and a decline of such magnitude has been over 12 months. It is uncertain whether the value of the stock will be fully recovered at the time of dividend reset due primarily to uncertainties of future credit ratings of FNMA and changes in market conditions such as a change in market spread to the index. The Company defines the current decline in the value of the stock as "other than temporary" and realized the \$140,000 impairment losses as of December 31, 2004.

(3) Loans Receivable and Allowance for Credit Losses

The following is a summary of loans by major categories at December 31, 2005 and 2004:

	2005	2004
Real estate loans	\$ 259,387,293	190,568,015
Construction loans	4,863,066	1,050,979
Commercial loans	158,981,846	97,514,272
Consumer loans	5,149,341	3,241,689
Total	428,381,546	292,374,955

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	2005	2004
Less:		
Deferred loan fees, net	(576,746)	(470,803)
Unearned income	(1,937,116)	(1,722,538)
Allowance for loan losses	(4,687,276)	(3,440,400)
Net loans	\$ 421,180,408	286,741,214

As of December 31, 2005 and 2004, the Company serviced loans sold to unaffiliated parties in the amount of approximately \$61,832,000 and \$56,377,000, 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, 2005 and 2004 is as follow:

	2005			2004		
	Allowance for loan losses	Reserve for off-balance credit risk	Total	Allowance for loan losses	Reserve for off-balance credit risk	Total
Balance, beginning of year	\$ 3,440,400	99,000	3,539,400	3,432,057	80,000	3,512,057
Provision for credit losses	1,450,800	21,000	1,471,800	436,700	19,000	455,700
Loans charged off, net of recoveries	(203,924)	—	(203,924)	(428,357)	—	(428,357)
Balance, end of year	\$ 4,687,276	120,000	4,807,276	3,440,400	99,000	3,539,400

The reserve for off-balance credit losses, recorded in other liabilities, is primarily related to undisbursed funds on line of credit.

At December 31, 2005 and 2004, the Company's impaired loans were \$4,174,215 and \$656,404, respectively, and its impairment reserves of approximately \$175,000 and \$280,000, respectively. Interest income of \$351,000 and \$396,000 was recognized on impaired loans during the years ended December 31, 2005 and 2004, respectively. Loans on which the accrual of interest has been discontinued amounted approximately to \$72,000 and \$99,000 at December 31, 2005 and 2004, respectively. Restructured loans totaled \$207,800 and \$147,000 at December 31, 2005 and 2004, respectively. The following table provides information of the Company's nonaccrual loans as of December 31, 2005 and 2004.

	2005	2004
Real estate loans	\$ 166,684	—
Commercial and industrial loans	\$ 455,627	658,321
Total nonaccrual loans	\$ 622,311	658,321

The Company is not committed to lend additional funds to debtors whose loans are impaired.

(4) Premises and Equipment

Premises and equipment at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Land	\$ 336,116	336,116
Leasehold improvements	2,721,891	2,019,483
Equipment, furniture, and fixtures	2,507,774	2,050,966
Computer software	421,704	376,845
Total	5,987,485	4,783,410
Less accumulated depreciation	(2,537,616)	(2,165,746)
Premise and equipment, net	\$ 3,449,869	2,617,664

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Total depreciation included in occupancy and equipment expenses was \$612,480 and \$465,671 for the years ended December 31, 2005 and 2004, respectively.

(5) Deposits

The scheduled maturities of time deposits were as follows at December 31, 2005 and 2004:

	2005	2004
3 months or less	\$ 111,781,689	46,546,023
Over 3 months to 12 months	94,057,374	43,567,728
Over 12 months	696,558	647,252
Total	\$ 206,535,621	90,761,003

A summary of interest expense related to deposits and other borrowings is as follows for the years ended December 31, 2005 and 2004:

	2005	2004
Interest-bearing demand	\$ 30,518	11,073
Money market funds and savings	2,414,269	1,910,619
Time deposits:		
\$100,000 or more	4,301,196	1,117,816
Other time deposits	686,533	375,323
Other	1,336,713	142,481
Total	\$ 8,769,229	3,557,312

(6) Other Borrowed Funds

The Company has a line of credit with Federal Home Loan Bank in the amount of \$120,065,290 which is \$102,241,750 of the standard credit program and \$17,823,540 of the securities-backed credit program. At December 31, 2005, the outstanding amount of the line of credit was \$37,000,000, with maturities within three months. The interest rates range from 4.24% to 4.64%.

