

# 2008年報

ANNUAL REPORT



**FAR EAST  
NATIONAL BANK**  
遠東國民銀行

 **SinoPac Holdings** Group Company



## A MESSAGE TO OUR CUSTOMERS

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The global financial crisis was a defining event in 2008, presenting a significantly more challenging environment than expected and resulting in unprecedented disruption to the financial services industry and its customers. Even though operating earnings were close to our record year in 2007, our net income suffered from a substantial loss in the value of Fannie Mae and Freddie Mac securities, and provisions made to ensure adequate reserves for loan losses.

The economy, consumers, and many of our customers are going through a rebalancing process. Far East National Bank is also adjusting its strategy and processes to reduce the impact of this crisis. We expect this effort to continue throughout 2009 and will result in consolidating our position as one of the leading international community banks headquartered in Los Angeles, California.

Far East National Bank was founded 35 years ago as the first federally chartered Asian American bank in the United States. Over the years, we have expanded our market presence and operating capacity from serving the local communities to the international communities in California. Through the extensive network of our parent company, SinoPac Holdings Group, a US\$34 billion public company in Taiwan, we can serve our valued corporate and individual customers seamlessly in the United States, Taiwan, China, Hong Kong, Macau, and Vietnam.

### **2008 Highlight**

The combination of our parent company's support, our loyal customer base, and our strong liquidity and capital position has provided a strong foundation for growth in our selected markets. Even in the weak economy, our underlying business remained solid — we reached \$2.2 billion in total assets, a growth of 8.5%, finishing with higher levels of capital, assets, and loans than ever before and a record level of deposit growth. Such meaningful loan growth reflects our ability to expand our client relationships and meet their credit needs while maintaining prudent credit standards. While many financial institutions faced serious repercussions from the subprime mortgage business, we were not impacted, having identified and avoided the risks inherent in securities backed by sub-prime mortgage loans, sub-prime CDOs, credit default swaps, and highly leveraged consumer credit card debt.

Our deposit base grew impressively in 2008, to \$1.7 billion, a growth of 14%. As a result, we were able to conservatively manage our loan to deposit ratio to 85% at year-end. We welcomed many new customers who were attracted to our stability and reputation as a premier service- and relationship-oriented bank with outstanding products and people. In the turbulent financial environment, we recognized the general concern of the customers and we opted into the FDIC's Transaction Account Guarantee Program, which offers unlimited federal insurance coverage for qualifying deposits through the end of 2009.

We also qualified to join the Promontory Interfinancial Network and to offer the Certificate of Deposit Account Registry Service ("CDARS") to our customers. With CDARS, we can offer customers access of up to \$50 million in FDIC coverage, together with the convenience of one rate and one account statement. This product proved to be a substantial success and was greatly appreciated by our new and existing customers. Within three months from the date we launched this new service, we raised a total of \$79 million in CDARS deposits.

As of December 31, 2008, our total risk-based capital ratio was 11.6%, which is significantly higher than the median ratio of our national peer group and well exceeds the requirement by our regulators. To further strengthen our ability to weather an even more difficult economy than is anticipated, our parent company, SinoPac Holdings Group, has committed to provide additional capital of up to \$50 million, if needed, in 2009.

### **2009 Looking Ahead**

We have prepared for a more difficult economy in 2009. To that end, we are finding ways to intensify our credit management process, increase loss reserves, and lower operating costs.

We will maintain strong underwriting standards and keep a close monitoring on the loan portfolio. Our actions include centralizing the credit approval and portfolio management processes and increasing the frequency of our loan loss reserve reviews. We have increased our reserves this year by 38% to \$41 million.

We have also focused closely on expense management. We are taking aggressive action to reduce base operating costs by 20% by the end of 2009. We temporarily froze salary increases and eliminated bonus distribution throughout the company. In addition, we have simplified the organization with reduced layers.

On March 20, 2009, Chairman Paul Lo announced his retirement as Director of SinoPac Holdings and Chairman, CEO, and Director of Far East National Bank, effective April 1. Mr. Lo raised the substantial capital required to start our parent company, Bank SinoPac, in Taiwan 17 years ago and led the purchase of Far East National Bank ten years ago. Mr. Lo successfully grew the parent company to \$34 billion in assets with a network of over 200 locations in the United States, Vietnam, and greater China, and has developed significant businesses and recognized technology leadership in multiple financial products.

In conjunction with Mr. Lo's decision, Robert Sweeney decided to resign as President and Director of Far East National Bank. Mr. Sweeney was in his position for over 4 ½ years and successfully led us to a period of significant growth (including two years of record operating earnings). Under his leadership, we have positioned ourselves well in the market and have the strength to weather the financial and economic storm we are now experiencing.

Weathering this storm means choosing to do the right things with a strong sense of urgency. It means taking a long view rather than one that seems to be the most expeditious. In 2009, we intend to sharpen our focus on our business strategy, our costs of operation, and our customers – and relentlessly improve our products, service relationships, and responsiveness so we justify your business every day.

Thank you for your confidence in FENB.



Frederick C. Copeland Jr.,  
Vice Chairman / President

**CHEN & FAN**  
**ACCOUNTANCY CORPORATION**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholder of  
**Far East National Bank**  
Los Angeles, California

We have audited the accompanying consolidated balance sheets of **Far East National Bank and subsidiary (the "Bank")** as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholder's equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Far East National Bank and subsidiary** as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Chen & Fan*

March 19, 2009

# FAR EAST NATIONAL BANK AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 309,890,726	\$ 160,420,247
Securities available-for-sale	240,223,812	315,310,986
Securities held-to-maturity	58,506,636	66,499,159
Trading assets	47,028,402	61,946,172
Federal Home Loan Bank stock—at cost	13,991,800	16,779,000
Federal Reserve Bank stock—at cost	3,386,800	3,386,800
Loans, net of allowance for loan losses of \$29,766,170 in 2008 and \$11,870,031 in 2007	1,409,369,740	1,307,739,629
Customers' liability on acceptances	666,735	2,158,294
Other real estate owned	7,310,094	-
Premises and equipment—net	7,417,030	8,618,120
Deferred tax assets	21,964,184	2,908,437
Goodwill	25,749,881	25,749,881
Other intangible assets—net	1,681,516	2,145,383
Bank owned life insurance	35,868,496	34,391,624
Other assets	<u>39,535,118</u>	<u>39,064,695</u>
<b>TOTAL</b>	<b><u>\$2,222,590,970</u></b>	<b><u>\$ 2,047,118,427</u></b>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>DEPOSITS:</b>		
Non-interest bearing	\$ 202,398,920	\$ 152,742,786
Interest bearing	340,600,893	425,519,877
Time certificates of deposit:		
Under \$100,000	489,525,624	191,208,922
\$100,000 and over	<u>669,219,390</u>	<u>718,866,843</u>
Total deposits	<u>1,701,744,827</u>	<u>1,488,338,428</u>
<b>OTHER LIABILITIES:</b>		
Short-term borrowing	80,758,113	89,960,970
FHLB advances	215,000,000	215,000,000
Subordinated debt	-	15,000,000
Acceptances outstanding	666,735	2,158,294
Other liabilities	<u>20,862,680</u>	<u>20,628,963</u>
Total other liabilities	<u>317,287,528</u>	<u>342,748,227</u>
 <b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$1.25 par value—6,800,000 shares authorized; issued and outstanding, 180,000 shares	225,000	225,000
Additional paid-in capital	112,668,127	112,668,127
Retained earnings	89,879,847	102,886,667
Accumulated other comprehensive income—net	<u>785,641</u>	<u>251,978</u>
Total stockholder's equity	<u>203,558,615</u>	<u>216,031,772</u>
<b>TOTAL</b>	<b><u>\$2,222,590,970</u></b>	<b><u>\$ 2,047,118,427</u></b>

See accompanying notes to consolidated financial statements.

