

NARA BANCORP INC
Form 10-Q/A
January 25, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended March 31, 2004 or

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

For the transition period from _____ to _____

Commission File Number: 000-50245

NARA BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-4849715

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification Number)

3701 Wilshire Boulevard, Suite 220, Los Angeles,
California

90010

(Address of Principal executive offices)

(ZIP Code)

(213) 639-1700

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of April 30, 2004, there were 11,585,089 outstanding shares of the issuer's Common Stock, \$0.001 par value.

Table of Contents**EXPLANATORY NOTE**

This Quarterly Report on Form 10-Q/A amends our previously filed Quarterly Report on Form 10-Q for the quarter ended March 31, 2004. All references in this amendment to this Quarterly Report on Form 10-Q or the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 shall refer to this amendment. Readers should note that the only changes made in this amendment were to correct clerical errors that appeared on pages 5 and 31 of the original filing. On page 5, Interest and fees on loans as of March 31, 2004 was changed from \$4,880,016 to \$14,880,016. On page 31, four corrections were made: (1) the Trust Name of Nara Statutory Trust VI was changed to Nara Statutory Trust IV; (2) the Stated Maturity date for Nara Capital Trust III was changed from 3/26/2032 to 6/15/2033; (3) the Stated Maturity date for Nara Statutory Trust IV was changed from 3/26/2032 to 1/7/2034; and (4) the Stated Maturity date for Nara Statutory Trust V was changed from 3/26/2032 to 12/17/2033. All other information contained in the original filing remains unchanged. For the convenience of the reader, we have included in this amendment our entire Quarterly Report on Form 10-Q, as amended hereby. This amendment continues to speak as of the date of the original Quarterly Report on Form 10-Q, and we have not updated the disclosure contained herein to reflect any events that occurred at a later date, other than as described in this explanatory note. All information contained in this amendment is subject to updating and supplementing as provided in our periodic reports filed with the Securities and Exchange Commission.

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(Unaudited)

ASSETS

	March 31, 2004	December 31, 2003
	<hr/>	<hr/>
Cash and due from banks	\$ 30,322,856	\$ 34,238,497
Federal funds sold	7,000,000	37,200,000
Term federal funds sold	7,000,000	5,000,000
	<hr/>	<hr/>
Total cash and cash equivalents	44,322,856	76,438,497
Securities available for sale, at fair value	125,382,686	126,412,488
Securities held to maturity, at amortized cost (fair value: March 31, 2004 - \$2,173,541; December 31, 2003- \$2,148,907)	2,001,388	2,001,493
Interest-only strips, at fair value	565,714	521,354
Interest rate swaps, at fair value	4,167,013	1,822,981
Loan held for sale, at the lower of cost or market	5,403,575	3,926,885
Loans receivable, net of allowance for loan losses (March 31, 2004 - \$13,563,678; December 31, 2003 - \$12,470,735)	1,035,045,217	984,867,614
Federal Reserve Bank stock, at cost	1,263,300	1,263,300
Federal Home Loan Bank Stock, at cost	4,048,500	4,695,400
Premises and equipment	6,606,190	6,765,666
Accrued interest receivable	4,338,129	4,718,360
Servicing assets	2,773,086	2,743,115
Deferred income taxes, net	9,112,548	10,892,336
Customers acceptance liabilities	3,706,744	4,340,037
Cash surrender value of life insurance	14,441,756	14,302,761
Goodwill	1,909,150	1,909,150
Intangible assets, net	4,647,263	4,854,867
Other assets	8,252,042	7,551,335
	<hr/>	<hr/>
TOTAL	\$1,277,987,157	\$1,260,027,639

(Continued)

Table of Contents**NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	March 31, 2004	December 31, 2003
	<hr/>	<hr/>
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 325,712,349	\$ 325,646,661
Interest-bearing:		
Money market and other	155,595,530	134,125,212
Savings deposits	141,080,047	157,502,612
Time deposits of \$100,000 or more	365,154,416	348,646,862
Other time deposits	93,112,378	95,493,348
	<hr/>	<hr/>
Total deposits	1,080,654,720	1,061,414,695
Borrowing from Federal Home Loan Bank	52,000,000	60,000,000
Accrued interest payable	3,413,041	3,291,150
Acceptances outstanding	3,706,744	4,340,037
Junior subordinated debenture	39,268,000	39,268,000
Other liabilities	7,272,620	6,716,885
	<hr/>	<hr/>
Total liabilities	1,186,315,125	1,175,030,767
Commitments and Contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.001 par value; authorized, 20,000,000 shares; issued and outstanding, 11,585,089 and 11,560,089 shares at March 31, 2004 and December 31, 2003, respectively	11,585	11,560
Capital surplus	43,491,811	43,057,760
Deferred compensation	(8,306)	(10,222)
Retained earnings	45,555,697	41,992,345
Accumulated other comprehensive income (loss), net of taxes	2,621,245	(54,571)
	<hr/>	<hr/>
Total stockholders' equity	91,672,032	84,996,872
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$1,277,987,157	\$1,260,027,639
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements

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For the three months ended March 31, 2004 and 2003
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
INTEREST INCOME:		
Interest and fees on loans	\$ 14,880,016	\$ 11,467,559
Interest on securities	1,340,526	1,402,814
Interest on interest rate swaps	904,944	833,000
Interest on federal funds sold and interest-bearing deposits with other financial institutions	120,547	237,906
	<hr/>	<hr/>
Total interest income	17,246,033	13,941,279
	<hr/>	<hr/>
INTEREST EXPENSE:		
Interest expense on deposits	3,082,960	3,295,914
Interest expense on junior subordinated debentures	558,692	353,980
Interest on other borrowings	292,303	418,998
	<hr/>	<hr/>
Total interest expense	3,933,955	4,068,892
	<hr/>	<hr/>
Net interest income before provision for loan losses	13,312,078	9,872,387
Provision for loan losses	1,500,000	1,300,000
	<hr/>	<hr/>
Net interest income after provision for loan losses	11,812,078	8,572,387
	<hr/>	<hr/>
NON-INTEREST INCOME:		
Service charges on deposit accounts	2,027,331	1,723,948
Other charges and fees	1,898,800	1,602,819
Net gain on sale of available-for sale of securities	304,976	158,757
(Loss) gain on sale of premises and equipment	(217)	11,521
Net loss on sales of other real estate owned		(2,031)
Gain on interest rate swaps	719,735	147,857
Net gain on sale of SBA loans	938,303	1,200,222
	<hr/>	<hr/>
Total non-interest income	5,888,928	4,843,093
	<hr/>	<hr/>

NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,881,827	4,560,584
Occupancy	1,267,469	1,031,362
Furniture and equipment	419,195	376,063
Advertising and marketing	306,540	334,734
Communications	161,420	149,201
Data processing	572,601	465,673
Professional fees	551,676	453,180
Office supplies and forms	98,627	83,604
Other than temporary impairment on investment securities	1,633,166	
Other	996,790	804,817
	<u> </u>	<u> </u>
Total non-interest expense	10,889,311	8,259,218
	<u> </u>	<u> </u>
Income before income tax provision	6,811,695	5,156,262
Income tax provision	2,668,411	1,919,338
	<u> </u>	<u> </u>
Net income	\$ 4,143,284	\$ 3,236,924
	<u> </u>	<u> </u>
Earnings Per Share:		
Basic	\$ 0.36	\$ 0.30
Diluted	0.35	0.29

See accompanying notes to consolidated financial statements

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2004 and 2003**

(Unaudited)

	Number of Shares	Common Stock	Capital Surplus	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
BALANCE, JANUARY 1, 2004	11,560,089	\$11,560	\$43,057,760	\$(10,222)	\$41,992,345	\$ (54,571)	
Stock options exercised	25,000	25	233,875				
Tax benefit from stock options exercised			200,176				
Amortization of restricted stock				1,916			
Cash dividend declared					(579,932)		
Comprehensive income: Net income					4,143,284		\$4,143,284
Other comprehensive income: Change in unrealized gain on securities available for sale, interest-only-strips and interest rate swaps - net of tax						1,701,238	1,701,238
Change in unrealized gain on interest swaps - net of tax						974,578	974,578
Comprehensive income							\$6,819,100
BALANCE, MARCH 31, 2004	11,585,089	\$11,585	\$43,491,811	\$ (8,306)	\$45,555,697	\$2,621,245	

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BALANCE, JANUARY 1, 2003	10,690,630	\$ 10,690	\$ 32,930,307	\$ 29,903,338	\$ 2,524,732
Warrants exercised	29,100	30	189,570		
Stock options exercised	15,328	15	46,258		
Cash dividend declared				(537,257)	
Comprehensive income:					
Net income				3,236,924	\$ 3,236,924
Other comprehensive income:					
Change in unrealized gain on securities available for sale and interest-only- strips, net of tax					73,184 73,184
Change in unrealized gain on interest swaps - net of tax				415,709	415,709
					<u>415,709</u>
Comprehensive income					<u>\$ 3,725,817</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCE, MARCH 31, 2003	10,735,058	\$ 10,735	\$ 33,166,134	\$ 32,603,005	\$ 3,013,625
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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THREE MONTHS ENDED MARCH 31, 2004 AND 2003**

(Unaudited)

	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 4,143,284	\$ 3,236,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	2,382,062	449,445
Provision for loan losses	1,500,000	1,300,000
Proceeds from sales of SBA loans	11,151,371	18,488,891
Originations of SBA loans held for sale	(16,993,000)	(20,190,300)
Net gain on sales of SBA loans	(938,303)	(1,200,222)
Net loss on sales of other real estate owned		2,031
Gain on sales of securities available for sale	(304,976)	(158,757)
Loss (gain) on sale of premises and equipment	217	(11,521)
Net increase in cash surrender value	(138,995)	(139,860)
Gain on interest rate swaps	(719,735)	(147,857)
Decrease (increase) in accrued interest receivable	380,231	(163,635)
Deferred income taxes	(2,172)	(52,362)
Tax benefit from stock option exercised	200,176	
Increase in other assets	(810,085)	(1,808,993)
Increase in accrued interest payable	121,891	631,157
Increase in interest-only strip	(63,093)	(798)
Increase in other liabilities	555,733	4,098,580
	<hr/>	<hr/>
Net cash provided by operating activities	464,606	4,332,723
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans receivable	(46,413,935)	(26,961,005)
Purchase of premises and equipment	(184,125)	(240,327)
Purchase of investment securities available for sale	(17,400,790)	(41,426,343)
Proceeds from sale of equipment	508	3,403
Proceeds from sale of investment securities available for sale	6,290,803	3,154,688
Proceeds from matured or called investment securities available for sale	13,586,399	11,590,476
Proceeds from sales of other real estate owned		71,652
Purchase of Federal Home Loan Bank Stock	646,900	(514,800)
	<hr/>	<hr/>
Net cash used in investing activities	(43,474,240)	(54,322,256)
	<hr/>	<hr/>

