



SAEHAN BANCORP AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2007 and 2006

(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 statements of financial condition of Saehan Bancorp and subsidiary (the Company) as of December 31, 2007 and 2006, 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, 2007 and 2006, 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 25, 2008

SAEHAN BANCORP AND SUBSIDIARY
Consolidated Statements of Financial Condition
December 31, 2007 and 2006

Assets	2007	2006
Cash and due from banks	\$ 19,326,017	18,704,562
Federal funds sold	37,430,000	11,785,000
Cash and cash equivalents	56,756,017	30,489,562
Securities available for sale, at fair value (note 2)	52,681,399	56,064,533
Loans receivable, net of allowance for loan losses: \$8,248,568 in 2007; \$5,477,827 in 2006 (note 3)	687,014,620	523,341,146
Loans held for sale, at the lower of cost or fair value	761,074	1,070,916
Customers' liabilities on acceptance	351,560	117,858
Servicing assets	1,724,496	1,288,117
Accrued interest receivable	3,273,786	2,863,278
Deferred income tax assets (note 7)	4,004,662	3,164,993
Federal Home Loan Bank stock	7,206,500	2,558,700
Premises and equipment, net (note 4)	7,070,745	6,152,983
Other assets	2,352,836	690,724
Total assets	<u>\$ 823,197,695</u>	<u>627,802,810</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (note 5):		
Noninterest-bearing demand	\$ 118,705,791	120,964,320
Interest bearing:		
Savings	22,817,612	20,116,386
Money market and super Negotiable Order of Withdrawal (NOW)	133,850,814	106,877,653
Time deposits of \$100,000 or more	214,897,924	189,881,374
Other time deposits	148,276,682	82,711,846
Total deposits	638,548,823	520,551,579
Accrued interest payable	3,460,537	3,918,807
Other borrowed funds (note 6)	96,500,000	47,000,000
Junior subordinated debenture (note 6)	20,619,000	—
Other liabilities	2,545,591	3,531,722
Acceptance outstanding	351,560	117,858
Total liabilities	<u>762,025,511</u>	<u>575,119,966</u>
Commitments and contingencies (note 10)		
Shareholders' equity (notes 12 and 15):		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 11,160,737 and 10,663,052 shares at December 31, 2007 and 2006, respectively	52,262,108	46,583,162
Additional paid-in capital	1,933,257	1,110,524
Retained earnings	7,022,245	5,558,550
Accumulated other comprehensive loss, net of tax	(45,426)	(569,392)
Total shareholders' equity	<u>61,172,184</u>	<u>52,682,844</u>
Total liabilities and shareholders' equity	<u>\$ 823,197,695</u>	<u>627,802,810</u>

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest income:		
Interest and fees on loans	\$ 54,430,121	39,839,246
Interest on federal funds sold	212,010	878,233
Interest on securities available for sale and due from banks	<u>2,486,519</u>	<u>2,607,049</u>
Total interest income	<u>57,128,650</u>	<u>43,324,528</u>
Interest expense:		
Interest on deposits (note 5)	21,067,838	16,316,699
Interest on other borrowed funds (note 5)	<u>5,320,325</u>	<u>1,414,258</u>
Total interest expense	<u>26,388,163</u>	<u>17,730,957</u>
Net interest income before provision for credit losses	30,740,487	25,593,571
Provision for credit losses (note 3)	<u>3,982,600</u>	<u>1,563,000</u>
Net interest income after provision for credit losses	<u>26,757,887</u>	<u>24,030,571</u>
Noninterest income:		
Service charges on deposits	2,336,821	2,187,513
Gains on sales of loans	4,140,415	2,451,116
Letter of credit related fees	884,537	795,140
Loan servicing income	407,478	865,305
Remittance fee income	240,439	200,998
Fees from annuity and mutual funds sales	243,998	—
Other income	<u>502,725</u>	<u>251,026</u>
Total noninterest income	<u>8,756,413</u>	<u>6,751,098</u>
Noninterest expenses:		
Salaries and employee benefits (notes 12 and 13)	14,368,207	12,368,296
Occupancy and equipment (note 4 and 10)	4,225,372	2,907,124
Professional services	1,852,190	1,482,335
Data processing fees	826,805	778,118
Directors' compensation	510,337	520,840
Business development expenses	1,299,273	1,146,099
Supplies and communication	750,501	533,883
Assessment and administrative expense	437,420	348,317
Other operating expenses	<u>679,695</u>	<u>460,862</u>
Total noninterest expenses	<u>24,949,800</u>	<u>20,545,874</u>
Income before income taxes	10,564,500	10,235,795
Income taxes (note 7)	<u>4,164,365</u>	<u>4,079,018</u>
Net income	<u>6,400,135</u>	<u>6,156,777</u>
Other comprehensive income:		
Unrealized gain on securities available for sale and interest-only strip arising during period	865,630	188,622
Income taxes on other comprehensive income	<u>(341,664)</u>	<u>(75,166)</u>
Other comprehensive income, net of tax	<u>523,966</u>	<u>113,456</u>
Total comprehensive income	\$ <u>6,924,101</u>	\$ <u>6,270,233</u>
Earnings per share (note 8):		
Basic	\$ 0.57	0.56
Diluted	0.57	0.56
Weighted average shares outstanding:		
Basic	11,131,460	11,057,446
Diluted	11,226,956	11,267,954