# FAR EAST NATIONAL BANK AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
INTEREST INCOME:		
Interest and fees on loans	\$ 92,938,113	\$ 111,336,414
Interest and dividends on investment securities	23,537,123	22,156,640
Interest on short-term investments	<u>2,878,611</u>	<u>6,009,642</u>
Total interest income	<u>119,353,847</u>	<u>139,502,696</u>
INTEREST EXPENSE:		
Interest on deposits	42,978,506	55,318,133
Interest on FHLB advances	9,504,397	8,230,688
Interest on subordinated debt	569,441	1,289,306
Interest on short-term borrowing	<u>3,360,195</u>	<u>7,701,010</u>
Total interest expense	<u>56,412,539</u>	<u>72,539,137</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	62,941,308	66,963,559
PROVISION FOR LOAN LOSSES	<u>29,400,000</u>	<u>7,800,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>33,541,308</u>	<u>59,163,559</u>
NON-INTEREST INCOME:		
Gain on sale of securities—net	1,248,669	109,080
Gain from trading securities	53,828	2,239,372
Gain on sale of other real estate owned	-	21,295
Customer service fees	3,902,040	3,735,653
Other non-interest income	<u>2,280,830</u>	<u>2,973,941</u>
Total non-interest income	<u>7,485,367</u>	<u>9,079,341</u>
NON-INTEREST EXPENSE:		
Salaries and related benefits	24,251,737	26,950,499
Occupancy expense	7,220,580	6,943,205
Amortization of intangible assets	463,867	463,867
Loss from trading securities	24,471,598	-
Loss on sale of premises, equipment and other assets—net	83	-
Other operating expenses	<u>9,764,780</u>	<u>8,577,061</u>
Total non-interest expense	<u>66,172,645</u>	<u>42,934,632</u>
(LOSS) INCOME BEFORE INCOME TAXES	(25,145,970)	25,308,268
PROVISION FOR INCOME TAXES	<u>(12,311,981)</u>	<u>9,681,900</u>
NET (LOSS) INCOME	<u>\$ (12,833,989)</u>	<u>\$ 15,626,368</u>

See accompanying notes to consolidated financial statements.

## FAR EAST NATIONAL BANK AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount					
BALANCE—January 1, 2007	180,000	\$ 225,000	\$ 112,668,127	\$ 89,589,300	\$ (1,747,749)	\$ 200,734,678	
Adjustment to opening balance, net of tax for the adoption of FAS 159				(1,329,001)	1,329,001	-	
Cash dividend paid (\$5.57 per share)				(1,000,000)		(1,000,000)	
Comprehensive income:							
Net income for 2007				15,626,368		15,626,368	
Change in net unrealized gain (loss) on AFS sec., net of reclassification adjustment and tax effects					670,726	670,726	
Total comprehensive income:						16,297,094	
BALANCE—December 31, 2007	180,000	225,000	112,668,127	102,886,667	251,978	216,031,772	
Adjustment to opening balance for EITF 06-4 accounting principle change on BOLI				(172,831)		(172,831)	
BALANCE—January 1, 2008	180,000	225,000	112,668,127	102,713,836	251,978	215,858,941	
Comprehensive loss:							
Net loss for 2008				(12,833,989)		(12,833,989)	
Change in net unrealized gain (loss) on AFS sec., net of reclassification adjustment and tax effects					533,663	533,663	
Total comprehensive loss						(12,300,326)	
BALANCE—December 31, 2008	180,000	\$ 225,000	\$ 112,668,127	\$ 89,879,847	\$ 785,641	\$ 203,558,615	

See accompanying notes to consolidated financial statements.

# FAR EAST NATIONAL BANK AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (12,833,989)	\$ 15,626,368
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of adopting FAS 159	-	(1,329,001)
Depreciation and amortization	2,093,281	2,666,063
Premium accretion on securities—net	193,094	(57,265)
Provision for loan losses	29,400,000	7,800,000
Gain on sale of securities	(1,248,669)	(109,080)
Gain on sale of other real estate owned	-	(21,295)
Gain on sale of assets—net	83	-
Federal Home Loan Bank stock dividend	(812,505)	(707,014)
Increase in cash surrender value of bank owned life insurance	(1,476,872)	(1,441,766)
Amortization of deferred loan fees	(562,652)	46,218
Decrease (increase) in other assets and customers liability on acceptances	6,812,126	(11,211,919)
(Increase) decrease in deferred tax assets	(19,442,923)	2,825,853
Decrease in other liabilities and acceptance outstanding	(1,257,841)	(2,720,291)
Net cash provided by operating activities	<u>863,133</u>	<u>11,366,871</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales, maturity and calls of securities available-for-sale	287,556,918	202,012,871
Proceeds from sales, maturity and calls of securities held-to-maturity	12,398,965	19,551,450
Proceeds from sale, maturity and call of trading securities	99,567,770	106,103,828
Purchase of securities available-for-sale	(211,548,319)	(277,477,674)
Purchase of securities held-to-maturity	(3,351,455)	(11,455,115)
Purchase of securities for trading	(84,650,000)	(67,300,000)
Purchase of FHLB and other equity stocks	(8,836,444)	(22,038,094)
Proceeds from call and sale of FHLB and other equity stocks	6,878,044	6,927,176
Net increase in loans	(137,777,554)	(108,737,555)
Purchase of premises and equipment	(661,290)	(1,346,964)
Proceeds from sale of OREO	-	59,325
Net cash used in investing activities	<u>(40,423,365)</u>	<u>(153,700,752)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Decrease) increase in interest bearing and non-interest bearing deposits	(35,262,851)	78,299,996
Increase in time certificates of deposit	248,669,250	68,754,931
Decrease in federal funds purchased and securities sold under agreements to repurchase	(9,202,857)	(50,321,120)
(Decrease) increase from FHLB advances and subordinated debt	(15,000,000)	90,000,000
Cumulative effect of EITF 06-4	(172,831)	-
Dividend paid	-	(1,000,000)
Net cash provided by financing activities	<u>189,030,711</u>	<u>185,733,807</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>149,470,479</b>	<b>43,399,926</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b><u>160,420,247</u></b>	<b><u>117,020,321</u></b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b><u>\$ 309,890,726</u></b>	<b><u>\$ 160,420,247</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid for:</b>		
Interest	<u>\$ 55,509,845</u>	<u>\$ 74,281,129</u>
Income taxes	<u>\$ 5,700,000</u>	<u>\$ 13,000,000</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:</b>		
Transfer of loans to other real state owned	<u>\$ 7,310,094</u>	<u>\$ 38,031</u>

See accompanying notes to consolidated financial statements.

# FAR EAST NATIONAL BANK AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation and Principles of Consolidation***—The consolidated financial statements include the accounts of Far East National Bank (“FENB”) and its wholly owned subsidiary, Far East Capital Corporation. The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America (“US GAAP”) and general practices in the banking industry. All intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***—In preparing consolidated financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, deferred tax assets, and the outcome of litigation.

***Significant Group Concentration of Credit Risk***—Most of the Bank’s activities involve customers located within the greater Los Angeles and San Francisco regions. Note 2 indicates the type of securities held by the Bank. Note 3 indicates the type of lending that the Bank engages in.

***Cash and Cash Equivalents***—Cash and cash equivalents include cash on hand, amounts due from banks and commercial paper with an initial maturity of three months or less. The Bank is required to maintain reserve balances with the Federal Reserve Bank under the Federal Reserve Act. The average required cash reserve balance for the years ended December 31, 2008 and 2007 was \$10,065,000 and \$7,743,000, respectively.

***Securities***—Debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held-to-maturity or trading, are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported as a component of accumulated other comprehensive income net of tax. Trading assets include securities purchased and classified as trading in connection with the Bank’s adoption of Financial Accounting Standards Board (“FASB”) Statements of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”), and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). These securities are also carried at fair value, with unrealized gains and losses reported in non-interest income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

***Federal Home Loan Bank and Federal Reserve Bank Stocks***—The Bank’s investments in the stocks of the Federal Home Loan Banks (“FHLBs”) and Federal Reserve Bank (“FRB”) are carried at cost since they are not readily marketable securities. Periodically and as conditions warrant, the Bank reviews its investment in FHLB and FRB stocks for impairment and adjusts the carrying value if the investment is determined to be impaired.

***Loans and Loan Fees***—Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, allowance for loan losses, and any deferred fees or costs on originated loans. Interest on loans is accrued daily as earned, except where a reasonable doubt exists as to the collectibility of the interest, in which case the

accrual of income is discontinued, which generally is at 90 days delinquent. When a loan is placed on non-accrual status, the accrual of interest income is discontinued and previously accrued but uncollected interest income is reversed against income. Thereafter, future cash payments received are typically applied first to the loan balance and then to interest income until the loan is reinstated to accrual status.