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	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	19,240,025	13,468,238
Payment of cash dividend	(579,932)	(537,257)
(Repayment of) proceeds from Federal Home Loan Bank borrowing	(8,000,000)	15,000,000
Proceeds from warrants exercised		189,600
Proceeds from stock options exercised	233,900	46,272
	<hr/>	<hr/>
Net cash provided by financing activities	10,893,993	28,166,853
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,115,641)	(21,822,680)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,438,497	104,742,728
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 44,322,856	\$ 82,920,048
	<hr/>	<hr/>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 3,810,701	\$ 3,473,018
Income taxes paid	\$ 1,672,500	\$ 500,275
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTMENT ACTIVITIES		
Transfer of loans to other real estate owned	\$	\$ 15,601
See accompanying notes to consolidated financial statements		

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NARA BANCORP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Three months ended March 31, 2004 and 2003, unaudited

1. Nara Bancorp, Inc.

Nara Bancorp, Inc. (Nara Bancorp , on a parent-only basis, and we or our on a condensed consolidated basis), incorporated under the laws of the State of Delaware in 2000, is a bank holding company, headquartered in Los Angeles, California, offering a full range of commercial banking and consumer financial services through its wholly owned subsidiary, Nara Bank, N.A., a national bank (Nara Bank) with branches in California and New York as well as Loan Production Offices in Seattle, Chicago, New Jersey, Atlanta, Virginia, and Denver.

2. Basis of Presentation

Our condensed consolidated financial statements included herein have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such SEC rules and regulations.

The condensed consolidated financial statements include the accounts of Nara Bancorp and its wholly owned subsidiaries, principally Nara Bank, N. A. (the Bank). All intercompany transactions and balances have been eliminated in consolidation.

Nara Bancorp also has five special-purpose subsidiaries that were formed for capital-raising transactions: Nara Capital Trust I, Nara Statutory Trust II, Nara Capital Trust III, Nara Statutory Trust IV, and Nara Statutory Trust V. With the adoption of FIN No. 46, Nara Bancorp deconsolidated the five grantor trusts as of December 31, 2003. As a result, the junior subordinated debentures issued by Bancorp to the grantor trusts, totaling \$39.3 million, are reflected in our consolidated balance sheet in the liabilities section at March 31, 2004 and December 31, 2003, under the caption as junior subordinated debentures. We record interest expense on the corresponding junior subordinated debentures in the consolidated statement of income. We also recorded \$2.0 million in other assets in the consolidated statement of financial condition at March 31, 2004 and December 31, 2003 for the common capital securities issued by the issuer trusts.

We also believe that we have made all adjustments necessary to fairly present our financial position and the results of our operations for the interim period ended March 31, 2004. Certain reclassifications have been made to prior period figures in order to conform to the March 31, 2004 presentation. The results of operations for the interim period are not necessarily indicative of results for the full year.

These condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in our 2003 Annual Report on Form 10-K/A.

3. Dividends

On March 11, 2004, we declared a \$0.05 per share cash dividend paid on April 12, 2004 to stockholders of record at the close of business March 31, 2004.

4. Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders 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 of the Company.

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The following table shows how we computed basic and diluted earnings per share (EPS) for the three months ended March 31, 2004 and 2003.

	For the three months ended March 31,					
	2004			2003		
	Income (Numerator)	Shares (Denominator)	Per Share (Amount)	Income (Numerator)	Shares (Denominator)	Per Share (Amount)
Net income						
Basic EPS	\$4,143,284	11,578,111	\$ 0.36	\$3,236,924	10,697,812	\$ 0.30
Effect of Dilutive Securities:						
Options		428,238			478,032	
Warrants					49,476	
Diluted EPS	\$4,143,284	12,006,349	\$ 0.35	\$3,236,924	11,225,320	\$ 0.29

5. Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, encourages, but does not require, companies to record compensation cost for stock-based compensation plans at fair value. We have elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of our stock at the date of grant over the grant price.

We have adopted the disclosure only provisions of SFAS No. 123. Had compensation cost for our stock-based compensation plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts as follows:

	For the three months ended	
	2004	2003
Net income:		
Net income as reported	\$4,143,284	\$3,236,924
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards net of related tax effects	179,497	97,129
Pro forma net income	\$3,963,787	\$3,139,795

	_____	_____
EPS:		
Basic as reported	\$ 0.36	\$ 0.30
Basic pro forma	0.34	0.29
Diluted as reported	\$ 0.35	\$ 0.29
Diluted pro forma	0.33	0.28

The weighted-average fair value of options granted during the first quarter of 2004 was \$12.46. The fair value of options granted under our stock option plans during the first quarter of 2004 was estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used: 0.67% dividend yield, volatility of 38.68%, risk-free interest rate of 3.5% and expected lives of six years. We did not grant any options for the quarters ended March 31, 2003.

6. SBA

Certain Small Business Administration (SBA) loans that we have the intent to sell prior to maturity have been designated as held for sale at origination and are recorded at the lower of cost or market value, on an aggregate basis. A valuation allowance is established if the aggregate market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the premium on sale of

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SBA loans is recognized as gain on sale of loans at the time of the sale. The remaining portion of the premium (relating to the portion of the loan retained) is deferred and amortized over the remaining life of the loan as an adjustment to yield. Servicing assets are recognized when loans are sold with servicing retained. Servicing assets are recorded based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate, plus 1 to 2%. Servicing assets are amortized in proportion to and over the period of estimated future net servicing income.

We periodically evaluate servicing assets for impairment. At March 31, 2004, the fair value of servicing assets was determined using a weighted-average discount rate of 6.9% and a prepayment speed of 11.6%. At December 31, 2003, the fair value of servicing assets was determined using a weighted-average discount rate of 6.9% and a prepayment speed of 11.4%. For purposes of measuring impairment, servicing assets are stratified by loan type. An impairment is recognized if the carrying value of servicing assets exceeds the fair value of the stratum. The fair values of servicing assets exceed the carrying amount, and were approximately \$3,406,000 and \$3,376,000 at March 31, 2004 and December 31, 2003, respectively.

An interest-only strip is recorded based on the present value of the excess of the total future income from serviced loans over the contractually specified servicing fee, calculated using the same assumptions as used to value the related servicing assets. Such interest-only strip is accounted for at estimated fair value, with unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss).

7. Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001 and also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. Additionally, SFAS No. 142 requires recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment. We adopted SFAS No. 142 on January 1, 2002.

We tested goodwill for impairment as of December 31, 2003, noting no impairment in recorded goodwill of \$1.9 million. No conditions indicated any further impairment as of March 31, 2004. There was no change in goodwill for the three months ended March 31, 2004 and 2003.

We also tested intangible assets for impairment as of December 31, 2003, noting no impairment. We will continue to amortize intangible assets, representing core deposit intangibles, over their original estimated useful lives of seven years. There were no additions to core deposits intangibles during the three months ended March 31, 2004 and 2003.

As of March 31, 2004, intangible assets subject to amortization include core deposit intangibles of \$4,647,263 (net of \$1,165,635 accumulated amortization) and servicing assets of \$2,773,086 (net of \$1,130,191 accumulated amortization). Amortization expense for such intangible asset was \$326,585 for the three months ended March 31, 2004. Estimated amortization expense for intangible assets for the remainder of 2004 and the five succeeding fiscal years follows:

2004 (remaining nine months)	\$1,011,219
2005	1,071,901
2006	906,995

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2007	855,000
2008	808,828
2009 and thereafter	2,766,406

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The FASB issued Interpretation No. (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others, an interpretation of SFAS Nos. 5, 57 and 107 and rescission of FIN 34, Disclosure of Indirect Guarantees of Indebtedness of Others, in November 2002. FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of such interpretation did not have a material impact on our results of operations, financial position or cash flows.

In January 2003, the FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46). In December 2003, the FASB revised FIN 46 and codified certain FASB Staff Positions previously issued for FIN 46 (FIN 46R). The objective of FIN 46 as originally issued, and as revised by FIN 46R, was to improve financial reporting by companies involved with variable interest entities. Prior to the effectiveness of FIN 46, we generally included another entity in its consolidated financial statements only if we controlled the entity through voting interests. FIN 46 changed that standard by requiring a variable interest entity to be consolidated if we were subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. The consolidation requirements of FIN 46 applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to older entities in the first fiscal year or interim period beginning after June 15, 2003. The provisions of FIN 46R are required to be adopted prior to the first reporting period that ends after March 15, 2004. The adoption of FIN 46 and FIN46R did not have a significant impact on our financial position, results of operations, or cash flows.

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses the accounting for differences between the contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans or debt securities experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 will be effective for loans and debt securities acquired after December 31, 2004. Although we anticipate that the implementation of SOP 03-3 will require significant loan system and operational changes to track credit related losses on loans purchased starting in 2005, we do not expect to have a significant effect on the consolidated financial statements.

9. Commitments and Contingencies

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Our exposure to credit loss in the event of nonperformance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies

in making commitments and conditional obligations as we do for extending loan facilities to customers. We evaluate each customer's creditworthiness on a case-by-case

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basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing properties.