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2007 and 2006

	<u>Shares outstanding</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total shareholders' equity</u>
Balance at December 31, 2005	10,000,662	\$ 39,259,554	16,331	5,994,656	(682,848)	44,587,693
4% stock dividend	409,370	6,590,857	—	(6,590,857)	—	—
Cash paid for fractional shares				(2,026)	—	(2,026)
Stock options exercised	253,020	732,751	—	—	—	732,751
Tax benefit of stock option exercise	—	—	23,512	—	—	23,512
Share-based compensation cost	—	—	1,070,681	—	—	1,070,681
Comprehensive income:						
Net income	—	—	—	6,156,777	—	6,156,777
Change in unrealized loss on securities available for sale, net of tax	—	—	—	—	88,104	88,104
Change in unrealized gain on interest-only strip, net of tax	—	—	—	—	25,352	25,352
Total comprehensive income						<u>6,270,233</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 loss on securities available for sale, net of tax	—	—	—	—	547,297	547,297
Change in unrealized gain on interest-only strip, net of tax	—	—	—	—	(23,331)	(23,331)
Total comprehensive income						<u>6,924,101</u>
Balance at December 31, 2007	<u>11,160,737</u>	<u>\$ 52,262,108</u>	<u>1,933,257</u>	<u>7,022,245</u>	<u>(45,426)</u>	<u>61,172,184</u>

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 6,400,135	6,156,777
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,464,448	781,719
Amortization (accretion) of discount and premium on securities available for sale, net	(7,665)	(2,349)
Share-based compensation expense	796,243	1,070,681
Provision for credit losses	3,982,600	1,563,000
FHLB stock dividends	(196,600)	(127,200)
Provision for deferred income tax	(1,207,430)	(723,304)
(Loss) gain on disposition of premise and equipment	(11,132)	7,725
Gain on sales of loans	(4,140,415)	(2,451,116)
Excess tax benefit from stock option exercise	26,490	23,512
Origination of loans identified as held for sale	(73,747,840)	(43,854,790)
Proceeds from sales of loans held for sale	78,198,096	45,234,990
Increase in accrued interest receivable	(410,508)	(595,576)
Increase in Servicing Asset	(436,379)	(68,764)
Decrease (increase) in other assets	(1,662,112)	134,622
Increase (decrease) in accrued interest payable	(458,270)	2,102,249
Decrease in other liabilities	(986,131)	(241,311)
Net cash and cash equivalents provided by operating activities	<u>7,603,531</u>	<u>9,010,865</u>
Cash flows from investing activities:		
Net increase in loans receivable	(167,669,303)	(103,723,739)
Purchases of securities available for sale	—	(5,583,325)
Proceeds from sale, matured, or called securities available for sale	4,322,246	5,146,878
Purchase of Federal Home Loan Bank stock	(4,636,800)	(96,400)
Proceeds from sale of Federal Home Loan Bank Stock	185,600	305,100
Purchases of premise and equipment	(2,371,078)	(3,492,558)
Net cash and cash equivalents used in investing activities	<u>(170,169,335)</u>	<u>(107,444,044)</u>
Cash flows from financing activities:		
Net increase in deposits	117,997,244	100,211,556
Issuance of junior subordinated debentures	20,619,000	—
Decrease in federal funds purchased	—	(5,000,000)
Proceeds from other borrowed funds	49,500,000	10,000,000
Proceeds from exercise of stock options	744,330	732,751
Excess tax benefit from exercise of stock options	(26,490)	(23,512)
Stock dividend paid-in cash for fractional shares	(1,824)	(2,026)
Net cash and cash equivalents provided by financing activities	<u>188,832,260</u>	<u>105,918,769</u>
Net increase in cash and cash equivalents	26,266,455	7,552,476
Cash and cash equivalents, beginning of year	<u>30,489,562</u>	<u>22,937,086</u>
Cash and cash equivalents, end of year	\$ <u>56,756,017</u>	\$ <u>30,489,562</u>
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Interest	\$ 25,929,892	19,833,207
Income taxes	6,322,160	4,842,032
Noncash financing activities:		
Transfer of retained earnings to common stock for stock dividend	\$ 4,934,616	6,590,857