Nonrefundable loan fees and certain direct costs associated with originating and acquiring loans are not recognized at the time of origination but are deferred and amortized over the life of the loan as an adjustment to the yield of the related loan using the effective interest method. Other loan fees and charges, representing service costs for prepayment of loans, for delinquent payments or for miscellaneous loan services, are recorded as income when collected.

Certain Small Business Administration (SBA) loans that management has the intent to sell before maturity are designated as held-for-sale at origination and recorded at the lower of cost or market value, determined on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. On loans sold, the Bank allocates the carrying value of such loans between the portion sold and the portion retained, based upon estimates of their relative fair values at the time of sale. The difference between the adjusted carrying value and the face amount of the portion retained is amortized to interest income over the life of the related loan using the interest method.

Servicing assets are recognized when loans are sold with servicing retained. The servicing asset is recorded based on the present value of the contractually specified servicing fee, net of servicing cost, over the estimated life of the loan, using a discount rate of the related note rate plus 1 to 2 percent. The servicing asset is amortized in proportion to and over the period of estimated servicing income. Management periodically evaluates the servicing asset for impairment, which is the carrying amount of the servicing asset in excess of the related fair value. At December 31, 2008 and 2007, servicing assets are immaterial.

A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due (e.g., both principal and interest) according to the contractual terms of the loan agreement. Generally this includes all loans that are 90 days or more delinquent and not accruing interest. The measurement of impairment may be based on (1) the present value of the expected future cash flows of the impaired loan, discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan, or (3) the fair value of the collateral reduced for the estimated selling cost of a collateral-dependent loan. A specific valuation allowance is established in the amount by which the recorded investment of the loan exceeds the measurement of the impaired loan. A corresponding charge to provision for loan losses is recorded to establish this allowance.

The Bank recognizes troubled debt restructured loans as impaired. Troubled debt restructurings are those loans that the Bank has, for reasons related to borrowers' financial difficulties, granted concessions to borrowers (including reductions of either interest or principal) that it would not otherwise consider, whether or not such loans are secured or guaranteed by others. The Bank's policy for recognition of interest income on impaired loans is consistent with the policy used for non-accrual loans.

***Allowance for Loan Losses***—Loan losses are charged against, and recoveries are credited to, the allowance for loan losses. Additions to the allowance are charged to the provision for loan losses. The allowance for loan losses is maintained at a level considered adequate to provide for losses that are inherent in the loan portfolio at the balance sheet date. The adequacy of the allowance is determined by management based upon a periodic 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. Although management believes that the level of the allowance is adequate to absorb losses inherent in the loan portfolio, additional declines in the local economy or rising interest rates may result in increasing losses that cannot reasonably be predicted at this time.

***Credit Related Financial Instruments***—In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded (see Note 12).

***Derivative Instruments Held for Customer Accommodation***—The Bank enters into a variety of interest rate derivative contracts, primarily swaps, options, forwards and foreign exchange contracts primarily as an accommodation to customers. If certain conditions are met, a derivative may be specifically designated as a fair value hedge, a cash flow hedge, or a hedge of foreign currency exposure.

Such derivative contracts held for customer accommodation are reported on the balance sheet (included in other assets and other liabilities) and are carried at fair value, with realized and unrealized changes in fair values recognized in non-interest income in the period in which the changes occur.

***Premises and Equipment***—Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense is computed on the straight-line basis over the shorter of the estimated useful lives or lease terms of the assets, which range from 3 to 31-1/2 years.

***Subordinated Debt***—The Bank issued two 10-year floating rate junior subordinated debentures (sub-debt) that are callable on a five-year basis in 2003. The purpose of the sub-debt is to provide the Bank with a cost-effective means of obtaining Tier I Capital for regulatory purposes.

***Other Real Estate Owned***—Other real estate owned (“OREO”) consists of real estate acquired through foreclosure or other proceedings and is initially recorded at the lower of cost or fair value less selling costs. Any cost in excess of the fair value less selling costs at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for loan losses. Any subsequent declines in value are charged to earnings.

***Goodwill and Intangible Assets***—Intangible assets are comprised of core deposit intangible and goodwill. Intangible assets are being amortized on a straight-line basis over a period of 15 years. In January 2002 the Bank adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, and, as a result, no longer amortizes goodwill, but tests it at least annually for impairment. The Bank will continue to amortize the core deposit intangible over an estimated useful life of 15 years (see Note 6).

***Income Taxes***—The Bank files a consolidated federal income tax return and a combined state franchise tax return with SinoPac Bancorp.

The Bank accounts for income taxes in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the basis of assets and liabilities as measured by tax laws and their basis as reported in the financial statements. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax assets will not be realized. The Bank has determined that the future taxable income will be sufficient to recover all of the deferred tax assets. However, should there be a change in the Bank’s ability to recover the deferred tax assets, the Bank could be required to record a valuation allowance against the deferred tax assets. This would result in an increase in the tax provision for the period in which the Bank determined that the recovery was not probable.

On a quarterly basis, the Bank provides for income taxes based upon an estimated annual effective income tax rate. The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, availability of tax credits and the effectiveness of the Bank’s tax planning strategies. If actual results differ from these estimates, this could have a material effect on the Bank’s financial position and results of operations.

***Federal Funds and Securities Sold under Agreements to Repurchase***—Federal funds purchased and securities sold under repurchase agreements represent short-term borrowings maturing within less than 90 days. The carrying amount of these borrowings approximates their fair values.

**Far East Capital Corporation**—The Bank is the sole common stockholder of Far East Capital Corporation (the “Corporation”), a small business investment company.

**Comprehensive Income**—Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows for the year ended December 31:

	2008	2007
Unrealized holding gain on available-for-sale securities	\$ 2,169,508	\$ 1,266,422
Reclassification adjustment for gain realized in income	<u>(1,248,669)</u>	<u>(109,080)</u>
Net unrealized gain	920,839	1,157,342
Tax effect	<u>(387,176)</u>	<u>(486,616)</u>
Net-of-tax amount	<u>\$ 533,663</u>	<u>\$ 670,726</u>

**Recent Accounting Pronouncements**— In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. Under FIN 48, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with this FIN 48 model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (UTB).

The deferral of the effective date of FIN 48 for certain nonpublic entities was finalized on February 1, 2008 when Financial Accounting Standards Board (FASB) Staff Position (FSP) FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, was issued. Nonpublic enterprises that have not issued a full set of U.S. GAAP annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48 are eligible for the deferral. The new effective date of FIN 48 for certain nonpublic enterprises is for annual financial statements for periods beginning after December 15, 2008. The adoption of FIN 48 will not have a material impact on the Bank’s financial position or results of operations.

Effective January 1, 2007, the Bank adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157) and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The impact of adopting both SFAS 157 and SFAS 159 reduced the beginning balance of retained earnings as of January 1, 2007 by \$1.33 million, net-of-tax. Subsequent changes in the fair value of these financial assets and liabilities are recognized in earnings when they occur. For additional information on the fair value of certain financial assets and liabilities, see the Fair Value section of Note 2 and Note 14 – Fair Value of Financial Instruments.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FSP clarifies the application of SFAS No. 157 in a market that is not active and illustrates key considerations in determining the fair value. The FSP states that an entity should

not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management's judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction is acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. In weighing a broker quote as an input to a fair value measurement, an entity should place less reliance on quotes that do not reflect the result of market transactions. Further, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighing the available evidence. The FSP was effective immediately and applied to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. We adopted the FSP prospectively. The adoption of FSP No. FAS 157-3 did not have a material impact on the Bank's financial statements or fair value determinations. See Note 14 "Fair Value Measurements" for more information.

According to Financial Accounting Standards Board's EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, entities should recognize a liability and related compensation costs for endorsement split-dollar life insurance arrangements that a benefit to an employee that extends to *Postretirement Benefits Other Than Pensions*, or APB Opinion No. 12, *Omnibus Opinion-1967*. The consensus in this Issue was effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Bank chose to recognize the effects of applying the consensus in this Issue through a change in accounting principle through a cumulative-effect adjustment to the retained earnings in the first quarter for 2008. The cumulative effect of applying EITF 06-4 reduced the beginning balance of retained earnings as of January 1, 2008 by roughly \$173,000, net of tax.