(7) Income Taxes

The provisions for income taxes for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Current income tax expense:		
Federal	\$ 3,982,647	2,293,000
State	1,005,431	453,000
Total	4,988,078	2,746,000
Deferred income tax (benefit) expense:		
Federal	(564,614)	59,000
State	(157,837)	30,000
Total	(722,451)	89,000
Income taxes	\$ 4,265,627	2,835,000

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As of December 31, 2005 and 2004, 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 statement of financial condition include the following components:

	2005	2004
Allowance for loan losses	\$ 1,738,822	1,161,778
Accumulated depreciation	4,093	—
Unrealized loss on available-for-sale securities	481,480	58,207
State taxes	201,200	158,000
Other	98,114	—
Net deferred income tax assets	\$ 2,523,709	1,377,985

In accessing 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 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.

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

	2005	2004
Federal income tax at statutory tax rate	34%	34%
Net state income tax	5	3
Others	(2)	—
	37%	37%

At December 31, 2005 and 2004, income tax payable of \$147,395 and income tax receivable of \$268,172 were included in other assets and other liabilities, respectively, in the consolidated statement of financial condition.

(8) Earnings per Share

The EPS data for 2004 was retroactively restated reflecting the 2005 stock dividend of 5% and two-for-one stock split. The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations at December 31, 2005 and 2004:

	Income (numerator)	Weighted shares (denominator)	Per share amount
2005			
Basic EPS – income available to common shareholders	\$ 7,238,252	9,899,350	\$ 0.73
Effect of dilutive securities:			
Stock options assumed exercised	—	366,602	0.02
Diluted EPS – income available to common shareholders	\$ 7,238,252	10,265,952	\$ 0.71

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	Income (numerator)	Weighted shares (denominator)	Per share amount
2004			
Basic EPS – income available to common shareholders	\$ 4,833,452	9,602,981	\$ 0.50
Effect of dilutive securities: Stock options assumed exercised	—	385,959	0.02
Diluted EPS – income available to common shareholders	\$ 4,833,452	9,988,940	\$ 0.48

The Company issued stock warrants to the shareholders who purchased common stock through a private offering in 2001. Under the terms of the warrants, the warrants holders can purchase a total of 249,933 shares of common stock during 2002 through 2004. The warrants were exercisable and expire after three years. The outstanding warrants of 11,438 shares expired at October 1, 2004 and no warrants at December 31, 2005.

	Number of shares	Weighted average exercise price
Warrants outstanding at January 1, 2004	105,096	\$ 6.48
Warrants exercised	(93,658)	6.48
Warrants expired	(11,438)	6.48
Warrants outstanding at December 31, 2004	—	

(9) 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 2005 and 2004:

	2005	2004
Balance at beginning of year	\$ 4,109,815	3,768,924
New loans granted	4,189,267	1,225,089
Principal repayments	(3,701,018)	(884,198)
Balance at end of year	\$ 4,598,064	4,109,815

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

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	Amount
Year ending December 31:	
2006	\$ 1,504,223
2007	1,460,124
2008	1,430,474
2009	1,332,513
2010	1,346,427
Thereafter	4,347,555
Total	\$ 11,421,316

The total rental expense recorded under such leases for 2005 and 2004 amounted to approximately \$1,240,000 and \$799,000, respectively.

(11) Off-Balance-Sheet Credit Risk

In the normal course of meeting the financing instruments needs of our 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, we receive 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, 2005, the Company had loan commitments granted and undisbursed of \$61,013,072, commitments under outstanding commercial letters of credit of \$11,194,157, and standby letters of credit and guarantees of \$1,922,827. Management does not anticipate any material losses as a result of these transactions.

(12) Shareholders' Equity

The Company has stock option plans adopted pursuant to 1998 and 2004 Stock Option Plan (the Plan), under which options to purchase shares of the Company's common stock may be granted to key employees and directors. The 2004 plan provides that total number of option shares that can be granted under this plan is 1,050,000 shares and the options shall not be less than the fair value of the Company's stock on the effective date of grant. Generally, options will vest over three to five years. No option may be granted with a term of more than ten years.