Commitments at March 31, 2004 are summarized as follows:

Commitments to extend credit	\$ 139,676,492
Standby letters of credit	18,404,743
Commercial letters of credit	31,202,925

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

10. Derivative Financial Instruments and Hedging Activities

As part of our asset and liability management strategy, we may engage in derivative financial instruments, such as interest rate swaps, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. During the second and fourth quarters of 2002, we entered into various interest rate swap agreements as summarized in the table below. Our objective for the interest rate swaps is to manage asset and liability positions in connection with our overall strategy of minimizing the impact of interest rate fluctuations on our interest rate margin. As part of our overall risk management, our Asset Liability Committee, which meets monthly, monitors and measures the interest rate risk and the sensitivity of our assets and liabilities to interest rate changes, including the impact of the interest rate swaps.

Under the swap agreements, we receive a fixed rate and pay a variable rate based on H.15 Prime. The swaps qualify as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, and are designated as hedges of the variability of cash flows we receive from certain of our Prime-indexed loans. In accordance with SFAS No. 133, these interest rate swap agreements are measured at fair value and reported as assets or liabilities on the consolidated statement of financial condition. The portion of the change in the fair value of the interest rate swaps that is deemed effective in hedging the cash flows of the designated assets are recorded in accumulated other comprehensive income (OCI), net of tax and reclassified into interest income when such cash flows occur in the future. Any ineffectiveness resulting from the hedges is recorded as a gain or loss in the consolidated statement of income as a part of non-interest income. As of March 31, 2004, the amounts in accumulated OCI associated with these cash flows totaled \$1,755,109 (net of tax of \$1,170,072), of which \$304,533 is expected to be reclassified into interest income within the next 12 months. As of March 31, 2004, the maximum length of time over which we are hedging our exposure to the variability of future cash flow is approximately 8.5 years.

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Interest rate swap information at March 31, 2004 is summarized as follows:

Current Notional Amount	Floating Rate	Fixed Rate	Maturity Date	Unrealized Gain	Realized Gain (loss) ¹
\$ 20,000,000	H.15 Prime ²	6.95%	4/29/2005	\$ 506,894	\$ (9,634)
20,000,000	H.15 Prime ²	7.59%	4/30/2007	1,222,962	11,867
20,000,000	H.15 Prime ²	6.09%	10/09/2007	257,902	56,995
20,000,000	H.15 Prime ²	6.58%	10/09/2009	208,205	243,373
20,000,000	H.15 Prime ²	7.03%	10/09/2012	33,246	351,855
20,000,000	H.15 Prime ²	5.60%	12/17/2005	258,438	4,143
10,000,000	H.15 Prime ²	6.32%	12/17/2007	207,243	9,310
10,000,000	H.15 Prime ²	6.83%	12/17/2009	230,291	51,826
\$140,000,000				\$2,925,181	\$ 719,735

1. Gain included in the consolidated statement of earnings for the three months ended March 31, 2004, representing hedge ineffectiveness.

2. Prime rate is based on Federal Reserve statistical release H.15.

During the first quarter of 2004 and 2003, interest income received from swap counterparties were \$904,944 and \$833,000, respectively. At March 31, 2004 and 2003, we pledged as collateral to the interest rate swap counterparty agency securities with a book value of \$2.0 million and real estate loans of \$2.1 million.

11. Business Segments

Our management utilizes an internal reporting system to measure the performance of our various operating segments. We have identified three principal operating segments for purposes of management reporting: banking operation, trade finance (TFS), and small business administration (SBA). Information related to our remaining centralized functions and eliminations of intersegment amounts have been aggregated and included in banking operation. Although all three operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. The banking operation segment focuses primarily on commercial and consumer lending and deposit operations throughout our branch network. The TFS segment allows our import/export customers to handle their international transactions. Trade finance products include the issuance and collection of

letters of credit, international collection, and import/export financing. The SBA segment provides our customers with the U.S. SBA guaranteed lending program.

Operating segment results are based on our internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. We allocate indirect costs, including overhead expense, to the various segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. We allocate the provision for loan losses based on new loan originations for the period. We evaluate overall performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. Future changes in our management structure or reporting methodologies may result in changes in the measurement of operating segment results.

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The following tables present the operating results and other key financial measures for the individual operating segments for the three months ended March 31, 2004 and 2003.

	Banking Operation	TFS	SBA	Total
	(Dollars in thousands)			
For the three months ended				
March 31, 2004				
Net interest income	\$ 8,483	\$ 3,021	\$ 1,808	\$ 13,312
Less provision for loan losses	810	430	260	1,500
Non-interest income	3,940	655	1,294	5,889
	<hr/>	<hr/>	<hr/>	<hr/>
Net revenue	11,613	3,246	2,842	17,701
Non-interest expense	7,752	2,260	877	10,889
	<hr/>	<hr/>	<hr/>	<hr/>
Income before taxes	\$ 3,861	\$ 986	\$ 1,965	\$ 6,812
	<hr/>	<hr/>	<hr/>	<hr/>
Goodwill	\$ 1,909	\$	\$	\$ 1,909
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$1,070,638	\$97,291	\$110,058	\$1,277,987
	<hr/>	<hr/>	<hr/>	<hr/>
March 31, 2003				
Net interest income	\$ 7,668	\$ 998	\$ 1,206	\$ 9,872
Less provision for loan losses	1,105	145	50	1,300
Non-interest income	2,712	673	1,458	4,843
	<hr/>	<hr/>	<hr/>	<hr/>
Net revenue	9,275	1,526	2,614	13,415
Non-interest expense	6,398	840	1,021	8,259
	<hr/>	<hr/>	<hr/>	<hr/>
Income before taxes	\$ 2,877	\$ 686	\$ 1,593	\$ 5,156
	<hr/>	<hr/>	<hr/>	<hr/>
Goodwill	\$ 875	\$	\$	\$ 875
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 815,187	\$69,511	\$130,335	\$1,015,033
	<hr/>	<hr/>	<hr/>	<hr/>

Table of Contents**12. Other Comprehensive Income**

The following table shows the reclassification of other comprehensive income for the three months ended March 31, 2004 and 2003.

DISCLOSURE OF RECLASSIFICATION AMOUNT:

	<u>2004</u>	<u>2003</u>
Unrealized gain on securities available for sale and interest-only strips:		
Unrealized holding gains arising during the period - net of tax of \$602,883 in 2004 and \$111,292 in 2003	\$ 904,324	\$ 168,438
Less: Reclassification adjustment for losses (gain) included in net earnings, net of tax (benefit) expense of \$531,276 in 2004 and \$63,503 in 2003	<u>796,914</u>	<u>(95,254)</u>
Net change in unrealized gain of securities available for sale and interest-only strips, net of tax of \$1,134,159 in 2004 and \$48,789 in 2003	<u>\$1,701,238</u>	<u>\$ 73,184</u>
Unrealized gain on interest rate swaps:		
Unrealized holding gains arising during the period - net of tax of \$1,011,696 in 2004 and \$610,339 in 2003	\$1,517,544	\$ 915,509
Less: Reclassification adjustments for losses to interest income - net of tax expense of \$361,978 in 2004 and \$333,200 in 2003	<u>(542,966)</u>	<u>(499,800)</u>
Net Change in unrealized gain of interest rate swaps - net of tax expense of \$649,719 in 2004 and \$277,139 in 2003	<u>\$ 974,578</u>	<u>\$ 415,709</u>
Total change in unrealized gain of securities available for sale, interest-only strips and interest rate swaps	<u>\$2,675,816</u>	<u>\$ 488,893</u>

13. Other Than Temporary Impairment

In March 2004, we recorded pretax impairment charge of \$1.6 million on floating rate agency preferred stocks as a result of decline in market value due to the interest rate environment.

14. Business Combination

On March 9, 2004, we signed a Purchase and Assumption Agreement with Interchange Bank, a New Jersey chartered bank, for the purchase of the Hackensack branch of Interchange. Upon closing of this transaction, we will assume the current lease as well as approximately \$1.5 million in deposits and no loans. The transaction is expected to close during the second quarter of 2004 and is subject to normal closing conditions.

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

The following is management's discussion and analysis of the major factors that influenced our consolidated results of operations and financial condition for the quarter ended March 31, 2004. This analysis should be read in conjunction with our Annual Report on Form 10-K/A for the year ended December 31, 2003 and with the unaudited consolidated financial statements and notes as set forth in this report.

GENERAL**Selected Financial Data**

The following table sets forth certain selected financial data concerning the periods indicated:

	At or for the Three Months Ended March 31,	
	2004	2003
	(Dollars in thousands)	
STATEMENTS OF INCOME		
Interest income	\$ 17,246	\$ 13,941
Interest expense	3,934	4,069
Net interest income	<u>13,312</u>	<u>9,872</u>
Provision for loan losses	1,500	1,300
Non-interest income	5,889	4,843
Non-interest expense	<u>10,889</u>	<u>8,259</u>
Income before income taxes	6,812	5,156
Income taxes	2,669	1,919
Net income	<u>\$ 4,143</u>	<u>\$ 3,237</u>
PER SHARE DATA:		
Basic	\$ 0.36	\$ 0.30
Diluted	0.35	0.29
Book value (period end)	7.91	6.40
Number of shares outstanding	11,585,089	10,735,058
Dividend declared	\$ 0.05	\$ 0.05
STATEMENTS OF FINANCIAL CONDITION:		
Total assets	\$ 1,277,987	\$ 1,015,033
Investment securities	127,384	131,232
Net loans	1,040,449	749,939
Deposits	1,080,655	830,386
Stockholders' equity	91,672	68,794
AVERAGE BALANCES:		

Average assets	\$ 1,263,108	\$ 981,199
Average investment securities	127,990	115,232
Average net loans *	1,015,039	730,931
Average deposits	1,062,369	817,351
Average equity	88,823	67,030
PERFORMANCE RATIOS:		
Return on average assets (1)	1.31%	1.32%
Return on average stockholders' equity (1)	18.66%	19.32%
Operating expense to average assets	0.86%	0.84%
Efficiency ratio (2)	56.71%	56.13%
Net interest margin (3)	4.55%	4.34%

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	At or for the Three Months Ended March 31,	
	2004	2003
CAPITAL RATIOS (4)		
Leverage capital ratio (5)	8.95%	8.26%
Tier 1 risk-based capital ratio	10.17%	9.43%
Total risk-based capital ratio	11.98%	10.53%
ASSET QUALITY RATIOS		
Allowance for loan losses to total gross loans	1.29%	1.24%
Allowance for loan losses to non-accrual loans	268.33%	611.24%
Total non-performing assets to total assets (6)	0.44%	0.21%

* Includes the loan held for sale.