See accompanying notes to consolidated financial statements.

SAEHAN BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Saehan Bancorp (Bancorp) and its wholly owned subsidiary, Saehan 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 nine branch offices in the Greater Los Angeles area and six loan production offices in other areas. 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 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 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 a one-day period.

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

SAEHAN BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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, 2007 and 2006.

(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.

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. 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.

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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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 an average discount rate of 9.10%, and an average constant prepayment rate of 18.13% in 2006. During 2007, the discount rate was 1% above the main note rate, with an average discount rate of 9.79% and an average constant prepayment rate of 18.95%. The servicing asset is amortized in proportion to and over the period of estimated servicing income. The Bank has capitalized \$975,869 and \$764,136 of servicing assets and amortized \$539,490 and \$448,507 during the years ended December 31, 2007 and 2006, 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, 2007 and 2006.

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) Junior Subordinated Debentures

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

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Notes to Consolidated Financial Statements

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(j) 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.

(k) 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 \$7,206,500 and \$2,558,700 at December 31, 2007 and 2006, 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 required equal to the greater of 1% of membership asset value or 4.7% of FHLB advances.

(l) 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.

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.

(m) Earnings per Share

Basic earnings per share (EPS) is 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.

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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(n) Reclassification

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

(o) 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 are aggregated in one reportable operating segment.

(2) Securities Available for Sale

The following is a summary of securities available for sale at December 31, 2007 and 2006:

	<u>Amortized cost</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Estimated fair value</u>
2007:				
U.S. government-sponsored entity securities	\$ 20,467,149	106,588	29,137	20,544,600
Municipal bonds	11,944,151	82,960	21,432	12,005,679
Mortgage-backed securities	19,983,575	13,881	166,336	19,831,120
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>
2006:				
U.S. government-sponsored entity securities	\$ 20,946,824	—	347,298	20,599,526
Municipal bonds	12,204,241	32,273	152,425	12,084,089
Mortgage-backed securities	23,558,390	3,633	608,605	22,953,418
FNMA preferred stock	360,000	67,500	—	427,500
Total	<u>\$ 57,069,455</u>	<u>103,406</u>	<u>1,108,328</u>	<u>56,064,533</u>

Accrued interest and dividends receivable on investment securities totaled \$419,638 and \$437,764 at December 31, 2007 and 2006, respectively.

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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, 2007 and 2006, respectively:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>
2007:						
U.S. government-sponsored entity 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
2006:						
U.S. government sponsored entity securities	\$ —	—	347,298	20,599,526	347,298	20,599,526
Municipal bonds	96,208	6,938,464	56,217	2,423,557	152,425	9,362,021
Mortgage-backed securities	—	—	608,605	21,504,079	608,605	21,504,079
Total	\$ 96,208	6,938,464	1,012,120	44,527,162	1,108,328	51,465,626

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at December 31, 2007 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, 2007. 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, 2007 are not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2007 are warranted.

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The amortized cost and estimated fair value of securities available for sale at December 31, 2007, 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.