The following is a summary of the stock option activity during 2005 and 2004 under the 1998 stock option plan:

	Number of shares	Weighted average exercise price
Options outstanding at January 1, 2004	464,601	\$ 3.36
Options granted	35,000	22.23
Options exercised	(71,542)	5.20
Options outstanding at December 31, 2004	428,059	8.99
Options exercised	(114,421)	3.67
Options forfeited	(35,588)	22.20
Options outstanding at December 31, 2005	278,050	\$ 2.75

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The following is a summary of the stock option activity during 2005 under the 2004 stock option plan:

	Number of shares	Weighted average exercise price
Options outstanding at January 1, 2005	676,350	\$ 8.84
Options granted	121,500	24.01
Options outstanding at December 31, 2005	797,850	\$ 11.15

The following table summarizes information with respect to the stock options outstanding as of December 31, 2005:

Exercise prices	Options outstanding		Options exercisable
	Number outstanding	Weighted average remaining contractual life	Number outstanding
Options under 1998 plan:			
\$0.00 through \$2.249	121,120	4.50	121,120
\$2.25 through \$3.249	88,658	5.86	88,658
\$3.25 through \$5.249	59,032	7.74	26,726
\$5.25 through \$9.99	9,240	7.92	4,620
Options under 2004 plan:			
\$10.00 through \$10.99	546,000	9.00	181,987
\$11.00 through \$11.99	185,850	5.31	—
\$12.00 through \$12.99	66,000	5.85	—
	1,075,900		423,111

The number and share of outstanding options have been adjusted to reflect the stock dividends in August 2005 and stock splits in stock in November 2005.

(13) Employee Benefit Plans

The Company has a 401(k) plan for the benefit of its employees. The Company matches 75% of the employees' contribution up to 7% of each participant's annual compensation. Contributions to the plan for the years ended December 31, 2005 and 2004 were approximately \$120,000 and \$110,000, respectively.

(14) Fair Value of Financial Instruments

The Company estimated 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.

	Carrying amount	Estimated fair value
2005		
Cash and cash equivalents	\$ 22,937,086	22,937,086
Securities available for sale	55,473,634	55,473,634

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Net loans	421,180,408	422,497,042
Accrued interest receivable	2,267,702	2,267,702
Federal Home Loan Bank stock	2,640,200	2,640,200
Deposits	420,340,023	420,340,023
Federal funds purchased	5,000,000	5,000,000
Other borrowed funds	37,000,000	37,000,000
Accrued interest payable	1,816,558	1,816,558

2004

Cash and cash equivalents	\$ 23,318,619	23,318,619
Securities available for sale	39,740,535	39,740,535
Loans held for sale	9,780,235	9,780,235
Net loans	286,381,804	291,912,760
Accrued interest receivable	1,160,045	1,160,045
Federal Home Loan Bank stock	1,269,000	1,269,000
Deposits	301,550,596	301,550,596
Other borrowed funds	27,000,000	27,000,000
Accrued interest payable	491,446	491,446

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

Fair values of securities available for sale are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

(c) Net Loans, Loans Held for Sale, and Accrued Interest Receivable

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 example, 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.

(d) Accrued Interest Receivable and Federal Home Loan Bank Stock

The carrying amounts of accrued interest receivable and Federal Home Loan Bank stock approximate fair values due to its short-term nature.

(e) Deposits, Federal Funds Purchased, and Accrued Interest Payable

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 (that is, 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. The carrying amounts of accrued interest payable approximate fair values due to their short-term nature.

(f) Other Borrowed Funds

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

(15) Regulatory Matters

(a) Regulatory Order

As a result of the regulatory examination as of December 31, 2001, the Bank stipulated and consented, without any admission of wrongdoing, to the issuance of a Consent Order (the Order) by the Federal Deposit Insurance Corporation (FDIC). The Order addresses the FDIC's findings of weaknesses noted during its examination as they relate to management, capital adequacy, asset quality, liquidity and funds management, internal controls, earnings, compliance with the Bank Secrecy Act (BSA), and the related laws and

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regulations. The Order requires, among other things, the Bank to retain qualified management, to obtain prior approval of the regulatory agencies for changes in directors and senior executive officers, to obtain prior approval for payments of cash dividends, to maintain a specified minimum level of regulatory capital, to limit asset growth to a specified rate, to formulate and implement a written business plan acceptable to the regulatory agencies, and to establish compliance with the BSA and the related rules and regulations. The Bank complied with the requirements of the Order issued by the FDIC in 2001. The FDIC withdrew the Order on May 10, 2004 as a result of its examination of the Bank.

(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, 2005, the Bancorp and the Bank meet all capital adequacy requirements to which they are subject.