- (1) Calculations are based on annualized net income.
- (2) Efficiency ratio is defined as operating expense divided by the sum of net interest income before provision for loan loss and other non-interest income.
- (3) Net interest margin is calculated by dividing annualized net interest income by total average interest-earning assets.
- (4) The required ratios for a well-capitalized institution are 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital.
- (5) Calculations are based on average quarterly asset balances.
- (6) Non-performing assets include non-accrual loans, other real estate owned, and restructured loans.

Forward-Looking Information

Certain matters discussed under this caption may constitute forward-looking statements under Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. Risks and uncertainties include possible future deteriorating economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; risks of available for sale securities declining significantly in value as interest rates rise; and regulatory risks associated with the variety of current and future regulations which we are subject to. For additional information concerning these factors, see Item 1. Business - Factors That May Affect Business or the Value of Our Stock contained in our Form 10-K/A for the year ended December 31, 2003.

Critical Accounting Policies

The preparation of the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our consolidated

financial statements and accompanying notes. We believe that the judgments, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances as of March 31, 2004.

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified six accounting policies that, due to judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to the classification and valuation of investment securities, the methodologies that determine our allowance for loan losses, the treatment of non-accrual loans, the valuation of properties acquired through foreclosure, the valuation of retained interests and mortgage servicing assets related to the sales of Small Business Administration loans, and the valuation of

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derivative instruments. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact net income.

Our significant accounting principles are described in greater detail in our 2003 Annual Report on Form 10-K/A in the Critical Accounting Policies section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements Significant Accounting Policies which are essential to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. There has been no material modification to these policies during the quarter ended March 31, 2004

RESULTS OF OPERATIONS

Net income

Our net income for the three months ended March 31, 2004 was \$4.1 million or \$0.35 per diluted share compared to \$3.2 million or \$0.29 per diluted share for the same quarter of 2003, which represented an increase of approximately \$0.9 million or 28.1%. The increase resulted primarily from an increase in net interest income and noninterest income, resulting primarily from a growth in loans and investments as well as the sale of loans we originated, which was partially offset by higher noninterest expense.

The annualized return on average assets was 1.31 % for the first quarter of 2004 compared to 1.32% for the same period of 2003. The annualized return on average equity was 18.66% for the first quarter of 2004 compared to 19.32% for the same period of 2003. The resulting efficiency ratios were 56.71% for the three months ended March 31, 2004 compared with 56.13% for the corresponding period of the preceding year. Excluding the other than temporary impairment on investment securities of \$1.6 million, the efficiency ratio was 48.52% for the three months ended March 31, 2004.

Net Interest Income and Net Interest Margin

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments, also referred to as interest-earning assets, and the interest paid on deposits and borrowed funds, also referred to as interest-bearing liabilities. When net interest income is expressed as a percentage of average interest-earning assets, the result is the net interest margin. The net interest spread is the yield on average interest-earning assets less the cost of average interest-bearing deposits and borrowed funds. The net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities as well as by changes in yield earned on interest-earning assets and rates paid on interest-bearing liabilities.

Net interest income before provision for loan losses was \$13.3 million for the first quarter of 2004, which represented an increase of \$3.4 million, or 34.3% from net interest income of \$9.9 million for the same quarter of 2003. This increase was primarily due to an increase in average earning assets, mostly in loans. Average earning assets increased \$261.0 million or 28.7% to \$1,171.1 million for the first quarter of 2004, from \$910.1 million for the same quarter of 2003.

Interest income for the first quarter of 2004 was \$17.2 million, which represented an increase of \$3.3 million or 23.7% over interest income of \$13.9 million for the same quarter of 2003. The increase was the net result of a \$4.5 million increase in average interest-earning assets (volume change) off-set by a \$1.2 million decrease in the yield

earned on those average interest-earning assets (rate change).

Table of Contents*Net Interest Margin*

The yield on average interest-earning assets decreased to 5.89% for the three months ended March 31, 2004, from a yield of 6.13% for the three months ended March 31, 2003. This decrease is mainly due to an additional 25 basis point decrease in prime rate by the Federal Reserve Board (FRB) between these periods.

Interest expense for the first quarter of 2004 was \$3.9 million, which represented a decrease of \$0.2 million or 4.9% over interest expense of \$4.1 million for the same quarter of 2003. The decrease was the net result of a \$987,000 increase in average interest-bearing liabilities (volume change) off-set by a \$1.1 million decrease in the cost of those interest-bearing liabilities (rate change).

The average cost of interest-bearing liabilities decreased to 1.87% for the three months ended March 31, 2004 from 2.44% for the three months ended March 31, 2003. This decrease is mainly due to decreases in market rates.

The net interest margin was 4.55% for the three months ended March 31, 2004, up from 4.34% for the same quarter of 2003. The increase in the net interest margin resulted primarily from a decrease in cost of interest bearing liabilities

The following table presents our condensed average balance sheet information, together with interest rates earned and paid on the various sources and uses of funds for the three-month periods indicated:

	March 31, 2004			March 31, 2003		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
(Dollars in thousands)						
INTEREST EARNINGS						
ASSETS:						
Net loans, including interest rate swap	\$1,015,039	\$ 15,785	6.22%	\$730,931	\$ 12,301	6.73%
Other investments	5,325	56	4.21%	4,972	48	3.86%
Securities	127,990	1,340	4.19%	115,465	1,403	4.86%
Fed funds sold	22,719	65	1.14%	58,719	189	1.29%
Total interest earning assets	\$1,171,073	\$ 17,246	5.89%	\$910,087	\$ 13,941	6.13%
INTEREST BEARING						
LIABILITIES:						
Demand, interest-bearing	\$ 153,420	\$ 531	1.38%	\$ 80,191	\$ 304	1.52%
Savings	150,150	651	1.73%	141,862	861	2.43%
Time certificates of deposits	439,717	1,901	1.73%	362,581	2,131	2.35%
FHLB borrowings	59,353	292	1.97%	64,689	419	2.59%
Junior subordinated debentures	37,115	559	6.02%	17,415	354	8.13%

Total interest bearing liabilities	\$ 839,755	\$ 3,934	1.87%	\$ 666,738	\$ 4,069	2.44%
Net interest income		\$ 13,312			\$ 9,872	
Net yield on interest-earning assets			4.55%			4.34%
Net interest spread			4.02%			3.69%
Average interest-earning assets to average interest-bearing liabilities			139.45%			136.50%

The following table illustrates the changes in our interest income, interest expense, amount attributable to variations in interest rates, and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the changes due to volume and the changes due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

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	Three months ended		
	March 31, 2004 over March 31, 2003		
	Net Increase (Decrease)	Change due to	
		Rate	Volume
		(Dollars in thousands)	
INTEREST INCOME			
Interest and fees on net loans and interest rate swap	\$3,484	\$ (994)	\$4,478
Interest on other investments	8	4	4
Interest on securities	(63)	(206)	143
Interest on fed funds sold	(124)	(19)	(105)
	<u> </u>	<u> </u>	<u> </u>
Total interest income	\$3,305	\$(1,215)	\$4,520
INTEREST EXPENSE			
Interest on demand deposits	\$ 228	\$ (27)	\$ 255
Interest on savings	(210)	(258)	48
Interest on time certificate of deposits	(231)	(631)	400
Interest on FHLB borrowings	(127)	(95)	(32)
Interest on junior subordinated debentures	205	(111)	316
	<u> </u>	<u> </u>	<u> </u>
Total interest expense	\$ (135)	\$(1,122)	\$ 987
TOTAL NET INTEREST INCOME	\$3,440	\$ (93)	\$3,533
	<u> </u>	<u> </u>	<u> </u>

Provision for Loan Losses

The provision for loan losses reflects our judgment of the current period cost associated with credit risk inherent in our loan portfolio. The loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, assessments by management, third parties and regulators of the quality of the loan portfolio, the value of the underlying collateral on problem loans and the general economic conditions in our market area. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that, in our judgment, is adequate to absorb losses inherent in our loan portfolio. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses; however, actual loan losses may vary from current estimates.

We recorded \$1.5 million in provision for loan losses in the first quarter of 2004 compared to \$1.3 million in the same quarter of 2003. The increase in the provision for loan losses for the quarter ended March 31, 2004, compared to

the same period ended March 31, 2003 was due to several factors including the growth experienced in our loan portfolio and our levels of nonperforming assets. We believe that the allowance is sufficient for the known and inherent losses at March 31, 2004. Refer to Allowance and Provision for Loan Losses section for further discussion.

Non-interest Income

Non-interest income includes revenues earned from sources other than interest income. It is primarily comprised of service charges and fees on deposits accounts, fees received from letter of credit operations, and gains on sale of SBA loans and investment securities.

Non-interest income for the first quarter of 2004 was \$5.9 million compared to \$4.8 million for the same quarter of 2003, which represented an increase of \$1.1 million, or 21.6%, primarily as a result of increase in service charges on deposits, gain on sale of investment securities, and gain on interest rate swaps. Service charges on deposits increased \$303,000 or 17.6% to \$2.0 million for the first quarter of 2004 from \$1.7 million for the same quarter of 2003. This increase is mainly due to increase in the balance of average demand deposits. Average demand deposits balance increased \$83.3 million or 35.8% to \$316.1 million for the first quarter of 2004 from \$232.7 million for the same quarter of 2003. Gain in sale of investment securities increased \$146,000 or 91.8% to \$305,000 for the first quarter of 2004 from \$159,000 for the same quarter of 2003. We

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also recognized a gain of \$720,000 for the first quarter of 2004 from the interest rate swap transactions, which was the ineffective portion of the swaps that related to cash flow hedge, compared to \$148,000 for the same quarter of 2003. This increase represented an increase of \$572,000 or 386.5%.