	<u>Amortized cost</u>	<u>Estimated fair value</u>
Due after three months through one year	\$ 11,498,213	11,471,460
Due after one year through five years	22,816,448	22,822,993
Due after five years through ten years	8,121,867	8,157,670
Due after ten years	9,958,347	9,929,276
FNMA preferred stock	360,000	300,000
Total	<u>\$ 52,754,875</u>	<u>52,681,399</u>

Securities with amortized cost of approximately \$11,773,000 and \$37,558,600 at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

(3) Loans Receivable and Allowance for Loan Losses

The following is a summary of loans by major categories at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Real estate loans	\$ 435,053,836	352,884,091
Construction loans	34,657,853	7,970,775
Commercial loans	197,640,981	148,680,420
Consumer loans	29,975,667	21,301,502
Total	<u>697,328,337</u>	<u>530,836,788</u>
Less:		
Deferred loan costs, net	41,145	25,658
Unearned income	(2,106,294)	(2,043,473)
Allowance for loan losses	<u>(8,248,568)</u>	<u>(5,477,827)</u>
Net loans	<u>\$ 687,014,620</u>	<u>523,341,146</u>

As of December 31, 2007 and 2006, the Company serviced loans sold to unaffiliated parties in the amount of approximately \$128,205,000 and \$80,779,000, respectively.

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An analysis of the activity in the allowance for loan losses and reserve for off-balance credit risk for the years ended December 31, 2007 and 2006 is as follows:

	2007		2006	
	Allowance for loan losses	Allowance for off- balance sheet items	Allowance for loan losses	Allowance for off- balance sheet items
Balance, beginning of year	\$ 5,477,827	317,000	4,687,276	120,000
Provision charged to operating Expenses	3,982,600	—	1,366,000	197,000
Loans recoveries	15,993	—	191,036	—
Loans charged off	(1,227,852)	—	(766,485)	—
Balance, end of year	\$ 8,248,568	317,000	5,477,827	317,000

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

At December 31, 2007 and 2006, the Company's impaired loans were \$15,875,275 and \$5,527,951, respectively, and its impairment reserves were \$3,856,183 and \$150,000, respectively. Interest income of \$847,600 and \$419,500 was recognized on impaired loans during the years ended December 31, 2007 and 2006, respectively. Loans on which the accrual of interest has been discontinued amounted to \$9,651,845 and \$1,502,117 at December 31, 2007 and 2006, respectively. If interest on these loans had been accrued, interest income would have increased by approximately \$580,990 in 2007 and \$115,900 in 2006. Restructured loans totaled \$2,051,664 and \$836,000 at December 31, 2007 and 2006, respectively. The following table provides information of the Company's nonaccrual loans as of December 31, 2007 and 2006.

	2007	2006
Real estate loans	\$ 5,002,165	263,953
Commercial and industrial loans	4,431,615	1,201,624
Consumer loans	218,065	36,540
Total nonaccrual loans	\$ 9,651,845	1,502,117

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

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(4) Premises and Equipment

Premises and equipment at December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 336,116	336,116
Leasehold improvements	5,725,166	4,566,444
Equipment, furniture, and fixtures	4,326,498	3,820,298
Computer software	<u>795,148</u>	<u>578,302</u>
Total	11,182,928	9,301,160
Less accumulated depreciation	<u>(4,112,183)</u>	<u>(3,148,177)</u>
Premise and equipment, net	<u>\$ 7,070,745</u>	<u>6,152,983</u>

Total depreciation and amortization included in occupancy and equipment expenses was \$1,464,448 and \$781,719 for the years ended December 31, 2007 and 2006, respectively.

(5) Deposits

The scheduled maturities of time deposits were as follows at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Three months or less	\$ 163,516,006	126,420,625
Over three months to twelve months	197,766,883	143,385,063
Over twelve months	<u>1,891,717</u>	<u>2,787,532</u>
Total	<u>\$ 363,174,606</u>	<u>272,593,220</u>

A summary of interest expense related to deposits and other borrowings is as follows for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Super Negotiable Order of Withdrawal (NOW)	\$ 27,606	24,165
Money market funds and savings	6,159,214	3,651,476
Time deposits:		
\$100,000 or more	8,707,215	10,250,728
Other time deposits	6,173,803	2,390,330
Other	<u>5,320,325</u>	<u>1,414,258</u>
Total	<u>\$ 26,388,163</u>	<u>17,730,957</u>

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(6) Other Borrowed Funds and Junior Subordinated Debentures

The Company has a line of credit with the FHLB in the amount of \$96,500,000, of the standard credit program, with maturities within five years at December 31, 2007. The interest rates range from 4.92% to 5.27%.