Notwithstanding the above regulatory remark, the Bancorp and Bank's actual capital amounts and ratios are as follows at December 31, 2005 and 2004:

	Actual		For capital adequacy purpose		Minimum to be capitalized as well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
2005						
Total capital (to risk-weighted assets):						
Bancorp	\$ 49,961	11.4%	\$ 35,011	8.0%	\$ —	N/A
Bank	49,729	11.4	35,011	8.0	43,764	10.0
Tier I capital (to risk-weighted assets):						
Bancorp	45,136	10.3	17,505	4.0	—	N/A
Bank	44,904	10.3	17,505	4.0	26,258	6.0
Tier I capital (to average assets):						
Bancorp	45,136	9.0	20,117	4.0	—	N/A
Bank	44,904	8.9	20,117	4.0	25,146	5.0
(Dollars in thousands)						
2004						
Total capital (to risk-weighted assets):						
Bancorp	\$ 41,085	13.2%	\$ 24,895	8.0%	\$ —	N/A
Bank	35,053	11.6	20,376	8.0	25,470	10.0
Tier I capital (to risk-weighted assets):						
Bancorp	37,542	12.1	12,447	4.0	—	N/A
Bank	32,410	10.4	10,188	4.0	15,282	6.0
Tier I capital (to average assets):						
Bancorp	37,542	10.9	13,790	4.0	—	N/A
Bank	32,410	9.4	11,444	4.0	14,305	5.0

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(16) Condensed Financial Statements of Parent Company

The following presents the unconsolidated financial statements of the parent company, Saehan Bancorp, as of December 31, 2005 and 2004:

	2005	2004
Statements of financial condition:		
Assets:		
Cash and cash equivalents	\$ 232,179	5,131,741
Investment in Saehan Bank	44,355,527	32,373,393
Total assets	\$ 44,587,706	37,505,134
Liabilities and shareholders' equity:		
Other liabilities	\$ 13	12
Shareholders' equity	44,587,693	37,505,122
Total liabilities and shareholders' equity	\$ 44,587,706	37,505,134
Statements of income:		
Other operating expense	\$ (39,449)	(46,366)
Equity in net income of Saehan Bank	7,261,702	4,862,618
Income tax benefit	16,000	17,200
Net income	\$ 7,238,253	4,833,452
Statements of cash flows:		
Cash flows from operating activities:		
Net income	\$ 7,238,253	4,833,452
Adjustments to reconcile net income to net cash and cash equivalents used in operating activities:		
Decrease in other assets, net	—	26,200
Equity in net income of Saehan Bank	(7,261,701)	(4,862,618)
Increase in other liabilities	1	12
Net cash and cash equivalents used in operating activities	(23,447)	(2,954)
Cash flows from investing activities:		
Payments for investments in subsidiary	(5,310,000)	—
Net cash and cash equivalents used in investing activities	(5,310,000)	—
Cash flows from financing activities:		
Proceeds from exercise of options	420,490	372,153
Tax benefit from stock option exercise	16,331	—
Proceeds from exercise of warrants	—	738,497
Stock dividend paid-in cash for fractional shares	(2,934)	(1,522)
Net cash and cash equivalents provided by financing activities	433,887	1,109,128
Net (decrease) increase in cash and cash equivalents	(4,899,560)	1,106,174
Cash and cash equivalents, beginning of year	5,131,739	4,025,565
Cash and cash equivalents, end of year	\$ 232,179	5,131,739

CORPORATE INFORMATION

Board of Directors

Il Young Kim, M.D.
Chairman of the Board
Saeahan Bancorp & Saeahan Bank
Physician

Kee W. Ha
Vice Chairman of the Board
Saeahan Bancorp & Saeahan Bank
President
Olympus Property Management Co.

Benjamin Hong
President and Chief Executive Officer
Saeahan Bancorp & Saeahan Bank

Hui Taek Chong
Retired

Dae Woong Chung
President
D & J Development Corp.

Dong Soo Han, M.D.
Physician

Hae Ryong Kim
President
Mega Resources, Inc.

In Pyoung Kim
President
Sunrise Industries, Inc.

Myungja Kim
Vice President
Normca, Inc.

Myung Joon Kim
President
Fiesta Fashion Co.

Pyung Sun Kim
President
Sun Real Estate Investment, LLC

Soon K. Kim, M.D.
President & CEO
Signature Healthcare Service, LLC

Dong-Kie Lee
President
Ju Young Electronic, Inc.

Don Rhee
President
Active USA, Inc.

Sewang Yoon
Vice President
Amonix, Inc.