**Reclassifications**—Certain reclassifications were made to the prior year's presentation to conform to the current year's presentation.

## 2. SECURITIES

The Bank enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as secured loans.

The amounts advanced under these agreements are reflected as assets in the consolidated balance sheets. It is the Bank's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Bank's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Bank's account maintained at the Federal Reserve Bank or into a third-party custodian's account designated by the Bank under a written custodial agreement that explicitly recognizes the Bank's interest in the securities.

The securities purchased under agreements to resell were \$50,000,000 for years ended December 31, 2008 and 2007. Securities purchased under agreements to resell averaged approximately \$12,014,000 and \$78,592,000 during the years ended December 31, 2008 and 2007, respectively. The maximum amount outstanding at any month-end during the year was \$50,000,000 for both 2008 and 2007.

**Fair Value**—Effective January 1, 2007, the Bank adopted SFAS 157, which provides a framework for measuring fair value under GAAP.

The Bank adopted SFAS 159 on January 1, 2007. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Bank elected to adopt the fair value option for certain financial instruments on the adoption date. SFAS 159 requires that the difference between the carrying amount before election of the fair value option and the fair value of these instruments be recorded as an adjustment to the beginning retained earnings in the period of adoption.

The Bank elected to account for certain securities at fair value in accordance with FAS 159. The selected securities met the Bank's trading policy criteria on the date of election, each of which had duration of less than one year. The securities portfolio (comprised of held-to-maturity, available-for-sale, and trading securities) is actively monitored and managed. Electing fair value option allows the Bank to account for these securities at fair value, which is more consistent with management's view of the underlying economics and the manner in which they are managed.

The following table summarizes the impact of the change in accounting for securities portfolio described above and the impact of adopting the fair value option for certain financial instruments on January 1, 2007. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption of SFAS 157 and SFAS 159.

Impact of Adopting SFAS 159 -

(amounts in thousands)	Fair Value	Net Loss Upon Adoption	Par Value
Available-for-sale agency securities <sup>(1)</sup>	\$ 97,707	\$ (2,293)	\$ 100,000
Cumulative effect adjustment, pre-tax		\$ (2,293)	
Tax impact		<u>964</u>	
Cumulative effect adjustment, net-of-tax, decrease in retained earnings as of January 1, 2007		<u>\$ (1,329)</u>	

<sup>(1)</sup> Following the election of the fair value option, this group of AFS agency securities has been transferred to trading assets.

The amortized cost, gross unrealized gains and losses and estimated fair value of securities are as follows at December 31:

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Securities Held-to-Maturity</b>				
Mortgage-backed securities	\$ 21,741,850	\$ 121,227	\$ (241,934)	\$ 21,621,143
Collateralized mortgage obligations	11,801,437	-	(59,711)	11,741,726
Municipalities	<u>24,963,349</u>	<u>222,856</u>	<u>(419,535)</u>	<u>24,766,670</u>
Total	<u>\$ 58,506,636</u>	<u>\$ 344,083</u>	<u>\$ (721,180)</u>	<u>\$ 58,129,539</u>
<b>Securities Available-for-Sale</b>				
U.S. government sponsored enterprise debt securities	\$ 69,843,381	\$ 430,909	\$ -	\$ 70,274,290
Mortgage-backed securities	104,916,919	2,770,321	-	107,687,240
Collateralized mortgage obligations	<u>64,107,884</u>	<u>125,134</u>	<u>(970,736)</u>	<u>62,262,282</u>
Total	<u>\$238,868,184</u>	<u>\$3,326,364</u>	<u>\$ (970,736)</u>	<u>\$ 240,223,812</u>
<b>Trading Securities</b>				
Assets-backed securities	<u>\$ 71,500,000</u>	<u>\$ -</u>	<u>\$ (24,471,598)</u>	<u>\$ 47,028,402</u>
Total	<u>\$ 71,500,000</u>	<u>\$ -</u>	<u>\$ (24,471,598)</u>	<u>\$ 47,028,402</u>
	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Securities Held-to-Maturity</b>				
U.S. government sponsored enterprise debt securities	\$ 29,753,961	\$ 116,527	\$ (70,045)	\$ 29,800,443
Collateralized mortgage obligations	15,107,293	-	(484,117)	14,623,176
Municipalities	<u>21,637,905</u>	<u>164,816</u>	<u>(43,022)</u>	<u>21,759,699</u>
Total	<u>\$ 66,499,159</u>	<u>\$ 281,343</u>	<u>\$ (597,184)</u>	<u>\$ 66,183,318</u>
<b>Securities Available-for-Sale</b>				
U.S. government sponsored enterprise debt securities	\$130,505,578	\$ 679,522	\$ -	\$ 131,185,100
Mortgage-backed securities	108,135,929	837,014	(128,458)	108,844,485
Collateralized mortgage obligations	76,226,552	67,754	(1,032,318)	75,261,988
Equity securities	<u>8,137</u>	<u>11,276</u>	<u>-</u>	<u>19,413</u>
Total	<u>\$314,876,196</u>	<u>\$1,595,566</u>	<u>\$ (1,160,776)</u>	<u>\$ 315,310,986</u>
<b>Trading Securities</b>				
U.S. government sponsored enterprise debt securities	\$ 10,000,000	\$ -	\$ (53,828)	\$ 9,946,172
Assets-backed securities	<u>52,000,000</u>	<u>-</u>	<u>-</u>	<u>52,000,000</u>
Total	<u>\$ 62,000,000</u>	<u>\$ -</u>	<u>\$ (53,828)</u>	<u>\$ 61,946,172</u>

The maturity distribution of securities held-to-maturity and available-for-sale is as follows as of December 31:

	<b>2008</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
<b>Securities Held-to-Maturity</b>		
Due after one year through five years	\$ 30,753,790	\$ 30,818,928
Due after five years through ten years	15,250,185	15,018,947
Due after ten years	<u>12,502,661</u>	<u>12,291,664</u>
Total	<u>\$ 58,506,636</u>	<u>\$ 58,129,539</u>
<b>Securities Available-for-Sale</b>		
Due in one year or less	\$ 30,656,773	\$ 30,672,308
Due after one year through five years	165,000,764	165,589,911
Due after five years through ten years	42,779,764	43,514,632
Due after ten years	<u>430,883</u>	<u>446,961</u>
Total	<u>\$ 238,868,184</u>	<u>\$ 240,223,812</u>
<b>Securities Trading</b>		
Due in five years through ten years	\$ 15,000,000	\$ 15,000,000
Due after ten years	<u>56,500,000</u>	<u>32,028,402</u>
Total	<u>\$ 71,500,000</u>	<u>\$ 47,028,402</u>
<b>2007</b>		
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
<b>Securities Held-to-Maturity</b>		
Due after one year through five years	\$ 47,669,589	\$ 47,195,293
Due after five years through ten years	13,255,401	13,360,385
Due after ten years	<u>5,574,169</u>	<u>5,627,640</u>
Total	<u>\$ 66,499,159</u>	<u>\$ 66,183,318</u>
<b>Securities Available-for-Sale</b>		
Due in one year or less	\$ 65,708,234	\$ 66,017,572
Due after one year through five years	218,472,316	218,991,558
Due after five years through ten years	29,132,195	28,739,259
Due after ten years	1,555,314	1,543,184
Equity securities	<u>8,137</u>	<u>19,413</u>
Total	<u>\$ 314,876,196</u>	<u>\$ 315,310,986</u>
<b>Securities Trading</b>		
Due in one year or less	\$ 10,000,000	\$ 9,946,172
Due after ten years	<u>52,000,000</u>	<u>52,000,000</u>
Total	<u>\$ 62,000,000</u>	<u>\$ 61,946,172</u>

For the years ended December 31, 2008 and 2007, the Bank sold securities from the available-for-sale portfolio realizing a total gain of approximately \$1,249,000 and \$109,000, respectively.