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.

(7) Income Taxes

The provisions for income taxes for the years ended December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Current income tax expense:		
Federal	\$ 4,438,594	3,939,592
State	933,201	862,730
Total	5,371,795	4,802,322
Deferred income tax benefit:		
Federal	(915,108)	(534,514)
State	(292,322)	(188,790)
Total	(1,207,430)	(723,304)
Income taxes	\$ 4,164,365	4,079,018

As of December 31, 2007 and 2006, 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:

	2007	2006
Allowance for loan losses	\$ 3,145,801	2,138,783
Accumulated depreciation	418,358	167,814
Unrealized loss on available-for-sale securities	31,698	399,459
State taxes	(2,155)	99,929
Share-based compensation expense	378,958	229,233
Other	32,002	129,775
Net deferred income tax assets	\$ 4,004,662	3,164,993

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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:

	<u>2007</u>	<u>2006</u>
Federal income tax at statutory tax rate	34%	34%
Net state income tax	4	5
Other	1	1
	<u>39%</u>	<u>40%</u>

At December 31, 2007 and 2006, income tax receivable of \$869,170 and income tax payable of \$107,685 were included in other assets and other liabilities, respectively, in the consolidated statements of financial condition.

(8) Earnings per Share

The EPS data for 2006 was retroactively restated reflecting the 2007 stock dividend of 4%. The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations at December 31, 2007 and 2006:

	<u>Income (numerator)</u>	<u>Weighted shares (denominator)</u>	<u>Per share amount</u>
2007:			
Basic EPS – income available to common shareholders	\$ 6,400,135	11,131,460	\$ 0.57
Effect of dilutive securities:			
Stock options assumed exercised	<u>—</u>	<u>95,496</u>	<u>—</u>
Diluted EPS – income available to common shareholders	<u>\$ 6,400,135</u>	<u>11,226,956</u>	<u>\$ 0.57</u>
2006:			
Basic EPS – income available to common shareholders	\$ 6,156,777	11,057,446	\$ 0.56
Effect of dilutive securities:			
Stock options assumed exercised	<u>—</u>	<u>210,508</u>	<u>0.01</u>
Diluted EPS – income available to common shareholders	<u>\$ 6,156,777</u>	<u>11,267,954</u>	<u>\$ 0.55</u>

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(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 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 2,039,450	4,598,064
New loans originated	2,496,060	116,697
Principal repayments	(28,066)	(2,675,311)
Balance at end of year	<u>\$ 4,507,444</u>	<u>2,039,450</u>

(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 noncancelable minimum rental commitments under the operating leases approximated the following amounts:

	<u>Amount</u>
Year ending December 31:	
2008	\$ 2,189,849
2009	2,184,547
2010	2,171,835
2011	2,055,127
2012	1,302,932
Thereafter	<u>3,673,298</u>
Total	<u>\$ 13,577,588</u>

The total rental expense recorded under such leases for 2007 and 2006 amounted to approximately \$2,110,000 and \$1,553,900, 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,

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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, 2007 and 2006, the Company had loan commitments granted and undisbursed of \$97,041,319 and \$84,007,190, and commitments under outstanding commercial letters of credit of \$8,567,098 and \$9,248,823, at December 31, 2007 and 2006, respectively. Standby letters of credit and guarantees of \$8,815,250 and \$1,912,362, at December 31, 2007 and 2006, respectively. Management does not anticipate any material losses as a result of these transactions.

(12) 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, 2007. 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

The 1998 Plan provides that the total numbers of option shares that can be granted are 2,398,057 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 ten years. There were no options granted under the 1998 Plan in 2007 and 2006.