Albert Sang
*Executive Vice President &
Chief Credit Officer*
Saeahan Bank

Executive Officers

Benjamin Hong
President & Chief Executive Officer

Albert Sang
*Executive Vice President &
Chief Credit Officer*

Sung C. Lee
*Executive Vice President &
Chief Marketing Director*

Daniel Kim
*Senior Vice President, Chief Financial Officer
& Corporate Secretary*

Shareholder Information

Stock Trading
Saeahan Bancorp common stock is traded
on the OTC Bulletin Board under the
symbol "SAEB.OB."

Transfer Agent and Registrar
U.S. Stock Transfer Corp.
1745 Gardena Ave.
Glendale, CA 91204
(818) 502-1404

Investor Relations
Investor Relations inquiries should be
directed to Daniel Kim, Senior Vice President
& Chief Financial Officer,
at (213) 637-4802 or
daniel.kim@saeahanbank.com

Stock Information

Hoefer & Arnett
San Francisco, CA
(800) 346-5544

Wedbush Morgan Securities, Inc.
Los Angeles, CA
(800) 421-0251

Seidler and Co.
Big Bear, CA
(800) 288-2811

Locations

Corporate Headquarters

3580 Wilshire Blvd., Suite 1500
Los Angeles, CA 90010
(213) 388-5550

District Headquarters:

□ Western District

550 S. Western Ave.
Los Angeles, CA 90020

□ Central District

3580 Wilshire Blvd., 12th Floor
Los Angeles, CA 90010

□ Downtown District

3580 Wilshire Blvd., 12th Floor
Los Angeles, CA 90010

□ Orange County District

7700 Orangethorpe Ave., Suite 11
Buena Park, CA 90621
Thomas Kim
Senior Vice President and
District Director

□ South Bay District

2124 W. Redondo Beach Blvd.
Torrance, CA 90504
(310) 358-3000
Fay Lee
First Senior Vice President and
District Director

Branch Offices:

□ Western Office

550 S. Western Ave.
Los Angeles, CA 90020
(213) 389-5550
Sunny Myung-Koziol
Senior Vice President and Manager

□ Downtown Office

1100 S. San Pedro Street
Los Angeles, CA 90015
(213) 745-5550
Tony Cho
Senior Vice President and Manager

□ Fullerton Office

4542 Beach Blvd.
Buena Park, CA 90621
(714) 523-5550
Joon Young Kim
Senior Vice President and Manager

□ La Crescenta Office

2750 Foothill Blvd.
La Crescenta, CA 91214
(818) 542-3700
Helen Yoo
Vice President and Manager

□ Rowland Heights Office

19036 Colima Road, Suite A
Rowland Heights, CA 91748
(626) 435-2366
Sin D. Ryu
First Vice President and Manager

□ Wilshire Office

3580 Wilshire Blvd., Suite 120
Los Angeles, CA 90010
(213) 388-5550
Kevin Sung
First Vice President and Manager

□ Torrance Office

22501 Crenshaw Blvd., Suite 400
Torrance, CA 90505
(310) 891-2226
Connie Choi
First Vice President and Manager

□ Irvine Office

14725 Jeffrey Road
Irvine, CA 92618
To be opened in October 2006

□ VIP & Specialty Banking Division

2124 W. Redondo Beach Boulevard
Torrance, CA 90504
(310) 352-3000
Sue O. Yi
Vice President & Manager

□ International Department

550 S. Western Ave., Second Floor
Los Angeles, CA 90020
(213) 389-5550
Brian Kim
First Vice President & Manager

□ SBA Division

3580 Wilshire Blvd., Suite 1500
Los Angeles, CA 90010
(213) 388-5550
Young Oh
Senior Vice President and
Division Director

□ Auto Loan Center

550 S. Western Avenue
Los Angeles, CA 90020
(213) 389-5550
Yong Kim
Senior Vice President & Manager

Loan Production Offices:

□ Seattle Loan Production Office

13024 Beverly Park Road, #203
Mukilteo, WA 98275
(425) 347-1040

□ Denver Loan Production Office

2851 S. Parker Road, #1120
Aurora, CO 80014
(303) 750-2070
June Choi
Vice President & Manager

□ Atlanta Loan Production Office

7094 Peachtree Industrial Blvd., #365
Norcross, GA 30071
(678) 467-1269
June H. Lee
Vice President & Manager

□ Dallas Loan Production Office

4230 L.B.J. Freeway, Suite 350
Dallas, TX 75244
(972) 488-3535
Thomas Hwang
Vice President & Manager