The following table shows the Bank's 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 December 31:

Description of Securities	2008					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Securities Held-to-Maturity</b>						
Mortgage-backed securities	\$ -	\$ -	\$ 15,035,572	\$ (241,934)	\$ 15,035,572	\$ (241,934)
Collateralized mortgage obligations	-	-	11,741,726	(59,711)	11,741,726	(59,711)
Municipalities	3,244,486	(107,428)	6,839,307	(312,107)	10,083,793	(419,535)
Total	\$ 3,244,486	\$ (107,428)	\$ 33,616,605	\$ (613,752)	\$ 36,861,091	\$ (721,180)
<b>Securities Available-for-Sale</b>						
Collateralized mortgage obligations	\$ -	\$ -	\$ 43,242,732	\$ (1,970,736)	\$ 43,242,732	\$ (1,970,736)
Total	\$ -	\$ -	\$ 43,242,732	\$ (1,970,736)	\$ 43,242,732	\$ (1,970,736)
<b>Trading Securities</b>						
Assets-backed securities	\$ 478,402	\$ (24,471,598)	\$ -	\$ -	\$ 478,402	\$ (24,471,598)
Total	\$ 478,402	\$ (24,471,598)	\$ -	\$ -	\$ 478,402	\$ (24,471,598)
Description of Securities	2007					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Securities Held-to-Maturity</b>						
Mortgage-backed securities	\$ -	\$ -	\$ 8,648,184	\$ (70,045)	\$ 8,648,184	\$ (70,045)
Collateralized mortgage obligations	-	-	14,623,175	(484,117)	14,623,175	(484,117)
Municipalities	3,032,026	(12,974)	6,157,867	(30,048)	9,189,893	(43,022)
Total	\$ 3,032,026	\$ (12,974)	\$ 29,429,226	\$ (584,210)	\$ 32,461,252	\$ (597,184)
<b>Securities Available-for-Sale</b>						
Mortgage-backed securities	\$ 10,337,885	\$ (26,594)	\$ 4,672,747	\$ (101,864)	\$ 15,010,632	\$ (128,458)
Collateralized mortgage obligations	15,094,233	(385,280)	28,636,977	(647,038)	43,731,210	(1,032,318)
Total	\$ 25,432,118	\$ (411,874)	\$ 33,309,724	\$ (748,902)	\$ 58,741,842	\$ (1,160,776)
<b>Trading Securities</b>						
U.S. government-sponsored enterprise debt securities	\$ 9,946,172	\$ (53,828)	\$ -	\$ -	\$ 9,946,172	\$ (53,828)
Assets-backed securities	52,000,000	-	-	-	52,000,000	-
Total	\$ 61,946,172	\$ (53,828)	\$ -	\$ -	\$ 61,946,172	\$ (53,828)

The unrealized loss positions on the obligations of U.S. government sponsored enterprises, collateralized mortgage obligations, and municipalities are a function of the volatility with interest rates in 2008 and 2007. These securities are rated AAA by Standard and Poor's with one-to-two year duration, and redeemable at

maturity or when called at par. As of December 31, 2008 and 2007, the Bank did not recognize any other than temporary impairment.

Securities with carrying amounts of approximately \$212,504,856 and \$174,313,000 were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2008 and 2007, respectively.

The Bank has invested in certain limited partnerships that were formed to develop and operate housing for lower-income tenants throughout the United States. The Bank's investments in these partnerships were \$18.0 million at December 31, 2008, and \$12.0 million at December 31, 2007. These entities are not variable interest entities of the Bank. Each of the partnerships must meet regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken is subject to recapture with interest. The remaining tax credits to be utilized over a multiple-year period are \$7.9 million for federal purposes and nothing for California state at December 31, 2008. The Bank's usage of tax credits approximated \$0.8 million in 2008, and \$0.1 million in 2007. For the year ended December 31, operations of investments in affordable housing resulted in pretax losses of \$566,000 for 2008, and \$50,000 for 2007.

### 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following at December 31:

	2008	2007
Real estate	\$ 870,850,029	\$ 833,327,397
Commercial	324,022,509	291,283,942
Construction	229,120,419	169,703,656
SBA	16,611,971	27,256,061
Installment and credit card	<u>321,311</u>	<u>391,584</u>
	1,440,926,239	1,321,962,640
Less:		
Allowance for loan losses	29,766,170	11,870,031
Deferred loan fees—net	1,732,398	2,260,018
Premiums—net	<u>57,931</u>	<u>92,962</u>
Loans—net	<u>\$1,409,369,740</u>	<u>\$1,307,739,629</u>

Loans to borrowers are collateralized by a variety of properties, primarily located in California. As of December 31, 2008 and 2007, these loan balances consisted of commercial real estate of approximately \$612,450,000 and \$597,513,000, multi-residential property of \$83,467,000 and \$87,635,000, and real estate under construction and other land loans of \$326,398,000 and \$279,883,000. The ability of the Bank's customers to honor their loan agreements is dependent, in part, upon the health of the real estate market, as well as the general economy of the Bank's market area. Should the real estate market experience an overall decline in property values, the ability of borrowers to make timely scheduled principal and interest payments on the Bank's loans may be adversely affected and, in turn, may result in increased delinquencies and foreclosures. In the event of foreclosures under such conditions, the value of the property acquired may be less than the appraised value when the loan was originated and may, in some instances, result in insufficient proceeds upon disposition to recover the Bank's investment in the foreclosed property. Furthermore, although most of the Bank's trade finance activities are related to trade with Asia, all of the Bank's loans are made to companies domiciled in the United States of America. The Bank has historically made three types of credit extensions involving direct exposure to the Asia Pacific region (Taiwan, China, Vietnam) economy: commercial loans to U.S. affiliates/subsidiaries/branches of companies headquartered in the Asia Pacific region, acceptances with Asia Pacific banks, and standby letters of credit issued by Asia Pacific banks. In certain instances, standby letters of

credit issued by Asia Pacific banks support the loans made to the U.S. affiliates or branches of the Asia Pacific region companies, to which the Bank has extended loans. The percentages to other individual Pacific Rim countries are relatively small in relation to the loans involving country risk. As a result, with the exception of the Asia Pacific region, the Bank does not believe it has significant indirect country risk exposure to any other Pacific Rim countries.

The following is an analysis of the activity in the allowance for loan losses for the years ended December 31, 2008 and 2007:

Balance—January 1, 2007	\$ 13,280,855
Provision for loan losses	7,800,000
Loans charged off	(9,710,319)
Recoveries on loans previously charged off	563,652
Net change in allowance on commitments to extent credit and letters of credit	<u>(64,157)</u>
Balance—December 31, 2007	11,870,031
Provision for loan losses	29,400,000
Loans charged off	(11,918,873)
Recoveries on loans previously charged off	<u>415,012</u>
Balance—December 31, 2008	<u>\$29,766,170</u>

The allowance of losses on commitments to extend credit and letters of credit is primarily related to undisbursed funds on lines of credit. The Bank evaluates credit risk associated with the loan portfolio at the same time it evaluates credit risk associated with the commitments to extend credit and letter of credit. However, the allowance necessary for the commitments is reported separately in other liabilities in the accompanying consolidated balance sheets and not as part of the allowance for loan losses, as presented above. The reserve for losses on commitments to extend credit and letter of credit was approximately \$851,000 and \$1,741,000 at December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, troubled debt restructured loans were approximately \$0 and \$1,633,000 of which approximately \$0 and \$197,000 were on nonaccrual status, respectively. The Bank does not have any commitments to lend additional funds to these borrowers.

The following table presents a breakdown of the impaired loans and their related impairment allowance.