The following is a summary of the 1998 Plan transactions for the years ended December 31, 2007 and 2006:

	2007		2006	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Options outstanding – beginning of year	37,393	\$ 4.19	284,706	\$ 2.54
Options exercised	(500)	4.16	(242,027)	2.33
Options forfeited	(7,495)	4.40	(5,286)	5.12
Options outstanding – end of year	29,398	4.14	37,393	4.19
Options exercisable – end of year	29,398	4.14	37,393	4.19

For the years ended December 31, 2007 and 2006, compensation expense of \$0 and \$15,704 for the 1998 Plan was recognized in the consolidated statements of income.

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The following information under the 1998 Plan is presented for the years ended December 31, 2007 and 2006:

	Year ended December 31	
	2007	2006
Grant date fair value of options granted	\$ —	—
Fair value of options vested		15,704
Total intrinsic value of options exercised	4,192	3,763,862
Cash received from options exercised	2,075	579,417
Actual tax benefit realized from tax deductions on options exercised	—	—

As of December 31, 2007 and 2006, 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
2007:								
\$3.75 through \$4.98	29,398	\$ 83,999	4.14	2.73	29,398	\$ 83,999	4.14	2.73
2006:								
\$4.00 through \$5.249	37,393	\$ 418,516	4.19	1.76	37,393	\$ 418,516	4.19	1.76

(b) 2004 Plan

The 2004 Plan provides that the total numbers of option shares that can be granted are 1,249,248 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 ten 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 \$113,027.20 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.

For the years ended December 31, 2007 and 2006, the estimated weighted average fair value per share of options granted under the 2004 Plan was as follows:

	<u>2007</u>	<u>2006</u>
Estimated weighted average fair value per share of options granted	\$ —	4.32

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:

	<u>Year ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Weighted average assumptions:		
Expected volatility	—	25.08%
Expected term	—	3.0 years
Risk-free interest rate	—	4.54%
Expected preventing forfeiture rate	—	3.56%

Expected volatility is determined based 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.

The following information under the 2004 Plan is presented for the years ended December 31, 2007 and 2006.

	<u>Year ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Grant date fair value of options granted	\$ —	899,184
Fair value of options vested	918,663	973,203
Total intrinsic value of options exercised	110,788	65,066
Cash received from options exercised	742,255	153,334
Actual tax benefit realized from tax deductions on options exercised	26,470	23,512

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The following is a summary of the stock option activity during 2007 under the 2004 Plan:

	2007		2006	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Options outstanding – beginning of year	1,033,847	\$ 12.03	869,527	\$ 10.31
Options granted	—	—	208,000	19.23
Options exercised	(70,827)	10.48	(14,560)	10.53
Options forfeited	<u>(306,491)</u>	13.33	<u>(29,120)</u>	10.53
Options outstanding – end of year	<u>656,529</u>	11.59	<u>1,033,847</u>	12.03
Options exercisable – end of year	591,270	11.18	417,896	10.20

For the years ended December 31, 2007 and 2006, compensation expense of \$629,026 and \$973,203 for the 2004 Plan was recognized in the consolidated statements of income.

As of December 31, 2007 and 2006, 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
2007:								
\$10.00 through \$10.99	499,697	\$ (1,562,153)	10.13	7.00	499,697	\$ (1,562,153)	10.13	7.00
\$11.00 through \$17.99	48,672	(209,173)	11.30	3.88	19,467	(83,661)	11.30	3.88
\$18.00 through \$18.99	108,160	(1,242,888)	18.49	8.17	72,106	(828,584)	18.49	8.17
	<u>656,529</u>	<u>\$ (3,014,214)</u>	<u>11.59</u>	<u>6.96</u>	<u>591,270</u>	<u>\$ (2,474,399)</u>	<u>11.18</u>	<u>7.04</u>

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	<u>Options outstanding</u>			Weighted average remaining contractual life	<u>Options exercisable</u>			Weighted average remaining contractual life
	<u>Number of shares</u>	<u>Intrinsic value</u>	<u>Average exercise price per share</u>		<u>Number of shares</u>	<u>Intrinsic value</u>	<u>Average exercise price per share</u>	
2006:								
\$10.00 through \$10.99	708,664	\$ 3,672,789	10.20	7.13	396,125	\$ 2,072,036	10.15	7.69
\$11.00 through \$11.99	108,863	467,902	11.09	4.76	21,774	93,575	11.09	4.76
\$19.00 through \$19.99	216,320	(671,840)	18.49	9.17	—	—	—	—
	<u>1,033,847</u>	<u>\$ 3,468,851</u>			<u>417,899</u>	<u>\$ 2,165,611</u>		

(c) 2006 Plan

The 2006 Plan provides that the total numbers of option shares that can be granted are 540,800 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 ten years.