The summary of our non-interest income by category is illustrated below:

	Three Months Ended	Increase (Decrease)		Three Months Ended
	March 31, 2004	Amount	Percent (%)	March 31, 2003
		(Dollars in thousands)		
Service charge on deposits	\$ 2,027	\$ 303	17.6%	\$ 1,724
International service fee income	662	19	3.0%	643
Wire transfer fees	299	52	21.1%	247
Service fee income - SBA	284	84	42.0%	200
Earnings on cash surrender value	181		0.0%	181
Gain on sale of SBA loans	938	(262)	-21.8%	1,200
Gain on sale of investment securities	305	146	91.8%	159
Gain on interest rate swaps	720	572	386.5%	148
Other	473	132	38.7%	341
	\$ 5,889	\$1,046	21.6%	\$ 4,843

Non-interest Expense

Non-interest expense for the first quarter of 2004 was \$10.9 million compared to \$8.3 million for the same quarter of 2003, which represented an increase of \$2.6 million or 31.8%, primarily due to the recognition of other than temporary impairment charge of \$1.6 million in U.S. Agency Preferred Stock and an increase in expenses related to personnel and occupancy. In March 2004, we recorded pretax impairment charge of \$1.6 million on floating rate agency preferred stocks as a result of decline in market value due to the interest rate environment. Excluding this impairment charge, non-interest expense for the first quarter of 2004 was \$9.3 million, which represented an increase of \$1.0 million or 12.0% from the corresponding same quarter of 2003. Salary and benefit expense increased \$321,000 or 7.0% to \$4.9 million for the first quarter of 2004 from \$4.6 million for the same quarter of 2003 primarily due to an increase in staff from the acquisition of Asiana Bank, opening of our Wilshire and Diamond Bar branches and loan production offices. Occupancy expenses increased \$236,000 or 22.9% to \$1.3 million for the first quarter of 2004 from \$1.0 million for the same quarter of 2003. This increase was also due to the acquisition and opening of new branches and loan production offices in addition to the general increases to the existing building leases.

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The summary of our non-interest expenses is illustrated below:

	Three Months Ended	Increase (Decrease)		Three Months Ended
	March 31, 2004	Amount	Percent (%)	March 31, 2003
Salaries and benefits	\$ 4,882	\$ 321	7.0%	\$ 4,561
Net occupancy	1,267	236	22.9%	1,031
Furniture and equipment	419	43	11.4%	376
Advertising and marketing	307	(28)	-8.4%	335
Regulatory fees	178	8	4.7%	170
Communications	161	12	8.1%	149
Data processing	573	107	23.0%	466
Professional fees	552	99	21.9%	453
Office supplies & forms	99	16	19.3%	83
Directors fees	123	8	7.0%	115
Credit related expenses	109	(6)	-5.2%	115
Amortization of intangibles	208	134	181.1%	74
Other than temporary impairment on investment securities	1,633	1,633	N/A	
Other	2,011	1,680	507.6%	331
	<hr/>	<hr/>	<hr/>	<hr/>
Total non-interest expense	\$ 10,889	\$ 2,630	31.8%	\$ 8,259

Provision for Income Taxes

The provision for income taxes was \$2.7 million and \$1.9 million on income before taxes of \$6.8 million and \$5.2 million for the three months ended March 31, 2004 and 2003, respectively. The effective tax rate for the quarter ended March 31, 2004 was 39.2%, compared with 37.2% for the quarter ended March 31, 2003.

Financial Condition

At March 31, 2004, our total assets were \$1,278.0 million, an increase of \$18.0 million or 1.4% from \$1,260.0 million at December 31, 2003. The growth resulted primarily from increases in our loans funded by growth in deposits.

Investment Securities Portfolio

We classify our securities as held-to-maturity or available-for-sale under SFAS No. 115. Those securities that we have the ability and intent to hold to maturity are classified as held-to-maturity securities. All other securities are

classified as available-for-sale . We did not own any trading securities at March 31, 2004 and 2003. Securities that are held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts. Securities that are available for sale are stated at fair value. The securities we currently hold are government-sponsored agency bonds, corporate bonds, collateralized mortgage obligations, U.S. government agency preferred stocks, and municipal bonds.

As of March 31, 2004, we had \$2.0 million of held-to-maturity securities and \$125.4 million of available-for-sale securities, compared to \$2.0 million and \$126.4 million at December 31, 2003. The total net unrealized gain on the available-for sale securities at March 31, 2004 was \$1.3 million, compared to net unrealized loss of \$1.5 million at December 31, 2003. During the first quarter of 2004, we purchased a total of \$17.4 million in available-for-sale securities and sold \$6.0 million and recognized total gross gains of \$304,976.

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The unrealized losses were created due to temporary condition, mainly fluctuations in interest rates and do not reflect a deterioration of credit quality of the issuer. As of March 31, 2004, the market value of securities which have unrealized losses in 12 months or more totaled \$8.2 million with unrealized losses of \$25,000. In March 2004, as a result of an other than temporary decline in market value due to interest rates a \$1.6 million charge was taken for floating rate agency preferred stocks.

Securities with an amortized cost of \$5.4 million were pledged to secure public deposits and for other purposes as required or permitted by law at March 31, 2004. Securities with an amortized cost of \$30.6 million and \$63.4 million were pledged to FHLB of San Francisco and State of California Treasurer's Office, respectively, at March 31, 2004.

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

	Investment Portfolio					
	At March 31, 2004			At December 31, 2003		
	Amortized	Market	Unrealized	Amortized	Market	Unrealized
	cost	Value	Gain	cost	Value	Gain
			(Loss)			(Loss)
	(Dollars in thousands)					
Held to Maturity:						
U.S. Corporate notes	\$ 2,001	\$ 2,173	\$ 172	\$ 2,001	\$ 2,149	\$ 148
Total held-to-maturity	\$ 2,001	\$ 2,173	\$ 172	\$ 2,001	\$ 2,149	\$ 148
Available-for-sale:						
U.S. Government	\$ 29,169	\$ 29,571	\$ 402	\$ 26,743	\$ 26,903	\$ 160
CMO	35,374	35,513	139	34,123	33,692	(431)
MBS	30,378	30,419	41	30,293	30,099	(194)
Municipal Bonds	16,921	17,659	738	22,933	23,253	320
U.S. Corporate notes	2,970	3,041	71	2,968	3,046	78
U.S. Agency Preferred Stock	9,243	9,180	(63)	10,860	9,420	(1,440)
Total available-for-sale	\$124,055	\$125,383	\$1,328	\$127,920	\$126,413	\$(1,507)
Total investment portfolio	\$126,056	\$127,556	\$1,500	\$129,921	\$128,562	\$(1,359)

The carrying value and the yield of investment securities as of March 31, 2004, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents**Investment Maturities and Repricing Schedule**

The amortized cost by contractual maturity at March 31, 2004 are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to Maturity:										
U.S. Corporate notes			2,001	7.01%					2,001	7.01%
Total held-to-maturity			2,001	7.01%					2,001	7.01%
Available-for-sale:										
U.S. Government CMO			9,178	3.64%	20,393	4.31%			29,571	4.10%
MBS			1,929	4.04%	3,859	3.88%	31,921	4.12%	35,513	4.09%
Municipal Bonds					882	3.78%	16,777	4.61%	17,659	4.57%
U.S. Corporate notes	508	6.56%	533	7.50%			2,000	5.44%	3,041	5.99%
U.S. Agency Preferred Stock							9,180	3.02%	9,180	3.02%
Total available-for-sale	508	6.56%	11,640	3.88%	28,726	4.17%	84,509	4.10%	125,383	4.11%
Total investment portfolio	\$508	6.56%	13,641	4.34%	28,726	4.17%	84,509	4.10%	127,384	4.15%

The following table shows our investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2004.

Description of Securities:	Less than 12 months		12 months or more		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
CMO	\$11,432,480	\$(215,061)	\$	\$	\$11,432,480	\$(215,061)
MBS	12,528,911	(162,576)			12,528,911	(162,576)
U.S. Agency Preferred Stock	966,000	(38,228)	8,214,147	(25,000)	9,180,147	(63,228)
Total Temporarily Impaired Securities	\$24,927,391	\$(415,865)	\$8,214,147	\$(25,000)	\$33,141,538	\$(440,865)

Loan Portfolio

We carry all loans (except for certain SBA loans held-for-sale) at face amount, less payments collected, net of deferred loan origination fees and the allowance for loan losses. SBA loans held-for-sale are carried at the lower of cost or market. Interest on all loans is accrued daily. Once a loan is placed on non-accrual status, accrual of interest is discontinued and previously accrued interest is reversed. Loans are placed on a non-accrual status when principal and interest on a loan is past due 90 days or more, unless a loan is both well secured and in process of collection.

As of March 31, 2004, our gross loans (net of unearned fees), including loans held for sale, increased by \$100.0 million or 10.0% to \$1.1 billion from \$1.0 billion at December 31, 2003. The commercial loans, which include domestic commercial, international trade finance, SBA loans, and equipment leasing, at March 31, 2004 increased by \$5.1 million or 1.4 % to \$369.3 million from \$364.2 million at December 31, 2003. Real estate and construction loans increased by \$46.2 million or 8.0% to \$622.1 million from \$575.9 million at December 31, 2003. There has been a continued high demand for real estate loans during the past months.

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The following table illustrates our loan portfolio by amount and percentage of gross loans in each major loan category at the dates indicated:

	March 31, 2004		December 31, 2003	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Loan Portfolio Composition:				
Commercial loans *	\$ 369,342	35.0%	\$ 364,175	36.3%
Real estate and construction loans	622,117	58.9%	575,930	57.4%
Consumer and other loans	64,954	6.1%	63,324	6.3%
Total loans outstanding	1,056,413	100.0%	1,003,429	100.0%
Unamortized loan fees, net of costs	(2,400)		(2,164)	
Less: Allowance for loan losses	(13,564)		(12,471)	
Net Loans Receivable	\$1,040,449		\$ 988,794	

* Includes loans held for sale of \$ 5,403,575 at March 31, 2004 and \$3,926,885 at December 31, 2003

We do not normally extend lines of credit and make loan commitments to business customers for periods in excess of one year. We use the same credit policies in making commitments and conditional obligations as we do for extending loan facilities to our customers. We perform annual reviews of such commitments prior to the renewal. The following table shows our loan commitments and letters of credit outstanding at the dates indicated:

	March 31, 2004	December 31, 2003
(Dollars in thousands)		
Loan commitments	\$ 139,676	\$ 173,547
Standby letters of credit	18,405	14,491
Commercial letters of credit	31,203	31,314

At March 31, 2004, our nonperforming assets (nonaccrual loans, loans 90 days or more past due and still accruing interest, restructured loans, and other real estate owned) were \$5.6 million, which remained stable compared to the \$5.6 million at December 31, 2003. As of March 31, 2004, restructured loans that are current totaled \$369,000. Nonperforming assets to total assets was 0.44% at March 31, 2003 and December 31, 2003. At March 31, 2004, the nonperforming loans were \$5.2 million, which remained stable compared to the \$5.1 million in nonperforming loans at December 31, 2003. Of the \$5.2 million in nonperforming loans, approximately \$4.0 million are fully secured by commercial real estate. At March 31, 2004, nonperforming loans to total gross loans was 0.50%, compared to 0.51% at December 31, 2003.