<b>December 31, 2008</b>	<b>Recorded Investment</b>	<b>Specific Valuation Allowance</b>
Impaired loans:		
Nonaccrual loans, including restructured loans of \$0	\$47,317,108	
Restructured loans—accruing	<u>-</u>	
Total impaired loans	<u>\$47,317,108</u>	
Loans with impairment allowance	\$47,317,108	\$ 11,080,265
Loans without impairment allowance	<u>-</u>	<u>-</u>
Total	<u>\$47,317,108</u>	<u>\$ 11,080,265</u>
Average impaired loans for the year	<u>\$21,750,333</u>	
Income recognized on impaired loans for the year	<u>\$ 2,994,591</u>	
Income recognized on impaired loans on a cash basis for the year	<u>\$ 2,994,591</u>	
<b>December 31, 2007</b>	<b>Recorded Investment</b>	<b>Specific Valuation Allowance</b>
Impaired loans:		
Nonaccrual loans, including restructured loans of \$1,578,664	\$ 2,217,308	
Restructured loans—accruing	<u>1,436,300</u>	
Total impaired loans	<u>\$ 3,653,608</u>	
Loans with impairment allowance	\$ 3,653,608	\$ 15,678
Loans without impairment allowance	<u>-</u>	<u>-</u>
Total	<u>\$ 3,653,608</u>	<u>\$ 15,678</u>
Average impaired loans for the year	<u>\$10,531,065</u>	
Income recognized on impaired loans for the year	<u>\$ 2,837,528</u>	
Income recognized on impaired loans on a cash basis for the year	<u>\$ 2,837,528</u>	

#### 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows at December 31:

	<b>2008</b>	<b>2007</b>
Land and building	\$ 4,713,696	\$ 4,713,696
Leasehold improvements	9,558,971	9,817,403
Furniture and fixtures	3,350,212	3,300,624
Equipment	9,367,375	8,872,936
Construction in progress	<u>-</u>	<u>556,376</u>
Total	26,990,254	27,261,035
Less accumulated depreciation and amortization	<u>19,573,224</u>	<u>18,642,915</u>
Premises and equipment—net	<u>\$ 7,417,030</u>	<u>\$ 8,618,120</u>

Depreciation expense for the years ended December 31, 2008 and 2007 amounted to approximately \$1,862,000 and \$2,115,000, respectively.

#### 5. OTHER REAL ESTATE OWNED

The following is an analysis of the activity in OREO for the year ended December 31:

Balance—January 1, 2007	\$ -
Additions to OREO	38,031
OREO sold	<u>(38,031)</u>
Balance—December 31, 2007	<u>\$ -</u>
Additions to OREO	\$7,310,094
OREO sold	<u>-</u>
Balance—December 31, 2008	<u>\$7,310,094</u>

There was no allowance on other real estate owned for the years ended December 31, 2008 and 2007.

The following table presents the income and expense components of other real estate owned, net of collection expenses, for the year ended December 31:

	<b>2008</b>	<b>2007</b>
Gain on sale	\$ -	\$ 21,295
Rental income-OREO	9,600	-
Operating expenses	<u>(92,167)</u>	<u>(12,264)</u>
OREO income (loss)—net	<u>\$ (82,567)</u>	<u>\$ 9,031</u>

#### 6. GOODWILL INTANGIBLE ASSETS

On August 15, 1997, the Bank was acquired by SinoPac Bancorp, which is a wholly owned subsidiary of Bank SinoPac of Taiwan. The acquisition was accounted for using the purchase method of accounting with the purchase price “pushed down” to the Bank. In conjunction with this acquisition, the Bank recorded approximately \$37,606,000 of goodwill and \$6,958,000 of core deposit intangible. Both the goodwill and the core deposit intangible were amortized, on a straight-line basis, over a period of 15 years. In January 2002 the Bank adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, and, as a result, no longer amortizes

goodwill but tests it at least annually for impairment. The Bank will continue to amortize the core deposit intangible over its remaining estimated useful life.

Following is a summary of the Bank's goodwill and intangible assets as of December 31:

	<u>2008</u>		<u>2007</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Goodwill	\$ 37,605,540	\$(11,855,659)	\$ 37,605,540	\$(11,855,659)
Core deposit intangible	<u>6,958,000</u>	<u>(5,276,484)</u>	<u>6,958,000</u>	<u>(4,812,617)</u>
Total	<u>\$44,563,540</u>	<u>\$(17,132,143)</u>	<u>\$44,563,540</u>	<u>\$(16,668,276)</u>

For both the years ended December 31, 2008 and 2007, the Bank recorded amortization expense of approximately \$464,000 related to the core deposit intangible. The estimated amortization of the December 31, 2008 balance for the succeeding three fiscal years will be approximately \$464,000 per year and \$290,000 for fourth succeeding year.

There were no changes in the carrying value of goodwill during the year ended December 31, 2008. The Bank tested goodwill for impairment in January 2008 and 2009 and determined that there was no impairment.

## 7. OTHER ASSETS

The Bank purchased \$30 million of Bank owned life insurance policies on its executives. The policies are established for the benefit of the Bank as the Bank paid the single-premium life insurance, and receive non-interest income to offset the cost of employee benefit expenses. The cash surrender value was approximately \$35,868,000 and \$34,392,000 as of December 31, 2008 and 2007, respectively.

## 8. DEPOSITS

At December 31, 2008, the scheduled maturities of time deposits are as follows (in thousands):

2009	\$ 1,126,505
2010	32,164
2011	53
2012	-
2013	-
Thereafter	<u>23</u>
Total	<u>\$ 1,158,745</u>

## 9. OTHER BORROWED FUNDS

On June 26, 2003 and September 17, 2003, the Bank issued two 10-year subordinated debentures in the amounts of \$10,000,000 and \$5,000,000, payable in full on June 26, 2013 and September 17, 2013, respectively. The interest rates on such debentures are re-priced on a quarterly basis with an average interest rate of 6.72% and 8.48% for the years ended December 31, 2008 and 2007, respectively. The subordinated debentures were completely called on June 25, 2008 and September 15, 2008 leaving a zero balance as of December 31, 2008.

Federal Home Loan Bank advances are secured by certain residential, multi-family and commercial real estate loans. As of December 31, 2008, there were \$215,000,000 outstanding advances with \$105 million to mature in 2010 and \$110 million to mature thereafter, with weighted interest rate of 4.39% and 4.31%, respectively.

## 10. INCOME TAXES

Current and deferred income tax expense (benefit) is summarized as follows for the year ended December 31:

	2008	2007
Federal:		
Current	\$ 5,005,705	\$ 5,366,590
Deferred	<u>(14,138,625)</u>	<u>1,976,374</u>
	<u>(9,132,920)</u>	<u>7,342,964</u>
State:		
Current	1,738,060	1,576,457
Deferred	<u>(4,917,121)</u>	<u>762,479</u>
	<u>(3,179,061)</u>	<u>2,338,936</u>
Net provision for income taxes	<u>\$ (12,311,981)</u>	<u>\$ 9,681,900</u>

The provision for income taxes varies from the federal statutory tax rate for the following reasons for the year ended December 31:

	2008		2007	
	Amount	Rate	Amount	Rate
Federal income tax based on statutory rate	\$ (8,801,090)	(35.00)%	\$ 8,857,894	35.00 %
State franchise tax—net of federal income tax benefit	(1,772,791)	(7.05)	1,784,233	7.05
Other	<u>(1,738,100)</u>	<u>(6.91)</u>	<u>(960,227)</u>	<u>(3.79)</u>
Total provision for income taxes	<u>\$ (12,311,981)</u>	<u>(48.96)%</u>	<u>\$ 9,681,900</u>	<u>38.26 %</u>

At December 31, 2008, the Bank had a significant investment loss incurred from a market illiquidity problem of an investment in FNMA & FHLMC Auction Rate Preferred Stock Securities. The Treasury Department and IRS issued guidance (Revenue Procedure 2008-64) clarifying that the Emergency Economic Stabilization Act's provisions allowing banks ordinary loss treatment on Fannie Mae/Freddie Mac preferred stock also apply to auction rate preferred securities (ARPS) and bank subsidiaries holding Fannie/Freddie preferred stock and ARPS. The Bank is carrying a large amount of deferred tax asset which is expected to be utilized over time as a benefit against tax liabilities. It has and anticipates sufficient income to utilize these tax benefits under the carryback and carryforward provisions of the federal and state income tax regulations.