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 as of the date of such modification. A total of 153,712 options were 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, 2007, the estimated weighted average fair value per share of options granted under the 2006 Plan was as follows:

	<u>Year ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Estimated weighted average fair value per share of options granted	\$ 3.52	5.47

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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	
	2007	2006
Weighted average assumptions:		
Expected volatility	26.64%	27.61%
Expected term	5.6 years	5.0 years
Risk-free interest rate	4.04%	4.93%
Expected preventing forfeiture rate	7.70%	3.56%

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.

The following information under the 2006 Plan is presented for the year ended December 31, 2007:

	Year ended December 31	
	2007	2006
Grant date fair value of options granted	\$ 969,485	885,367
Fair value of options vested	178,481	81,773
Total intrinsic value of options exercised	—	—
Cash received from options exercised	—	—
Actual tax benefit realized from tax deductions on options exercised	—	—

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The following is a summary of the stock option activity during 2007 under the 2006 Plan:

	December 31, 2007		December 31, 2006	
	Number of shares	Weighted average exercise price per shares	Number of shares	Weighted average exercise price per shares
Options outstanding – beginning of year	168,272	\$ 15.67	—	\$ —
Options granted	275,336	10.44	168,272	15.67
Options exercised	—	—		
Options forfeited	<u>(177,092)</u>	15.21		
Options outstanding – end of year	<u>266,516</u>	10.67	<u>168,272</u>	15.67
Options exercisable – end of year	12,354	16.01	—	—

For the years ended December 31, 2007 and 2006, compensation expense of \$167,216 and \$81,773 for the 2006 Plan was recognized in the consolidated statements of income.

As of December 31, 2007, 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
2007:								
\$1.00 through \$8.99	130,936	\$ (196,404)	8.50	7.69	—	\$ —	—	—
\$10.00 through \$10.99	20,000	(66,000)	10.30	5.67	—	—	—	—
\$11.00 through \$11.99	57,200	(233,376)	11.08	5.45	—	—	—	—
\$12.00 through \$12.99	10,000	(50,000)	12.00	5.50	—	—	—	—
\$14.00 through \$14.99	20,800	(159,328)	14.66	5.33	—	—	—	—
\$15.00 through \$15.99	10,816	(86,744)	15.02	4.50	4,326	(34,695)	15.02	4.50
\$16.00 through \$16.99	16,764	(158,252)	16.44	3.86	8,028	(76,587)	16.54	2.90
	<u>266,516</u>	<u>\$ (950,104)</u>	<u>10.56</u>	<u>6.40</u>	<u>12,354</u>	<u>\$ (111,282)</u>	<u>16.01</u>	<u>3.46</u>

	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
2006:								
\$14.00 through \$15.99	86,528	\$ 38,272	14.94	5.54	—	\$ —	—	—
\$16.00 through \$17.99	81,744	(86,460)	16.73	5.67	—	—	—	—
	<u>168,272</u>	<u>\$ (48,188)</u>	16.30	5.60	<u>—</u>	<u>\$ —</u>		

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(13) 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, 2007 and 2006 were approximately \$184,700 and \$157,000, respectively.

(14) Fair Value of Financial Instruments

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.

	As of December 31, 2007		As of December 31, 2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets:				
Cash and cash equivalents	\$ 56,756,017	56,756,017	30,489,562	30,489,562
Securities available for sale	52,681,399	52,681,399	56,064,533	56,064,533
Loans receivable, net of allowance for loan losses	687,559,420	687,601,462	523,341,146	520,666,761
Loans held for sale	761,074	761,074	1,070,916	1,070,916
Accrued interest receivable	3,273,786	3,273,786	2,863,278	2,863,278
Federal Home Loan Bank stock	7,206,500	7,206,500	2,558,700	2,558,700
Liabilities:				
Deposits	\$ 638,548,823	638,548,823	520,551,579	520,551,579
Other borrowed funds	96,500,000	95,247,545	47,000,000	46,988,726
Junior subordinated debenture	20,691,000	20,691,000	—	—
Accrued interest payable	3,460,537	3,460,537	3,918,807	3,918,807

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 fair value 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.