The following table illustrates the composition of our nonperforming assets as of the dates indicated.

	March 31, 2004	December 31, 2003
	<u> </u>	<u> </u>
	(Dollars in thousands)	
Nonaccrual loans	\$5,055	\$ 4,855
Loan past due 90 days or more, still accruing	179	209
	<u> </u>	<u> </u>
Total Nonperforming Loans	5,234	5,064
Other real estate owned		
Restructured loans	369	529
	<u> </u>	<u> </u>
Total Nonperforming Assets	\$5,603	\$ 5,593
Nonperforming loans to total gross loans	0.50%	0.51%
Nonperforming assets to total assets	0.44%	0.44%

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Allowance for Loan Losses

We maintain an allowance for credit losses to absorb losses inherent in the loan portfolio. The allowance is based on our regular, quarterly assessments of the probable estimated losses inherent in the loan portfolio. Our methodology for measuring the appropriate level of the allowance relies on several key elements, which includes the formula allowance and specific allowances for identified problem loans.

The following table provides a breakdown of the allowance for loan losses by category at March 31, 2004 and March 31, 2003:

Allocation of Allowance for Loan Losses

(Dollars in thousands) March 31, 2004 December 31, 2003

Loan Type	Amount	%	Amount	%
Real Estate	\$6,583	48.53%	\$5,107	40.95%
Commercial	6,059	44.67%	6,618	53.07%
Consumer & others	922	6.80%	746	5.98%
Total allowance	\$13,564	100.00%	\$12,471	100.00%

The allowance for loan losses is maintained at a level considered adequate by management to absorb potential losses 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, current economic conditions, changes in the composition of the loan portfolio, analysis of collateral values and other pertinent factors.

The Migration Analysis is a formula method based on our actual historical net charge-off experience for each loan type pools and, Special Mention, Substandard, and Doubtful.

Central to the migration analysis is our credit risk rating system. Both internal, contracted external, and regulatory credit reviews are used to determine and validate loan risk grades. Our credit review system takes into consideration factors such as: borrower's background and experience; historical and current financial condition; credit history and payment performance; industry and the economy; type, market value, volatility of the market value of collateral, and our lien position; and the financial strength of the guarantors

To calculate our various loan factors, we use twelve-quarter rolling average of historical losses detailing charge-offs, recoveries, and loan type pool balances to determine the estimated credit losses for non-classified and classified loans. Also, in order to reflect the impact of recent events, the eight-quarter rolling average has been weighted. The most recent four quarters have been assigned a 40% weighted average while the next four quarters have been assigned a 33% weighted average and the last four quarters have been assigned a 27% weighted average.

The resulting migration risk factors, or our established minimum risk factor for loan type pools that have no historical loss, whichever is greater, for each loan type pool is used to calculate our General Reserve. We have established a minimum risk factor for each loan grade Pass (0.40% - 1.00%), Special Mention (3.0%), Substandard (10.0% - 15.0%), Doubtful (50.0%), and Loss (100.0%).

Our parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for three positive/decrease (Major, Moderate, and Minor), three negative/increase (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type pool. Generally, the factors are considered to have no impact (neutral) to our migration ratios. However, if information exists to warrant adjustment to the Migration Analysis, we make the changes in accordance with the established parameters supported by narrative and/or statistical analysis. Our Credit Risk Matrix and the seven possible scenarios enable us to adjust the Migration Analysis as much as 50 basis points in either direction (positive or negative) for each loan type pool.

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Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

Changes in national and local economic and business conditions and developments, including the condition of various market segments.

Changes in the nature and volume of the loan portfolio.

Changes in the experience, ability, and depth of lending management and staff.

Changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans and troubled debt restructurings, and other loan modifications.

Changes in the quality of our loan review system and the degree of oversight by the Directors.

The existence and effect of any concentrations of credit, and changes in the level of such concentrations.

Transfer risk on cross-border lending activities.

The effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in our loan portfolio.

We consider a loan as impaired when it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

For commercial, real estate and certain consumer loans, we base the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan's effective interest rate or on the fair value of the loan's collateral if the loan is collateral dependent. We evaluate installment loans for impairment on a collective basis, because these loans are smaller balance, homogeneous loans. Impairment losses are included in the allowance for loan losses through a charge to provision for loan losses. Upon disposition of an impaired loan, any related allowance is charged off to the allowance for loan losses.

Under the Specific Allocation method, management establishes specific allowances for loans where management has identified significant conditions or circumstances related to a credit that are believed to indicate the probability that a loss may be incurred. The specific allowance amount is determined by a method prescribed by the Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*. Our actual historical repayment experience and the borrower's cash flow, together with an individual analysis of the collateral held on a loan, is taken into account in determining the allocated portion of the required Allowance under this method. As estimations and assumptions change, based on the most recent information available for a credit, the amount of the required specific allowance for a credit will increase or decrease.

Executive management reviews these conditions quarterly in discussion with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such conditions may be reflected as a specific allowance,

applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the probable loss related to such condition is reflected in the unallocated allowance.

The allowance for loan losses was \$13.6 million at March 31, 2004, compared to \$9.4 million at March 31, 2003. We recorded a provision of \$ 1.5 million during the first quarter of 2004, primarily due to an increase in our loan portfolio. Average gross loans (net of unearned) increased \$288.2 million or 39.0% to \$1,028.0 million for the first quarter of 2004 compared to \$739.8 million for the same quarter of 2003. During the first quarter of 2004, we charged off \$717,000 and recovered \$310,000. The allowance for loan losses was 1.29% of the gross loans at March 31, 2004 compared to 1.24% at March 31, 2003. The total classified loans at March 31, 2004 were \$10.1 million compared to \$6.2 million at March 31, 2003.

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We believe the level of allowance as of March 31, 2004 is adequate to absorb the estimated losses from any known or inherent risks in the loan portfolio and the loan growth for the quarter. However, no assurance can be given that economic conditions which adversely affect our service areas or other circumstances will not be reflected in increased provisions or loan losses in the future.

The following table shows the provisions made for loan losses, the amount of loans charged off, the recoveries on loans previously charged off together with the balance in the allowance for possible loan losses at the beginning and end of each period, the amount of average and total loans outstanding, and other pertinent ratios as of the dates and for the periods indicated:

	Three months ended	
	March 31, 2003	March 31, 2003
	(Dollars in thousands)	
LOANS:		
Average gross loans	\$ 1,027,993	\$ 739,791
Total gross loans at end of period	1,054,012	759,346
ALLOWANCE:		
Balance-beginning of period	12,471	8,458
Less: Loan Charged off:		
Commercial	314	329
Consumer	403	97
Real Estate and Construction	_____	_____
Total loan charged off	717	426
Plus: Loan Recoveries		
Commercial	251	70
Consumer	57	1
Real Estate and Construction	2	4
	_____	_____
Total loan recoveries	310	75
Net loans charged off	407	351
Provision for loan losses	1,500	1,300
Balance-end of period	\$ 13,564	\$ 9,407
	_____	_____
Net loan charge-offs to average total loans	0.04%	0.05%
Net loan charge-offs to total loans at end of period	0.04%	0.05%
Allowance for loan losses to average total loans	1.32%	1.27%
Allowance for loan losses to total loans at end of period	1.29%	1.24%
Net loan charge-offs to beginning allowance *	3.26%	4.15%

Net loan charge-offs to provision for loan losses		
*	27.13%	27.00%

* Total loans are net of unearned

Deposits and Other Borrowings

Deposits. Deposits are our primary source of funds to use in our lending and investment activities. At March 31, 2004, our deposits increased by \$19.3 million or 1.82% to \$1,080.7 million from \$1,061.4 million at December 31, 2003. Demand deposits remained stable at \$325.7 million at March 31, 2004 compared to \$325.6 million at December 31, 2003. Time deposits over \$100,000 totaled \$365.2 million, which represented an increase of \$16.6 million or 4.8% from \$348.6 million at December 31, 2003. Other interest-bearing demand deposits, including money market and super now accounts, totaled \$155.6 million, which represented an increase of \$21.5 million or 16.0% from \$134.1 million at December 31, 2003.

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At March 31, 2004, 30.1% of the total deposits were non-interest bearing demand deposits, 42.4% were time deposits, 13.1% were savings accounts, and 14.4% were interest bearing demand deposits. By comparison, at December 31, 2003, 30.7% of the total deposits were non-interest bearing demand deposits, 41.8% were time deposits, 14.8% were savings accounts, and 12.7% were interest bearing demand deposits.

At March 31, 2004, we had a total of \$62.3 million in time deposits brought in through brokers and \$55.0 million in time deposits from the State of California Treasurer's Office. The deposits from the State of California Treasurer's Office were collateralized with our securities with an amortized cost of \$63.4 million. The detail of those deposits is shown on the table below.