The components of the net deferred tax liabilities (assets) are as follows for the year ended December 31:

	2008	2007
Federal:		
Deferred tax liabilities:		
Deferred loan fees	\$ 3,369,140	\$ 3,587,621
State deferred tax	1,984,822	228,893
Acquisition premium excluding goodwill	588,530	750,883
Unrealized gain	423,038	135,680
Other	<u>356,666</u>	<u>135,183</u>
Gross deferred tax liabilities	<u>6,722,196</u>	<u>4,838,260</u>
Deferred tax assets:		
State franchise tax	(527,594)	(599,880)
Depreciation and amortization	(2,036,098)	(1,628,892)
Provision for loan losses	(10,417,281)	(4,153,634)
Mark to market auction rate securities	(8,565,059)	-
Other	<u>(1,616,380)</u>	<u>(757,444)</u>
Gross deferred tax assets	<u>(23,162,412)</u>	<u>(7,139,850)</u>
Net deferred federal tax assets	<u>(16,440,216)</u>	<u>(2,301,590)</u>
State:		
Deferred tax liabilities:		
Deferred loan fees	1,043,471	1,111,138
Acquisition premium excluding goodwill	182,276	232,559
Unrealized gain	146,950	47,130
Other	<u>110,465</u>	<u>41,869</u>
Gross deferred tax liabilities	<u>1,483,162</u>	<u>1,432,696</u>
Deferred tax assets:		
Depreciation	(636,397)	(527,498)
Provision for loan losses	(3,226,381)	(1,286,439)
Mark to market auction rate securities	(2,652,721)	-
Other	<u>(491,631)</u>	<u>(225,606)</u>
Gross deferred tax assets	<u>(7,007,130)</u>	<u>(2,039,543)</u>
Net deferred state tax assets	<u>(5,523,968)</u>	<u>(606,847)</u>
Net deferred tax assets	<u>\$ (21,964,184)</u>	<u>\$ (2,908,437)</u>

## 11. 401(k) PLAN

The Bank has a 401(k) plan in which all employees of the Bank may elect to enroll at the beginning of each month provided that they have been employed for at least three months prior to the enrollment date. Employees may contribute up to 15 percent of their annual salary with the Bank matching up to 3 percent of the employee's annual salary. The Bank contributed approximately \$602,000 and \$493,000 for the years ended December 31, 2008 and 2007, respectively.

## 12. COMMITMENTS AND CONTINGENCIES

**Leases**—The Bank leases commercial office property and equipment under operating leases with terms through 2011, with renewal options through 2014. Future commitments on leases with a remaining term of one year or more are as follows:

<b>Year Ending December 31</b>	
2009	\$ 3,065,858
2010	1,676,982
2011	952,870
2012	277,266
2013	149,489
Thereafter	<u>199,270</u>
Total	<u>\$ 6,321,735</u>

Total rental expense was approximately \$3,622,000 and \$3,501,000 for the years ended December 31, 2008 and 2007, respectively.

**Credit-Related Financial Instruments**—The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. It follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31, 2008:

Commitments to grant loans	\$ 353,548,683
Unfunded commitments under lines of credit	87,579,858
Commercial and standby letters of credit	<u>31,192,098</u>
Total	<u>\$ 472,320,639</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may

expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary.

The reserve for losses on commitments and off balance sheet items to extend credit and letters of credit is primarily related to undisbursed funds on lines of credit. The Bank's exposure to credit loss in the event of non-performance by the customer is represented by the contractual amount of those instruments. Consistent credit policies are used by the Bank for both on and off-balance sheet items. The Bank evaluates credit risk associated with the loan portfolio at the same time as it evaluates credit risk associated with commitments to extend credit and letters of credits. However, the reserve necessary for the commitments is reported separately in other liabilities in the accompanying consolidated balance sheets, and not as part of the allowance for loan losses. The reserve for losses was \$851,000 and \$1,741,000 at December 31, 2008 and 2007, respectively.

**Litigation**—The Bank has been named in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate liability, if any, from these actions will not have a material adverse effect on its financial condition or results of operations.

### 13. REGULATORY CAPITAL REQUIREMENTS

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

The Bank, as a foreign owned institution, is not eligible to participate in the U.S. Treasury Troubled Asset Relief Program Capital Purchase Program under the Emergency Economic Stabilization Act of 2008. Although the Bank is well capitalized and meet all the applicable regulatory capital requirements, it may be required to seek additional capital if regulatory capital standards change in the current economic environment. It may also seek additional capital in order to stay competitive.

The quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008 and 2007, the most recent notification from the Bank's primary regulator, the Office of the Comptroller of the Currency, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total

risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2008 are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 196,689,000	11.56 %	\$ 136,100,000	≥ 8.00 %	\$ 170,125,000	≥ 10.00 %
Tier I capital (to risk-weighted assets)	175,328,000	10.31	68,050,000	≥ 4.00	102,075,000	≥ 6.00
Tier I capital (to average assets)	175,328,000	8.17	85,831,000	≥ 4.00	107,289,000	≥ 5.00

The Bank's actual capital amounts and ratios as of December 31, 2007 are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 216,484,000	12.71 %	\$ 136,276,000	≥ 8.00 %	\$ 170,345,000	≥ 10.00 %
Tier I capital (to risk-weighted assets)	187,868,000	11.03	68,138,000	≥ 4.00	102,207,000	≥ 6.00
Tier I capital (to average assets)	187,885,000	9.30	80,798,000	≥ 4.00	100,997,000	≥ 5.00

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information on how the Bank measures fair value, see Note 1 – Summary of Significant Accounting Policies.

Effective January 1, 2007, the Bank determines the fair values of its financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value which are provided on the following page.

**Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage and loans held-for-sale.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Trading assets, securities available for sale, derivatives, loans held for sale, principal

investments and securities sold but not yet purchased (short sale liabilities) are recorded at fair value on a recurring basis. The disclosures required under FAS 159, FAS 157 and FAS 107 are included in this Note.

Available-for-sale and trading securities. For certain actively traded Auction Rate Preferred Stock Securities and U.S. Treasury securities, the Bank measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Bank measures all other securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, municipal securities, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities and commercial paper.

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

Other real estate owned. Real estate acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. However, from time to time, nonrecurring fair value adjustments to other real estate owned are recorded (at lower of carrying value or fair value less costs to sell) based on current appraised value of the property, a Level 2 measurement, or management's judgment and estimation based on reported appraisal value, a Level 3 measurement.

Equity investment. Nonmarketable equity investments are recorded under the cost or equity method of accounting. There are generally restrictions on the sale and/or liquidation of these investments, including federal bank stock. Federal bank stock carrying value approximates fair value. We use facts and circumstances available to estimate the fair value of our nonmarketable equity investments. We typically consider our access to and need for capital (including recent or projected financing activity), qualitative assessments of the viability of the investee, evaluation of the financial statements of the investee and prospects for its future, a Level 3 measurement.

Foreign exchange contracts. The Bank measures the fair value of foreign exchange contracts based on dealer quotes on a recurring basis, a Level 2 measurement.

Fair value estimates were made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at year-end:

**Fair Value Measurements Using**

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
As of December 31, 2008				
Assets:				
On Recurring Basis:				
Securities—available-for-sale excludes FHLB and FRB restricted stock totaling \$14 million and \$3 million, respectively, which are carried at par	\$ -	\$ 240,223,812	\$ -	\$ 240,223,812
Securities—held-to-maturity	-	58,129,539	-	58,129,539
Trading securities	-	47,028,402	-	47,028,402
Servicing rights	-	-	138,941	138,941
Other assets include derivatives with a positive fair value	-	94,444	-	94,444
On a Non-Recurring Basis:				
Impaired loans	-	-	47,317,108	47,317,108
Other real estate owned	-	7,310,094	-	7,310,094
Equity investment	-	-	35,364,692	35,364,692
Liabilities:				
On Recurring Basis:				
Deposits	-	1,696,799,994	-	1,696,799,994
Federal funds purchased and securities sold under agreement to repurchase	-	-	52,701,912	52,701,912
Advances from FHLB	-	-	235,427,436	235,427,436
Foreign exchange contracts	-	32,451	-	32,451
Other liabilities include derivatives with a negative fair value and short positions	-	18,479	-	18,479

**Fair Value Measurements Using**

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
As of December 31, 2007				
Assets:				
On Recurring Basis:				
Securities—available-for-sale excludes FHLB and FRB restricted stock totaling \$14 million and \$3 million, respectively, which are carried at par	\$ -	\$ 315,310,986	\$ -	\$ 315,310,986
Securities—held-to-maturity	-	66,183,318	-	66,183,318
Trading securities	-	61,946,172	-	61,946,172
Servicing rights	-	-	173,940	173,940
Loans for sale	-	362,000	-	362,000
Other assets include derivatives with a positive fair value	-	241,773	-	241,773
On a Non-Recurring Basis:				
Impaired loans	-	-	3,653,608	3,653,608
Other real estate owned	-	-	-	-
Equity investment	-	-	32,553,529	32,553,529
Liabilities:				
On Recurring Basis:				
Deposits	-	1,473,951,807	-	1,473,951,807
Federal funds purchased and securities sold under agreement to repurchase	-	-	72,100,849	72,100,849
Advances from FHLB	-	-	213,950,598	213,950,598
Foreign exchange contracts	-	1,111,320	-	1,111,320
Other liabilities include derivatives with				