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(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 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*

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 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.

(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) *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 it is not material.

(15) *Regulatory Matters*

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

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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, 2007, 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, 2007 and 2006:

	Actual		For capital adequacy purpose		To be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
2007:						
Total capital (to risk-weighted assets):						
Bancorp	\$ 89,748	12.1%	\$ 59,252	8.0%	\$ —	N/A
Bank	86,683	11.7	59,194	8.0	73,992	10.0
Tier I capital (to risk-weighted assets):						
Bancorp	81,182	11.0	29,626	4.0	—	N/A
Bank	78,117	10.6	29,597	4.0	44,395	6.0
Tier I capital (to average assets):						
Bancorp	81,182	10.2	29,626	4.0	—	N/A
Bank	78,117	9.8	29,597	4.0	36,996	5.0
(Dollars in thousands)						
2006:						
Total capital (to risk-weighted assets):						
Bancorp	\$ 59,031	10.7%	\$ 44,334	8.0%	\$ —	N/A
Bank	57,986	10.7	43,412	8.0	54,265	10.0
Tier I capital (to risk-weighted assets):						
Bancorp	53,205	9.6	22,167	4.0	—	N/A
Bank	52,160	9.6	21,706	4.0	32,559	6.0
Tier I capital (to average assets):						
Bancorp	53,205	8.8	24,218	4.0	—	N/A
Bank	52,160	8.6	24,213	4.0	30,266	5.0

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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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Statements of financial condition:		
Assets:		
Cash and cash equivalents	\$ 2,369,516	865,797
Investment in Saehan Bank	78,108,081	51,638,259
Investment in unconsolidated subsidiary	619,000	—
Deferred income tax asset	379,272	200,995
Other assets	345,427	—
Total assets	<u>\$ 81,821,296</u>	<u>52,705,051</u>
Liabilities and shareholders' equity:		
Junior subordinated debenture	\$ 20,619,000	—
Other liabilities	30,112	22,207
Shareholders' equity	61,172,184	52,682,844
Total liabilities and shareholders' equity	<u>\$ 81,821,296</u>	<u>52,705,051</u>
Statements of income:		
Other operating expense	\$ (2,205,588)	(1,330,187)
Equity in net income of Saehan Bank	7,945,856	7,169,277
Income tax benefit	659,867	317,687
Net income	<u>\$ 6,400,135</u>	<u>6,156,777</u>

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	<u>2007</u>	<u>2006</u>
Statements of cash flows:		
Cash flows from operating activities:		
Net income	\$ 6,400,135	6,156,777
Adjustments to reconcile net income to net cash and cash equivalents used in operating activities:		
Equity in net income of Saehan Bank	(7,945,856)	(7,169,277)
Share-based compensation expense	796,243	1,070,681
Increase in deferred tax asset	(178,277)	(200,995)
Increase in other assets	(345,427)	—
Increase in other liabilities	7,905	22,195
Tax benefit from stock option exercise	26,490	23,512
Net cash and cash equivalents used in operating activities	<u>(1,238,787)</u>	<u>(97,107)</u>
Cash flows from investing activity:		
Payments for investments in subsidiary	<u>(18,619,000)</u>	—
Net cash and cash equivalents used in investing activity	<u>(18,619,000)</u>	—
Cash flows from financing activities:		
Issuance of Junior subordinated debentures	20,619,000	—
Proceeds from exercise of options	744,330	732,751
Stock dividend paid-in cash for fractional shares	<u>(1,824)</u>	<u>(2,026)</u>
Net cash and cash equivalents provided by financing activities	<u>21,361,506</u>	<u>730,725</u>
Net increase in cash and cash equivalents	1,503,719	633,618
Cash and cash equivalents, beginning of year	<u>865,797</u>	<u>232,179</u>
Cash and cash equivalents, end of year	<u>\$ 2,369,516</u>	<u>865,797</u>