Brokered Deposits	Issue Date	Maturity Date	Rate
\$ 14,540,000	10/29/03	04/29/04	1.10%
5,233,000	08/29/03	05/28/04	1.35%
10,100,000	03/19/04	06/21/04	1.00%
5,325,000	10/24/03	07/26/04	1.20%
5,013,000	08/06/03	08/06/04	1.35%
5,000,000	08/29/03	08/27/04	1.45%
14,998,000	03/26/04	09/24/04	1.15%
2,090,000	02/16/01	02/16/06	5.65%
\$62,299,000			1.33%

State Deposits	Issue Date	Maturity Date	Rate
\$ 5,000,000	01/07/04	04/08/04	0.97%
10,000,000	10/23/03	04/22/04	1.08%
10,000,000	01/23/04	04/23/04	0.93%
5,000,000	11/14/03	05/13/04	1.11%
5,000,000	02/19/04	05/19/04	0.97%
10,000,000	03/12/04	06/11/04	1.01%
10,000,000	02/04/04	08/04/04	1.05%
\$55,000,000			1.02%

Advances may be obtained from the FHLB of San Francisco to supplement our supply of lendable funds. Advances from the FHLB of San Francisco are typically secured by a pledge of mortgage loans and/or securities with a market value at least equal to outstanding advances plus investment in FHLB stocks. The following table shows our outstanding borrowings from FHLB at March 31, 2004. All FHLB advances carry fixed interest rates.

FHLB Advances	Issue Date	Maturity Date	Rate
\$ 2,000,000	03/01/04	06/01/04	1.07%
20,000,000	03/08/04	06/07/04	1.09%

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5,000,000	02/09/04	06/09/04	1.09%
15,000,000	03/08/04	07/06/04	1.12%
5,000,000	05/05/03	03/31/05	1.72%
5,000,000	10/19/00	10/19/07	6.70%
<u> </u>			<u> </u>

\$52,000,000

1.70%

At March 31, 2004 and December 31, 2003, five wholly-owned subsidiary grantor trusts established by Nara Bancorp had issued \$38 million of pooled Trust Preferred Securities (trust preferred securities). Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trusts used the net proceeds from the offering to purchase a like amount of junior subordinated

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debentures (the Debentures) of the Nara Bancorp. The Debentures are the sole assets of the trusts. The Nara Bancorp's obligations under the junior subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by Nara Bancorp of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. Nara Bancorp has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date.

The following table is a summary of trust preferred securities and debentures at March 31, 2004:

(Dollars in Thousand)

TRUST NAME	ISSUANCE DATE	PRINCIPAL BALANCE OF AMOUNT DEBENTURES	STATED MATURITY	ANNULIZED COUPON RATE	INTEREST DISTRIBUTION DATES	
Nara Bancorp Capital Trust I Nara Statutory	3/28/2001	\$ 10,000	\$ 10,400	6/8/2031	10.18%	June 8 and December 8
Trust II	3/26/2002	\$ 8,000	\$ 8,248	3/26/2032	3 Month LIBOR + 3.6%	Every 26th of March, June, September and December
Nara Capital Trust III	6/5/2003	\$ 5,000	\$ 5,155	6/15/2033	3 Month LIBOR + 3.15%	Every 15th of March, June, September and December
Nara Statutory Trust IV	12/22/2003	5,000	\$ 5,155	1/7/2034	3 Month LIBOR + 2.85%	Every 7th of January, April, July and October
Nara Statutory Trust V	12/17/2003	\$ 10,000	\$ 10,310	12/17/2033	3 Month LIBOR + 2.95%	Every 17th of March, June, September and December

The Junior Subordinated Debentures are not redeemable prior to June 8, 2011 with respect to Nara Bancorp Capital Trust I, March 26, 2007 with respect to Nara Statutory Trust II, June 15, 2008 with respect to Nara Capital Trust III, January 7, 2009 with respect to Nara Statutory Trust IV, and December 17, 2008 with respect to Nara Statutory Trust V unless certain events have occurred. During March of 2004, \$10 million of the total proceeds from the issuance of the Trust Preferred Securities were injected into Nara Bank as permanent capital.

With the adoption of FIN No. 46R, Nara Bancorp deconsolidated the five grantor trusts. As a result, the junior subordinated debentures issued by Nara Bancorp to the grantor trusts, totaling \$39.3 million, are reflected in the consolidated balance sheet in the liabilities section at March 31, 2004 and December 31, 2003, under the caption junior subordinated debentures. We also recorded \$2 million in other assets in the consolidated balance sheet at March 31, 2004 and December 31, 2003 for the common capital securities issued by the issuer trusts.

On July 2, 2003, the Federal Reserve Bank issued Supervisory Letter SR 03-13 clarifying that bank holding companies should continue to report trust preferred securities in accordance with current Federal Reserve Bank instructions which allows trust preferred securities to be counted in Tier 1 capital subject to certain limitations. The Federal Reserve has indicated it will review the implications of any accounting treatment changes and, if necessary or warranted, will provide appropriate guidance.

Off-Balance Sheet Activities And Contractual Obligations

We routinely engage in activities that involve, to varying degrees, elements of risk that are not reflected, in whole or in part, in the consolidated financial statements. These activities are part of our normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate swap contracts, operating leases and long-term debt.

Traditional off-balance sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities could require us to make cash payments to third parties in the event certain specified future events have occurred. The contractual amounts represent the extent of our exposure in these off-balance sheet activities. However, since certain off-balance sheet commitments,

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particularly standby letters of credit, are expected to expire or be only partially used, the total amount of commitments does not necessarily represent future cash requirements. These activities are necessary to meet the financing needs of our customers.

We also enters into interest rate swap contracts where we are required to either receive cash from or pay cash to counter parties depending on changes in interest rates. We utilize interest rate swap contracts to help manage the risk of changing interest rates. Our accounting for interest rate swap contracts is discussed below under Item 3.

We do not anticipate that our current off-balance sheet activities will have a material impact on future results of operations and financial condition. Further information regarding our financial instruments with off-balance sheet risk can be found in Item 3 Quantitative and Qualitative Disclosures of Market Risks .

We continue to lease our banking facilities and equipment under non-cancelable operating leases with terms providing for fixed monthly payments over periods ranging from 2 to 30 years.

The following table shows our contractual obligation as of March 31, 2004.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Time Deposits	\$458,266,794	\$452,329,478	\$ 4,965,422	\$ 900,000	\$ 71,894
Junior Subordinated Debenture	39,268,000				39,268,000
Federal Home Loan Bank borrowings	52,000,000	47,000,000		5,000,000	
Operating Lease Obligations	34,289,104	3,949,824	7,853,213	6,238,834	16,247,233
Total	\$583,823,898	\$503,279,302	\$12,818,635	\$12,138,834	\$55,587,127

Stockholders Equity and Regulatory Capital

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. We consider on an ongoing basis, among other things, cash generated from operations, access to capital from financial markets or the issuance of additional securities, including common stock or notes, to meet our capital needs. Total stockholders equity was \$91.7 million at March 31, 2004. This represented an increase of \$6.7 million or 7.9% over total stockholders equity of \$85.0 million at December 31, 2003.

The federal banking agencies require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as

the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At March 31, 2004, Tier 1 capital, stockholders' equity less intangible assets, plus proceeds from the Trust Preferred Securities, was \$113.1 million. This represented an increase of \$6.5 million or 6.1% over total Tier 1 capital of \$106.6 million at December 31, 2003. This increase was due to a net income of \$4.1 million and \$2.3 million from Trust Preferred Securities that was additionally qualified as tier 1 capital, off-set by cash dividends of \$580,000, which was declared during the first quarter of 2004 to be paid in April of 2004. At March 31, 2004, we had a ratio of total capital to total risk-weighted assets of 12.0% and a ratio of Tier 1 capital to total risk weighted assets of 10.2%. The Tier 1 leverage ratio was 9.0% at March 31, 2004.

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As of March 31, 2004, the Bank has met the criteria as a well capitalized institution under the regulating framework for prompt corrective action. The following table presents the amounts of our regulatory capital and capital ratios, compared to regulatory capital requirements for adequacy purposes as of March 31, 2004 and December 31, 2003.

As of March 31, 2003

	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Leverage ratio	\$ 113,060	8.95%	\$ 50,524	4.00%	\$ 62,536	4.95%
Tier 1 risk-based capital ratio	113,060	10.17%	44,462	4.00%	68,598	6.17%
Total risk-based capital ratio	133,185	11.98%	88,924	8.00%	44,261	3.98%

As of December 31, 2003

	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage ratio	106,632	8.84%	48,255	4.00%	\$ 58,377	4.84%
Tier 1 risk-based capital ratio	106,632	9.82%	43,414	4.00%	63,218	5.82%
Total risk-based capital ratio	127,907	11.78%	86,829	8.00%	41,078	3.78%

Liquidity Management

Liquidity risk is the risk to earnings or capital resulting from our inability to fund assets when needed and liability obligations when they come due without incurring unacceptable losses. Liquidity risk includes the ability to manage unplanned decreases or changes in funding sources and to recognize or address changes in market conditions that affect our ability to liquidate assets quickly and with a minimum loss of value. Factors considered in liquidity risk management are stability of the deposit base, marketability of our assets, maturity and availability of pledgeable investments, and customer demand for credits.

In general, our sources of liquidity are derived from financing activities, which include the acceptance of customer and broker deposits, federal funds facilities, and advances from the Federal Home Loan Bank of San Francisco. These funding sources are augmented by payments of principal and interest on loans and the routine liquidation of securities from principal paydown, maturity and sales. Our primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of investment securities, and payment of operating expenses.

We manage liquidity risk by controlling the level of federal funds and by maintaining lines with correspondent banks, the Federal Reserve Bank, and Federal Home Loan Bank of San Francisco. The sale of investment securities available-for-sale can also serve as a contingent source of funds. Increases in deposit rates are considered a last resort as a means of raising funds to increase liquidity.

As a means of augmenting our liquidity, we have established federal funds lines with corresponding banks and Federal Home Loan Bank of San Francisco. At March 31, 2004, our borrowing capacity included \$46.0 million in federal funds line facility from correspondent banks and \$129.5 million in unused Federal Home Loan Bank of San Francisco advances. In addition to the lines, our liquid assets include cash and cash equivalents, federal funds sold and securities available for sale that are not pledged. The book value of the aggregate of these assets totaled \$81.8 million at March 31, 2004 compared to \$107.9 million at December 31, 2003. We believe our liquidity sources to be stable and adequate.

Because our primary sources and uses of funds are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of our liquidity. Typically, higher the ratio of loans to deposits is to 100%, the more we rely on our loan portfolio to provide for short-term liquidity needs. Because repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan to deposit ratio, the less liquid are our assets. At March 31, 2004, our gross loan to deposit ratio was 97.5%.