The changes in Level 3 are as follows:

	<b>Impaired Loan</b>	<b>Equity Investment</b>	<b>Service Rights</b>
Balance 2006	\$ 11,965,935	\$ 26,573,435	\$ 213,859
Net income	-	-	(21,886)
Purchase/sale/transfers	(8,312,327)	5,980,094	(18,033)
Balance 2007	3,653,608	32,553,529	173,940
Net income	-	-	(10,742)
Purchase/sale/transfers	43,663,500	2,811,163	(24,257)
Balance 2008	47,317,108	35,364,692	138,941
Net unrealized gain (loss) in net income relating to assets and liability at December 31, 2007	-	-	-
Net unrealized gain (loss) in net income relating to assets and liability at December 31, 2008	-	-	-

**Financial Instruments Pertaining to SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.”** The following table summarizes carrying amounts and estimated fair values for certain financial instruments, excluding financial instruments recorded at fair value on a recurring basis at December 31:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Fair Value of Financial Instruments				
Financial Assets:				
Cash and due from banks	\$ 299,352,468	\$ 299,352,468	\$ 92,520,198	\$ 92,520,198
Short-term investments	10,538,258	10,538,258	17,900,049	17,900,049
Securities purchased under agreements to resell	-	-	50,000,000	50,000,000
Securities available-for-sale	240,223,812	240,223,812	315,310,986	315,310,986
Securities held-to-maturity	58,506,636	58,129,539	66,499,159	66,183,318
Securities-trading	47,028,402	47,028,402	61,946,172	61,946,172
Loans, net	1,409,369,740	1,440,598,729	1,307,739,629	1,328,616,319
Investment in FHLB stock	13,991,800	13,991,800	16,779,000	16,779,000
Investment in FRB stock	3,386,800	3,386,800	3,386,800	3,386,800
Accrued interest receivable	7,483,547	7,483,547	10,497,736	10,497,736
Derivatives	43,514	43,514	38,598	38,598
Financial Liabilities:				
Deposits	1,701,744,828	1,696,799,994	1,488,338,428	1,473,951,807
Accrued interest payable	11,611,414	11,611,414	10,708,720	10,708,720
Federal funds purchased and securities sold under agreement to repurchase	52,701,912	52,701,912	72,100,849	72,100,849
Advances from FHLB	215,000,000	235,427,436	215,000,000	213,950,598
Other borrowings	28,056,201	28,057,065	17,860,122	17,859,390
Long-term debt	-	-	15,000,000	15,022,845

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

*Cash and Cash Equivalents*—The carrying amounts of cash and short-term instruments approximate fair values.

*Securities*—Fair values for securities, excluding Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank (“FRB”) stock, are based on quoted market prices. The carrying value of FHLB stock and FRB stock approximates fair value based on the redemption provisions of the FHLB and FRB.

*Loans Receivable*—The fair value of loans is estimated based on the present value of the expected future cash flows. The discount rate used to estimate the fair value of loans uses the risk-adjusted spreads to the U.S. Treasury curve to approximate current entry-value interest rates applicable to each category of loans. Specific allowances are determined on an individual basis for classified loans, taking into account the collateral of the loan and the continued ability of the customer to repay. The carrying amount and the estimated fair value of loans are net of allowance for loan losses and deferred loan fees.

*Deposit Liabilities*—The fair values disclosed for non-interest bearing deposits (demand deposits) and interest bearing deposits (checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The estimated fair value of time deposits is based on the present value of future cash flows using the current rate paid by the Bank on time deposits with similar remaining maturities.

*Short-Term Borrowings*—The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Bank’s current incremental borrowing rates for similar types of borrowing arrangements.

*Subordinated Debt*—The estimated fair value has been determined by the Bank using incremental borrowing rates for similar types of borrowing arrangements.

*FHLB Advances*—The fair values of FHLB advances are estimated based on the discounted value of contractual cash flows, using the 1 month LIBOR rate (the index used in the original purchase).

*Derivatives*—Fair values for derivative financial instruments are based upon quoted market prices, except in the case of certain options and swaps where pricing models are used.

*Off-Balance-Sheet Instruments*—Fair values for off-balance sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the counterparties’ credit standing. The fair values of these instruments are not material as of December 31, 2008 and 2007.

*Accrued Interest*—The carrying amounts of accrued interest approximate fair value.

## 15. DERIVATIVES

*Derivative Instruments Held for Customer Accommodation*—The Bank utilizes various derivative instruments to accommodate customer needs. These transactions involve both credit and market risks. The notional amounts are amounts on which calculations and payments are based. Derivative instruments are standardized contracts negotiated privately with a counterparty (“customer” or “Bank SinoPac”). Specific agreement terms include underlying instrument, amount, exercise price and maturity.

Foreign exchange forward contracts and non-deliverable forward (NDF) contracts are recorded at the contracted forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates upon settlement are credited or charged to current income. For contracts outstanding as of the balance sheet dates, the gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current income. Receivables arising from forward exchange contracts are offset against related payables as of the balance sheet dates.

Options bought and/or held and options written are recorded as assets and liabilities when the transactions occur. These instruments are marked to market as of the balance sheet dates. The carrying values of the instruments, which are recorded either as assets or liabilities, are charged to income when they are not exercised. Gains or losses on the exercise of options are also included in income.

The contract amounts (or notional amounts), credit risk and market values of outstanding contracts are as follows at December 31:

Financial Instruments	2008			2007		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
For the purpose of accommodating customers' needs or managing their exposure:						
Forwards as seller	\$ -	\$ -	\$ -	\$ 753,075	\$ 37,654	\$ (747,448)
NDF- Buyer	2,000,000	120,000	2,000,000	5,865,187	415,959	5,990,704
NDF-Seller	2,185,000	131,100	(1,999,307)	5,850,000	415,000	(5,970,496)

**Collateral Requirements**—To reduce credit risk related to the use of both derivative and credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Bank’s credit evaluation of the customer. Collateral held varies but may include cash, securities or accounts receivable.

**16. RELATED PARTY TRANSACTIONS**

The Bank periodically buys and sells individual loans from and to Bank SinoPac, the parent of the Bank’s parent company. Management believes the terms are comparable to terms with other banks. The Bank has intercompany balances for occasional transactions with Bank SinoPac’s various subsidiaries, which are not material. Bank SinoPac maintains non-interest bearing deposits of approximately \$441,000 with the Bank as of December 31, 2008 and \$1,526,000 as of December 31, 2007.

In the ordinary course of business, the Bank has granted loans to its principal officers, directors and employees. The balance outstanding on these loans amounted to approximately \$487,000 at December 31, 2008 and approximately \$341,000 at December 31, 2007. All such loans were made under terms, which are consistent with the Bank’s normal lending policies.

**17. FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one month from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

As of December 31, 2008 and 2007, the Bank held approximately \$80,202,000 and \$64,961,000, respectively, in federal funds purchased and placements.

As of December 31, 2008 and 2007, the Bank had securities sold with agreements to repurchase (“Repos”) of approximately \$0 and \$25,000,000, respectively. The average balance of the Repos for 2008 and 2007 was approximately \$35,286,000 and \$53,853,000 with a weighted interest rate of 2.79% and 5.09%, respectively.

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## LOCATIONS 營業據點

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### Corporate Headquarters 總行

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TEL: (213) 687-1200 / FAX: (213) 687-8511

### Southern California 南加州

Alhambra 阿罕布拉  
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Arcadia 亞凱迪亞  
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City of Industry 工業市  
17851 Colima Road, Suite B  
TEL: (626) 854-8450 / FAX: (626) 854-2824

Irvine 爾灣  
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TEL: (949) 936-1100 / FAX: (949) 262-0905

Los Angeles 洛杉磯  
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TEL: (213) 687-1300 / FAX: (213) 680-1535

Two California Plaza  
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600 South Lake Avenue, Suite 100  
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### Northern California 北加州

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### China 中國

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# FAR EAST NATIONAL BANK

遠東國民銀行

 SinoPac Holdings Group Company