Table of Contents**Item 3. Quantitative and qualitative disclosures about market risk**

The objective of our asset and liability management activities is to improve our earnings by adjusting the type and mix of assets and liabilities to effectively address changing condition and risks. Through overall management of our balance sheet and by controlling various risks, we seek to optimize our financial returns within safe and sound parameters. Our operating strategies for attaining this objective include managing net interest margin through appropriate risk/return pricing of asset and liabilities and emphasizing growth in retail deposits, as a percentage of interest-bearing liabilities, to reduce our cost of funds. We also seek to improve earnings by controlling noninterest expense, and enhancing noninterest income. We also use risk management instruments to modify interest rate characteristic of certain assets and liabilities to hedge against our exposure to interest rate fluctuations, reducing the effects these fluctuations might have on associated cash flows or values. Finally, we perform internal analyses to measure, evaluate and monitor risk.

Interest Rate Risk

Interest rate risk is the most significant market risk impacting us. Market risk is the risk of loss to future earnings, to fair values, or to future cash flow that may result from changes in the price of a financial instrument. Interest rate risk occurs when interest rate sensitive assets and liabilities do not reprice simultaneously and in equal volume. A key objective of asset and liability management is to manage interest rate risk associated with changing asset and liability cash flows and values and market interest rate movements. The management of interest risk is governed by policies reviewed and approved annually by the Board of Directors. Our Board delegates responsibility for interest risk management to the Asset and Liability Management Committee (), which is composed of Nara Bank's senior executives and other designated officers.

The fundamental objective of the ALCO is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. The ALCO meets regularly to monitor the interest rate risk, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, investment activities and directs changes in the composition of the balance sheet. Our strategy has been to reduce the sensitivity of our earnings to interest rate fluctuations by more closely matching the effective maturities or repricing characteristics of our assets and liabilities. Certain assets and liabilities, however, may react in different degrees to changes in market interest rates. Further, interest rates on certain types of assets and liabilities may fluctuate prior to changes in market interest rates, while rate on other types may lag behind. We consider the anticipated effects of these factors when implementing our interest rate risk management objectives.

Swaps

As part of our asset and liability management strategy, we may engage in derivative financial instruments, such as interest rate swaps, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts. During 2002, we entered into eight different interest rate swap agreements as summarized in the table below.

Under the swap agreements, we receive a fixed rate and pay a variable rate based on H.15 Prime. The swaps qualify as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and are designated as hedges of the variability of cash flows we receive from certain of our Prime-indexed loans. In accordance with SFAS No. 133, these swap agreements are measured at fair value and reported as assets or liabilities on the consolidated statement of financial condition. The portion of the change in the fair value of the swaps that is deemed effective in hedging the cash flows of the designated assets are recorded in accumulated other comprehensive income (OCI) and reclassified into interest income when such cash flows occur in the future. Any

ineffectiveness resulting from the hedges is recorded as a gain or loss in the consolidated statement of income as a part of non-interest income or loss. As of March 31, 2004, the

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amounts in accumulated OCI associated with these cash flows totaled \$1,755,109 (net of tax of \$1,170,072), of which \$1,053,336 is expected to be reclassified into interest income within the next 12 months.

Interest rate swaps information at March 31, 2004 is summarized as follows:

Current Notional		Fixed		Unrealized	Realized Gain
Amount	Floating Rate	Rate	Maturity Date	Gain	(loss) ¹
\$ 20,000,000	H.15 Prime ²	6.95%	4/29/2005	506,894	(9,634)
20,000,000	H.15 Prime ²	7.59%	4/30/2007	1,222,962	11,867
20,000,000	H.15 Prime ²	6.09%	10/09/2007	257,902	56,995
20,000,000	H.15 Prime ²	6.58%	10/09/2009	208,205	243,373
20,000,000	H.15 Prime ²	7.03%	10/09/2012	33,246	351,855
20,000,000	H.15 Prime ²	5.60%	12/17/2005	258,438	4,143
10,000,000	H.15 Prime ²	6.32%	12/17/2007	207,243	9,310
10,000,000	H.15 Prime ²	6.83%	12/17/2009	230,291	51,826
\$140,000,000				\$2,925,181	\$ 719,735

1. Gain included in the consolidated statement of earnings for the three months ended March 31, 2004, representing hedge ineffectiveness.

2. Prime rate is based on Federal Reserve statistical release H.15

During the first quarter of 2004 and 2003, interest income received from swap counterparties were \$904,944 and \$833,000, respectively. At March 31, 2004 and 2003, we pledged as collateral to the interest rate swap counterparties agency securities with a book value of \$2.0 million and real estate loans of \$2.1 million.

Interest Rate Sensitivity

Our monitoring activities related to managing interest rate risk include both interest rate sensitivity gap analysis and the use of a simulation model. While traditional gap analysis provides a simple picture of the interest rate risk embedded in the balance sheet, it provides only a static view of interest rate sensitivity at a specific point in time and does not measure the potential volatility in forecasted results relating to changes in market interest rates over time. Accordingly, we combine the use of gap analysis with the use of a simulation model, which provides a dynamic assessment of interest rate sensitivity.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated to reprice within a specific time period and the amount of interest-bearing liabilities anticipated to reprice within that same time period. A gap is considered positive when the amount of interest rate sensitive assets repricing within a specific time period exceeds the amount of interest-bearing liabilities repricing within that same time period. Positive cumulative gaps suggest that earnings will increase when interest rates rise. Negative cumulative gap suggest that earnings will increase when interest rates fall.

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The following table shows our gap position as of March 31, 2004

	<u>0-90 days</u>	<u>91-365 days</u>	<u>1-5 years</u>	<u>Over 5 yrs</u>	<u>Total</u>
	(Dollars in thousands)				
Total Investments	20,231	27,810	49,452	47,875	145,368
Total Loans	896,590	31,650	65,825	62,348	1,056,413
Rate Sensitive Assets	916,821	59,460	115,277	110,223	1,201,781
Deposits					
TCD, \$100M +	168,208	192,122	4,824		365,154
TCD, less than 100M	35,854	56,145	1,041	72	93,112
MMDA	140,944				140,944
NOW	14,652				14,652
Savings	112,604	11,346	14,472	2,658	141,080
Other liabilities					
FHLB Borrowing	27,000	20,000		5,000	52,000
Junior subordinated debentures				39,268	39,268
Rate Sensitive Liabilities	499,262	279,613	20,337	46,998	846,210
<i>Interest Rate Swap</i>	<i>(140,000)</i>		<i>90,000</i>	<i>50,000</i>	
Periodic GAP	277,559	(220,153)	184,940	113,225	355,571
Cumulative GAP	277,559	57,406	242,346	355,571	

The simulation model discussed above also provides our ALCO with the ability to simulate our net interest income. In order to measure, at March 31, 2004, the sensitivity of our forecasted net interest income to changing interest rates, both a rising and falling interest scenario were projected and compared to a base market interest rate forecasts. The application of our simulation model measures the impact of market interest rate changes on the net present value of estimated cash flows from our assets and liabilities, defined as our market value of equity. This analysis assesses the changes in market values of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase in market interest rates.

At March 31, 2004, our net interest income and market value of equity exposed to these hypothetical changes in market interest rates are illustrated in the following table.

<u>Simulated Rate Changes</u>	<u>Estimated Net Interest Income Sensitivity</u>	<u>Market Value Of Equity Volatility</u>
+300 basis points	26.32%	(25.51)%
+200 basis points	17.49%	(17.49)%
+100 basis points	8.71%	(7.46)%
-100 basis points	(9.21)%	4.62%

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are sufficiently effective to ensure that the information we are required to be disclosed in the reports we file under the Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness, based on an evaluation of such controls and procedures conducted within 90 days prior to the date thereof.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to routine litigation incidental to our business, none of which is considered likely to have a material adverse effect on us.

Item 2. Changes in Securities and Use of Proceeds

(a) None.

(b) None.

(c) None.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a vote of Security Holders

None

Item 5. Other information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The exhibits listed on the accompanying index to exhibits are filed or incorporated by reference (as stated herein) as part of this Quarterly Report on Form 10-Q.

(b) Reports on Form 8-K

During the quarter ended March 31, 2004, Nara Bancorp filed the following Current Report on Form 8-K: (1) January 2, 2004 (Receipt of net proceeds of \$14.8 million through the participation in two trust preferred securities offerings, \$10 million and \$5 million), (2) January 22, 2004 (containing a press release regarding first quarter preliminary financial reporting) and (3) March 10, 2004 (containing a press release regarding an agreement between Nara Bank, N.A. and Interchange Bank for the acquisition by Nara Bank of the Hackensack Court Plaza branch of

Interchange Bank as well as certain assets and liabilities.)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NARA BANCORP, INC.

Dated: January 25, 2005

/s/ Benjamin Hong
Benjamin Hong
President and Chief Executive Officer
(Principal executive officer)

Dated: January 25, 2005

/s/ Timothy Chang
Timothy Chang
Chief Financial Officer
(Principal financial officer)
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INDEX TO EXHIBITS

<u>Number</u>	<u>Description of Document</u>
3.1	Certificate of Incorporation of Nara Bancorp, Inc. ¹
3.2	Bylaws of Nara Bancorp, Inc. ¹
3.3	Amended Bylaws of Nara Bancorp, Inc. ³
4.1	Form of Stock Certificate of Nara Bancorp, Inc. ²
10.21	Amended Lease for premise located at 3600 Wilshire Blvd., #100A, Los Angeles, CA *
10.22	Lease for premise located at 10947 Olson Dr. 404-B Rancho Cordova, CA 95620*
31.1	Rule 13a-14(a)/15d-14(a) Certifications *
31.2	Rule 131-14(a)/15d-14(a) Certifications*
32.1	Certification of CEO and CFO pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002*

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1. Incorporated by reference to Exhibits filed with our Statement on Form S-4 filed with the Commission on November 16, 2000.
 2. Incorporated by reference to Exhibits filed with our Statement on Form S-4 filed with the Commission on December 5, 2000.
 3. Incorporated by reference to Exhibits filed with our Statement on Form 10-Q filed with the Commission on August 14, 2002.

* Filed herein